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TO FOLLOW AGENDA ITEMS

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

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 20 July 2018

Time: 11.30 am

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

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

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AUDIT COMMITTEE – 20 JULY 2018

Title of paper:	Statement of Accounts 2017/18		
Director(s)/ Corporate Director(s):	Laura Pattman 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	To consider the external auditors' report (Appendix A) to those charged with governance		
2	To approve the final Statement of Accounts (Appendix B) and authorise the Chair of Audit Committee to sign them on the Committee's behalf.		
3	To approve the Draft Management Representation Letter (Appendix C) for signature by the Chair of Audit Committee.		

1 REASONS FOR RECOMMENDATIONS

1.1 KPMG have completed the audit of the 2017/18 Statement of Accounts 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 31 July 2018.

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.

1.3 As part of the audit, KPMG require the Council to make certain statements in a management representation letter. This confirms 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 Following on from the draft Statement of Accounts presented to the June Audit Committee meeting, this report updates members on the changes made from draft to final accounts in accordance with KPMG's recommendations.

2.2 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 The accounts reflect the new reporting requirements to the Comprehensive Income and Expenditure Account introduced last year. This requires the presentation to align to the Council's internal reporting management structure, which for Nottingham City Council is by portfolio. As portfolios can change year on year, the 2016/17 figures have been restated to the current portfolio structure to make the two years comparable.

4 AMENDMENTS TO THE STATEMENTS FOLLOWING AUDIT REVIEW

4.1 KPMG have completed the audit of the accounts and the ISA260 report sets out the findings. Amendments to the accounts have been agreed with KPMG and incorporated into the final version of the 2017/18 Statement of Accounts presented to Audit Committee today for approval.

4.2 In 2017/18, 55 properties were revalued based on depreciated historical cost as proxy for current value. Based on the results of these valuations (totalling £559m), it was agreed with KPMG that revaluations would be completed for the remaining properties and the core statements and notes updated in the final version of the accounts. This work has been completed and the Statement has been amended to reflect the resulting £43m revaluation gain.

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

4.4 A number of changes have also been made to Group Accounts to reflect the 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.

5.2 KPMG External Audit Plan 2017/18.

6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

6.1 Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

6.2 Guidance Notes for Practitioners 2017/18 Accounts

6.3 The Accounts and Audit Regulations 2015

External Audit ISA260 Report 2017/18

Nottingham City Council

—

July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Nottingham City Council ('the Authority').

This report covers both our on-site work which was completed in March and June to July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

As part of our testing of General Ledger IT Controls, we have made five recommendations regarding the use of generic user accounts, timely removal of leavers and user access reviews.

Controls over key financial systems

Based on our testing the controls over the majority of the key financial systems are sound.

As part of our testing over journals we have a made a recommendation that the Authority considers increasing the robustness of journal controls as part of the Fit For the Future project.

Accounts production

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process.

This included significant preparatory work in regards to ensuring the wider group was lined up to provide both draft and audited accounts to support the production of the Authority's Group accounts. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is sound, we also consider the Authority's accounting practices appropriate.

Financial statements

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 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing):

— **Valuation of PPE**

— **Pensions Liabilities**

— **Faster Close**

As part of our audit testing, we have identified one non-material audit adjustment. There are no unadjusted audit differences. Based on our work, we have raised 13 recommendations. Details of our recommendations can be found in Appendix 1.

Summary for Audit Committee (cont.)

Value for money arrangements

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. We have commented on the significant challenges facing the Authority and the need for action to address them.

We therefore anticipate issuing unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

— **Delivery of Budgets**

— **Group Governance**

See further details on page 24.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

As part of our testing of IT Controls, we have made five recommendations, none of which are considered high priority.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. We have utilised our specialist IT team to undertake testing over the Authority's:

- general ledger system (Oracle);
- payroll system (Oracle); and
- revenues and benefits system (Northgate).

Key findings

We consider that your organisational and IT controls are effective overall, but noted five areas for further improvement:

— the IT Security Policy should be subject to annual review, but the policy had not been updated since 2015;

— 24 leavers with financial reporting responsibilities had not had their access revoked to Oracle Financials in a timely manner, some of whom had logged into Oracle after their HR leaving date. We tested these cases in further detail which did not highlight any significant issues;

— one leaver with parking permits responsibilities had not had their access to Northgate revoked in a timely manner;

— user access reviews for Northgate Revenues and Benefits are not carried out by the Authority; and

— the Authority operates a number of generic user access accounts within the general ledger system. We consider that the Authority should operate a proportionate form of monitoring / detective control over the use of these accounts as a way of improving control.

We have raised five recommendations for the Authority to mitigate the above issues which are set out within Appendix 1.

(continued overleaf)

Controls over key financial systems

Based on our testing the controls over the majority of the key financial systems are sound.

As part of our testing over journals we have a made a recommendation for the Authority to consider increasing the robustness of journal controls as part of the Fit For the Future project.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls are sound over the financial systems that we regard to be key.

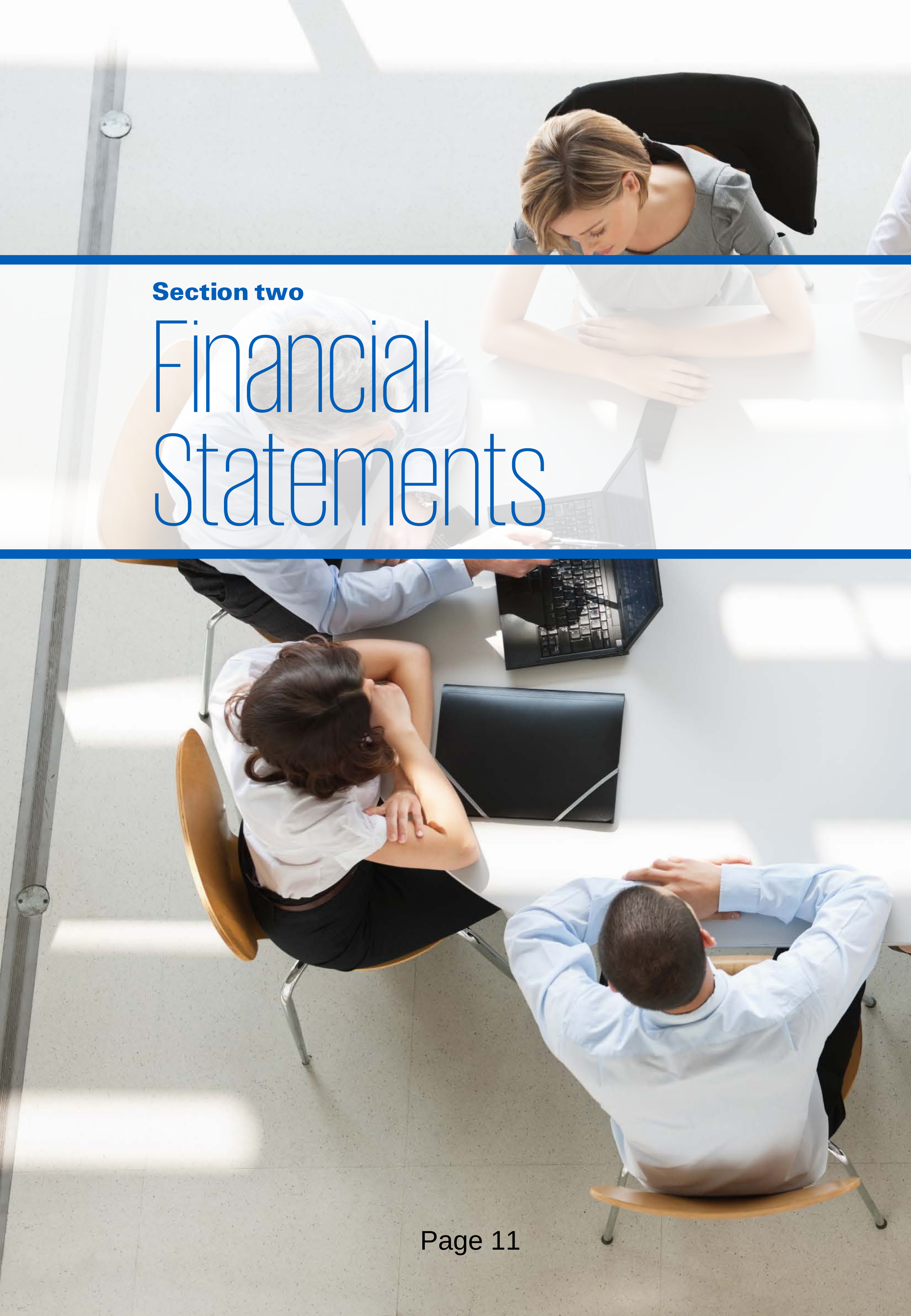
As part of our testing over journals we have a made a recommendation that the Authority considers increasing the robustness of journal controls as part of the Fit For the Future project. Specifically, at present there is no electronic segregation of duties where one individual posts a journal and a second individual authorises the journal. As part of the Fit For the Future project there is an opportunity to implement this control.

The Authority undertook a detailed reviewed and challenge of actuarial assumptions applied by the actuary in calculating the net pension liability, we noted that whilst we were informed this had been discussed and reviewed by senior finance staff, this review was not documented.

We have raised recommendations to reflect the above within Appendix 1.

Section two

Financial Statements



Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is sound.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This included essential and significant preparatory work in regards to ensuring the wider group was lined up to provide both draft and audited accounts to support the production of the Authority's Group accounts. The Authority recognised the additional pressures which the earlier closedown brought, and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is sound. We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

We have provided further commentary on the Authority's arrangements in place to secure the effective delivery of budgets within our Value For Money conclusion on page 24.

Implementation of recommendations

We raised four recommendations in our ISA 260 Report 2016/17, none of which were high priority. The Authority has implemented the majority of the recommendations relating to the financial statements in line with the timescales of the action plan. There have however continued to be exceptions over the timely removal of leavers from the Northgate system, along with Northgate user access reviews, both of which are areas we highlighted for improvement in 2016/17. We have consequently raised new recommendations for 2017/18 which supersede the existing ones.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the new statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Team Leader – Technical Accountant on 14 March 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with management to discuss specific requirements of the document request list. This helped to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that despite the shorter timescale officers again produced good quality working papers with clear management trails.

Accounts production and audit process (cont.)

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the Finance team. As a result of this, we expect to complete all of our audit work within the timescales expected.

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by component auditors on the financial statements of the Authority's subsidiaries:

— Robin Hood Energy Limited (turnover £70.4m)

— Nottingham City Transport Limited (turnover £53m)

— Nottingham City Homes Limited (turnover £63.5m)

— Blueprint Limited Partnership (turnover £6.1m)

— Bridge Estate (turnover £2.4m)

— Enviroenergy Limited (turnover £7.8m)

— Futures Advice, Skills and Employments Limited (turnover £18.2m)

— Nottingham Ice Centre Limited (turnover £15.6m)

— Nottingham Revenues and Benefits Limited (turnover £5.6m)

We are also pleased to report that there were no issues to note in relation to the consolidation process. The co-operation of officers, group entities and their respective auditors has enabled this and is a significant achievement by all concerned, especially given the unusually complex nature of this group structure.

As part of our audit of the group we have made the following observations:

— As per last year we considered RHE to be a significant component to our audit of the Group. We therefore wrote to RHE's auditors and at the time of writing this report we are reviewing their audit work

— The Authority converted a £7.5m loan to equity in year with Robin Hood Energy. The equity is held at cost as opposed to Fair Value on the Authority's balance sheet which is allowable as per the CIPFA Code. We are satisfied that there was no impairment required to the cost as held on the Authority's balance sheet.

— The Authority has a Service Level Agreement with Enviroenergy which is dated 1972. We consider that the Authority should revisit the SLA within or alongside the review of group governance. The Authority currently has £14.1m debtor with Enviroenergy, against this there is a bad debt provision of £5.5m. Enviroenergy has posted a £736k operating loss of 2017/18, however there has been no movement by the Authority in its review of the bad debt provision.

Capital Additions

Our testing over capital additions noted two areas where we have raised recommendations:

— the inclusion of additions relating to 2016/17. We undertook further work in regards to the capital cut-off for 2017/18, whilst our procedures provided us with assurance that capital additions are materially stated we did identify further errors; and

— for internally managed capital projects by Highways and Energy Infrastructure, the Authority applies a general 8% addition to any direct costs incurred for projects management costs, and a further 8% "surplus recovery fee". Whilst the amounts identified were not material, the Authority was unable to provide a robust assessment which set out how these amounts had been calculated and why it was appropriate to capitalise the "surplus recovery fee".

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of Council Dwellings and Other Land and Buildings** Other land and buildings are generally required to be held at current value in existing use (EUV). As the majority of the Authority's buildings are specialised assets and there is not an active market for them, they are valued on the basis of the cost to replace them with an equivalent asset (Depreciated Replacement Cost or DRC). There is significant judgement involved in determining the appropriate basis (EUV or DRC) for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation of the asset. In particular the DRC basis of valuation requires an assumption as to whether the replacement asset would be built to the same specification. The Authority has a rolling cycle of valuations, this therefore creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Authority's area they can use their more accurate local factor. There is a risk that the Authority's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use. For Other Land and Buildings Valuation is completed by an internal valuer and the for Council Dwellings by two external valuers (Freeman & Mitchell Limited and Herbert Button & Partners).
Our assessment and work undertaken:	We assessed the Authority's valuation report for Council Dwellings, and for Other Land and Buildings and considered the revaluation basis used and its appropriateness. We engaged our property team experts to undertake an assessment of the revaluation; We carried out an assessment of the expertise of the valuer instructed by the Authority to perform the revaluation exercises by ensuring that the valuer was appropriately qualified. We obtained the instructions provided to the valuer and assessed the independence and objectivity of the valuer and the terms under which they were engaged by management; We considered the source of the information provided to, and used by, the valuer, and undertook testing to ensure both its completeness and accuracy, including the existence of assets and floor area measurements; We confirmed the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements; We considered management assessment of any need for an impairment across its asset base either due to loss of value or reduction in future benefits that would be achieved; The Authority has significantly increased the amount of DRC properties revalued to mitigate the risk that properties not revalued are materially different to their fair value, as set out on page 17. At time of writing we are still completing our testing on PPE valuations, however at present we have not identified any issues which suggests valuations are not materially stated.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the Nottinghamshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	We critically assessed the competency, objectivity and independence of the Scheme's Actuary. We reviewed the appropriateness of the key assumptions included within the valuation of the assets and the liabilities, with the use of a KPMG Actuary. Our Actuary also reviewed the methodology applied in the valuation by Scheme's Actuary. We used the IAS 19 valuation provided by the Scheme Actuary for accounting purposes to ensure that this reconciled to the pension balances in the Authority's financial statements. We liaised with the auditors of the Nottinghamshire Pension Fund (KPMG) in order to gain assurance that the controls in place at the Pension Fund were operating effectively. This included the process and controls in place to ensure data provided to the Actuary by the pension fund for the purposes of the IAS19 valuation was complete and accurate. We agreed the estimated movement in the fair value of plan assets during the year included in the IAS 19 Actuarial Valuation as at 31 March 2018 for accounting purposes to the Authority's financial statements. We found the resulting valuation of the Defined Benefit Pension Scheme Liability to be balanced, albeit this is subject to final confirmation from the pension fund auditor.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 12 June. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;

— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;

— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and

— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts (WGA) return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years despite the reduced timetable. We expect to complete the WGA return in time to give the certificate alongside the opinion.

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:

Group Accounts including Robin Hood Energy Limited

The Authority has a relatively complex Group structure and will therefore need to ensure its Group Accounts are complete and intra group transactions correctly identified and removed.

As we noted in our prior year ISA260 report, one of the Authority's subsidiaries, Robin Hood Energy Ltd (RHE), has seen significant increases in turnover and outturn position since 2015/16, this included posting a £7.5 million operating loss in 2016/17, although we note that this is expected to be improved in 2017/18. As per last year we have made RHE a significant component for our audit.

Our assessment and work undertaken:

We reviewed the consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the Group Accounts.

We discussed the process to identify and eliminate intra-group transactions.

We agreed the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and Trust fund consolidated within the Group Accounts.

We liaised formally with RHE's auditor's 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, this included a review of RHE's auditor file. We also note that RHE's financial performance improved to being in surplus for 2017/18.

We did not identify any significant issues as a result of the work undertaken.

We have considered wider group governance arrangements as part of our Value For Money work on page 26, where we have raised a recommendation.

Issue:

Implications of Tramlink's auditors' comments regarding going concern

Tramlink Nottingham Ltd is one of the Authority's key external partners. The company is a PFI concession who built the tram lines for NET Phase 2, and now operates and maintains all tram lines in Nottingham.

In their 2016/17 financial statements, Tramlink's auditors' issued an Emphasis of Matter paragraph within their opinion in regards to going concern and financial uncertainties linked to breaching bank covenant ratios.

Our assessment and work undertaken:

We discussed with the Authority the latest position in regards to Tramlink Nottingham Ltd and any implications for the Authority's financial statements. Our discussions did not highlight any significant issues at the present time in terms of our responsibilities. Officers also explained how they monitor Tramlink.

As part of the partnership with Tramlink Nottingham Ltd, the Authority has in place two key arrangements to help protect its interests, these being:

— Funders Direct Agreement; and

— Concession Agreement.

Specific audit areas (cont.)

Other areas of audit focus (cont.)

Issue:	**Broadmarsh Development** The Authority has begun work on its Broadmarsh redevelopment with the demolition of the Broadmarsh car park. The Authority is due to submit plans to Executive Board for approval in regards to the next phase of the project in developing a new car park and shopping centre. The work to date will have an impact upon the financial statements, through disposing of the existing car park, and capitalising costs incurred up to 31 March 2018.
Our assessment and work undertaken:	We considered the accounting treatment of the Broadmarsh development as at 31 March 2018, specifically limited to the accounting treatment of the demolition of the car park and capitalisation of costs incurred to date. We did not identify any significant issues as part of the work undertaken in regards to the accounts treatment of costs incurred in 2017/18. We had planned to discuss with officers the financial plans of the project including proposed financing and financial plan, however the redevelopment is yet to be approved by the Authority's Executive Board and therefore outside the scope of our audit for 2017/18.
Issue:	**Proposed changes to Minimum Revenue Provisions** The Authority has informed us that they are considering making changes to the way it calculates its Minimum Revenue Provision (MRP) which has the potential to have a significant financial impact.
Our assessment and work undertaken:	We reviewed the proposed changes to the MRP policy. We considered how the Authority communicated to its Members the financial impact of the changes, including in the medium and long term. The Authority has made changes to its MRP Policy prior to 1 April 2018. The changes impact on the supported borrowing elements of the MRP charge. As part of our review of the revised methodology we did not identify any issues which would lead us to challenge the revision. Whilst the changes result in a c.£4m reduction in MRP charges over the next seven years, it subsequently increases the charge from 2024/25 by c. £655k. We are satisfied that this has been communicated clearly to the Authority's members.

Specific audit areas (cont.)

Other areas of audit focus (cont.)

Issue:

Commercial Property Investment

In 2016/17 the Authority invested £87.5 million in commercial properties. The Authority set out within its 2017/18 budget a planned £41.85m of further investment property acquisitions for 2017/18, and it is anticipated that valuation of the Authority's investment property portfolio will exceed £200m by the year-end.

The Authority will need to ensure that all commercial property investments are valued at fair value at 31 March 2018, that there are arrangements in place to ensure associated borrowing is sustainable, and that arrangements are in place to cope with events such as impairment of the assets.

Our assessment and work undertaken:

We reviewed the valuation of commercial property investments, including new additions in year.

We considered the arrangements to assess the sustainability of borrowings both individually and as a whole to the Authority's investment property portfolio, and the financial robustness of the Authority if the assets decrease in value.

The Authority has invested £94.9m into investment properties throughout 2017/18. The majority of these are outside of the Nottingham area and are held to help generate additional revenue for the Authority to support the revenue budget.

We sample tested investment property additions to ensure that the transaction was completed in year and that the purchase price was accurately reflected within the financial statements. Investment properties purchased in year have not been subsequently revalued which we considered a reasonable approach.

We met with the Head of Portfolio Investment and Development to understand in further detail the due diligence undertaken ahead of each purchase and did not identify any significant issues.

We are aware that the Authority's Audit Committee has received a presentation on approach to commercial property investments during the year. We also note that the Authority's internal auditors reviewed the governance arrangements underpinning commercial property investments, and made a number of recommendations were made and accepted by management to help strengthen current arrangements.

Given the growth of the Authority's investment property portfolio it is vital that the Authority has in place a Capital Investment Strategy as soon as possible, and that this is appropriately approved and monitored against. We have raised a recommendation to reflect this.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions	4	4	The Authority's provision balance has reduced by £5.02m from the prior year (CY £34.67m, PY £39.68m). The Authority's provision balance reduced by £2.99m in 2016/17. We therefore consider that the Authority is heading towards the more optimistic end of the prudence scale. Our review of provisions has focussed on the Authority's three main provisions. 1. The provision linked to compulsory purchases associated with the NET2 Tram Scheme (CY £14.06m PY £16.1m). The provision represents outstanding compulsory purchases where the final purchase price is yet to be agreed, the balance has reduced by £2.04m in year as a number of acquisition prices have been agreed. 2. Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. To calculate the provision, the Authority utilises an external expert, Analyse Local. The provision is based on the latest list of outstanding business rate appeals provided by the Valuation Office Agency. This has resulted in a decrease in the provision of £2.54m. £2.9m of the provision relates to 2017 Valuations. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). Officers have set out to us why they are content that they have met the requirements of IAS 37, and have confirmed that they will continue to review their approach to setting aside resources for potential 2017 appeals as updates are received from the Valuation Office. 3. Injury Damage and Compensation Claims provision has increased in year from £11.95m to £13.05m (increase of £1.1m). This represents the increases in claims against the Authority.

Judgements

Subjective area	2017-18	2016-17	Commentary
Property Plant & Equipment: Council Dwellings	3	3	As at the 31 March 2018 the Authority's housing stock consists of 25,808 properties. The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The year-end valuation for 2017/18 is £921.2m, an increase of £85.2m from the prior year balance (£835.9m), of which £74.3m is a result of upwards revaluations. Of the revaluation gain, £51.2m impacts on the Authority's Comprehensive Income and Expenditure Statement (CIES), and subsequently has been separated out as an exceptional item on the face of the CIES. The Authority has utilised two external valuation experts to provide valuation estimates on a desktop basis. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The valuation is based on 193 property beacons. We noted that resulting increases across the beacons ranges between -6% - +25%. We utilised a KPMG valuation specialist to review the valuation utilising available market data. The desktop valuation is not underpinned purely by regional indices but also utilises other comparable market data such as house price sales in similar regions to each property beacon. Our review of the valuation is being finalised however at present we have not identified any issues and we consider it balanced.
Property Plant & Equipment: Other Land and Buildings	3	3	The Authority's Other Land and Buildings balance as at 31 March 2018 is £897.1m, an increase of £102.8m from the prior year balance of £794.3m. This increase has been primarily driven by revaluation gains. The Authority has significantly increased the number of valuations undertaken in year to reduce the risk that as part of its cyclical revaluation programme, assets not revalued in year have a material difference between their carrying value and fair value. £725.5m of Other Land and Buildings have been revalued in year, of this £674m utilising a Depreciated Replacement Cost methodology to represent the specialised nature of the Authority's assets where there is often no market, and £51m utilising Existing Use Value. We utilised a KPMG valuation specialist to review a sample of valuations to review the reasonableness of underpinning assumptions which is currently being finalised but at time of writing has not highlighted any issues. We therefore consider the valuation to be balanced.

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of Local Government Pension Scheme (LGPS) pension assets and liabilities	3	3	The Authority's total net pension liability is £820.2m (PY £860.8m), underpinned by two defined benefit pension schemes, the LGPS and Teachers' Pension Scheme. Given the significance of the LGPS we focus our audit work on this element of the pension element. At the 31 March 2018, LGPS pension liabilities for the Authority totalled £1,860m (PY £1,884m), and the fair value of pension assets totalled £1,077m (PY £1,063m), resulting in a net LGPS pension liability of £782.4m (PY £820.5m). The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.55%	2.51%	3
Pension increase rate	2.3%	2.15%	2
Salary Growth	CPI plus 1.5%	CPI plus 0 – 2%	3
Life expectancy Males currently aged 45 / 65 Females currently aged 45 / 65	 24.8 / 22.6 27.9 / 25.6	 23.5 / 22.1 25.4 / 23.9	3

We found assumptions to be within our acceptable range. There has been an actuarial gain on the financial assumptions of around £71.8m, largely due to a fall in the assumptions for pension and salary increases, offset to an extent by a fall in the discount rate assumption.

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 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 23 July 2018.

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 this year's audit was set at £10.5 million for the Authority (and £11m for the Group). Audit differences below £525k are not considered significant.

We did not identify any material misstatements. We identified one non-material adjustment. There are no unadjusted audit differences. We identified 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 2017-18 ('the Code'). We understand that the Authority will be addressing these where significant.

The Authority has significantly increased the number of revaluations undertaken in year in regards to Other Land and Buildings in order to strengthen the robustness of valuations. At time of preparing the draft statements there were a relatively small number of revaluations which were still to be finalised (officers had explained to us in advance that this would be the case). During the first week of the audit the Authority finalised the revaluations and these have been audited and reflected in the post-audit statement of accounts, details of which are provided separately to the Audit Committee by officers.

Annual Governance Statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017-18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. We provided feedback on the Narrative Report, for which the Authority reflected all comments within the final version.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements, with the exception of a breach that we regard as having a minor impact.

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 2018, we confirm that there were no relationships between KPMG LLP and Nottingham City Council, 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, with the exception of a breach that we regard as having a minor impact. We have provided a detailed explanation of the breach in a separate letter to the Committee, and summarised it within our declaration in Appendix 7 in accordance with ISA 260. We have also requested that the Committee confirms that it concurs with our assessment of the breach on our independence.

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 Responsible Finance Officer 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 etc.).

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 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

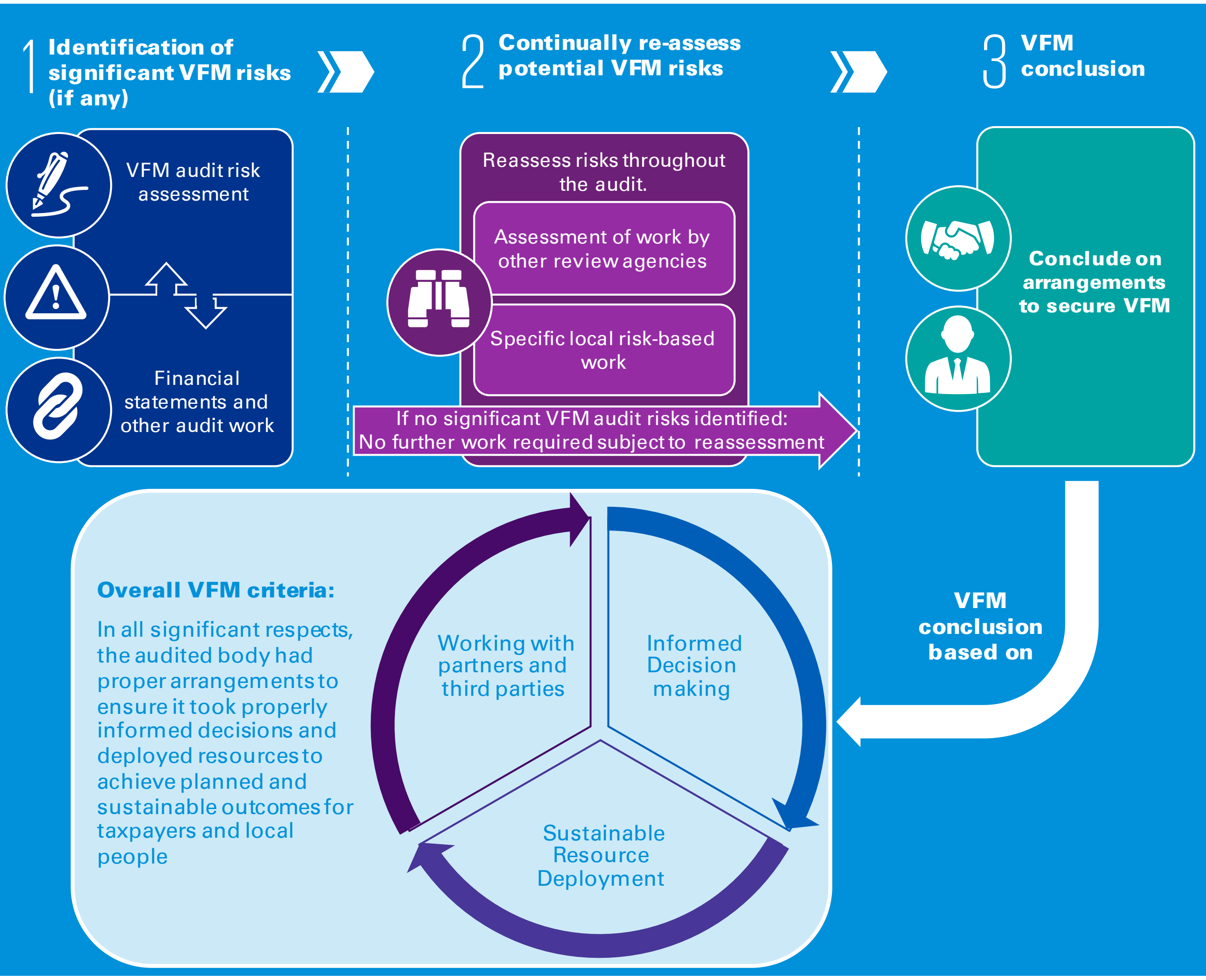
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM area of focus to VFM sub-criteria			
VFM area of focus	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Delivery of budgets	✓	✓	✓
Group governance arrangements	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions 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.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, and as updated throughout the audit, we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk: **Delivery of budgets**

The Authority's 2017/18 net revenue budget of £238.54m was approved by full Council in March 2017. The forecast at Quarter 2, stated that the Authority will deliver an overspend which has been forecasted at: £2.65m (Best case), £2.70m (Medium Case) or £6.55m (Worst Case).

Proposed savings for 2017/18 have been planned at £24.45m from savings on both portfolios and health integration as per the 2017/18 budget. Further savings of £25.86m and £29.14m for 2018/19 and 2019/20 respectively will be required principally to address future reductions to local authority funding alongside service cost and demand pressures as set out within the Medium Term Financial Plan, notably within Adult Social Care. As a result, the need for savings along with income generation from commercial activity will continue to have a significant impact on the Authority's financial resilience, as it strives to put in place a sustainable budget

In addition, the Authority's overall level of borrowing as at 31 March 2017 was £796.26m. As reported to Audit Committee in January 2018 via the Treasury Management Half Yearly Update, external borrowing is expected to increase by £255m in 2017/18 based on the revised capital program and forecast cash flow requirements.

Therefore we consider this to be a significant risk.

Our assessment and work undertaken:

As part of our additional risk based work we have undertaken the following procedures over this significant risk:

— reviewed the Authority's Medium Term Financial Plan, and consider the proposed actions to mitigate factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors;

— reviewed the reported actual delivery of the Authority's savings programme compared to planned savings;

— reviewed the arrangements in place to ensure that overall borrowing levels are sustainable;

— reviewed the budget and savings plan for 2018/19, including any contingencies.

As part of our work in regards to the delivery of the Authority's budget we have made the following observations and assessments.

For the second consecutive year the Authority's year-end position is an overspend. For 2017/18 this equates to a adverse variance of £4.22m against budget. The adverse variance is indicative of the overarching financial pressures the Authority is under, as seen across the sector, including the continued demand for social care services. One of the contributing factors to the year-end position was the inclusion of £10.1m expected

Specific value for money risk areas (cont.)

Significant VFM Risks

Our assessment and work undertaken:

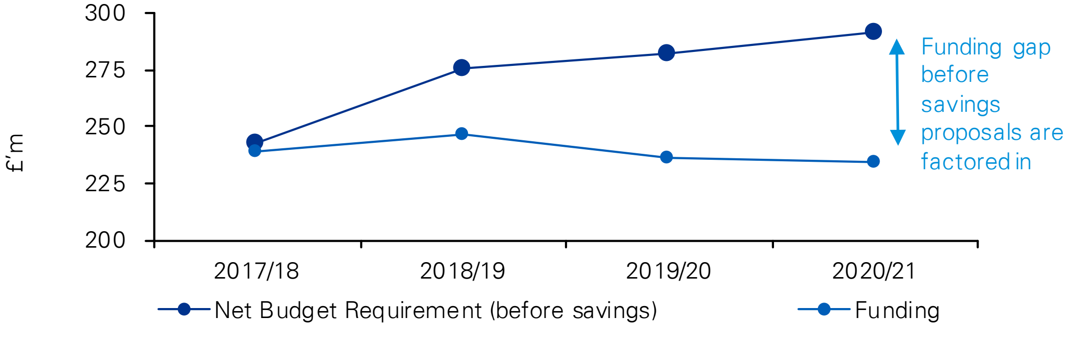
Delivery of Budgets (cont.)

benefit from the Sustainability and Transformation Partnership which did not materialise. The Authority has been transparent however in its reporting of this, and sought to rectify it as reported in its Quarter 1 position to both Executive Board and Council. This has meant the Authority has resorted to a number of non-recurrent measures to reduce the budget deficit, along with a net transfer from reserves of £2.9m. This use of non-recurrent measures inherently compound the challenges in delivering a balanced budget in 2018/19.

As a result of the overspend in year, the Authority's General Fund (GF) balance has reduced from £8.46m to £5.47m, and is close to the Authority's minimum GF level of 2% of the budget requirement. The Authority has committed to working to replenish this, thus ensuring sufficient contingencies exist for any future unexpected events which could have a detrimental impact on the revenue budget.

The Authority has reported total savings from 2010/11 to 2017/18 of £232.7m. As financial pressures continue into the 2018/19's budget, the Authority has worked hard to develop £23.08m of portfolio savings, £5.3m of targeted savings aimed at discretionary intervention services, and a further £1m from a partnership funding review. Total proposals for 2018/19 are a challenging £29.38m. The proposals have allowed the Authority however to set a net budget position of £246.36m, funded by retained business rates, and revenue support grant (£131m), council tax (£110m) and collection funds £4.9m). Whilst the Authority is working hard to deliver its revenue budget the Corporate Leadership Team (CLT) will need to monitor the on-going financial results closely through the year and take decisive action to address emerging cost pressures, with a focus on ensuring measures are recurrent.

The Medium Term Financial Plan details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified. The budget gap by 2020/21 is estimated to be £57.78m. It is important that the Authority commits to delivering a sustainable budget, which will require strong leadership.



Whilst not specifically part of the Authority's revenue budget, we did also observe the increasing level of the Authority's external borrowing. This is likely to significantly increase further to support a potentially sizeable capital programme. At present the Authority does not have in place an up-to-date capital strategy, and it is vital given the size of the capital programme that this is developed and factors in the borrowing and potential exposure and adverse impact external conditions could have on the Authority's financial position given the level of external debt. We have raised a recommendation to acknowledge this.

Specific value for money risk areas (cont.)

Significant VFM Risks

Risk:

Group Governance Arrangements

The Authority has a relatively complex group structure. In 2016/17 the Authority consolidated within its group accounts, six subsidiaries, two joint ventures and one trust fund. Of these, most notably was the expansion of the Robin Hood Energy (RHE), which we classified as a significant component. For 2017/18, further growth of RHE is forecast, and we have therefore continued to classify RHE as a significant component.

The Authority has recognised that as its group structure evolves, then so must the overarching governance arrangements in place at the Authority to monitor and ensure that appropriate accountability of the respective subsidiaries and joint ventures are in place. At time of our planning the Authority was in the process of commencing a key review of the Authority's group governance arrangements.

In addition to this for years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. In order to meet the revised deadlines, there are a number of logistical challenges that will need to be managed, one of which is ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with the closedown and accounts production timetable.

Our assessment and work undertaken:

As part of our work we have:

— reviewed the current governance arrangements in place surrounding the current group structure:

— sought to consider the findings from the Authority's own internal review of group governance arrangements, however at time of writing this is yet to be finalised. We referred to this review in our prior year ISA260 report, where the terms of reference for the internal review were presented to Audit Committee in September 2017.

The Authority has been progressing its overarching group governance processes to ensure that these are fit for purpose given the continued growth of the group. We note that whilst progress has been made, officers and members are taking care to design a framework that meets their requirements. It is important that developing and implementing the revised structure is completed by the target date of September 2018. We have raised a recommendation to reflect this.

In terms of the financial statements, the Authority's Finance team have worked very effectively with the subsidiaries to ensure that they were able to meet the Authority's own deadlines for producing Group financial statements, and for the end of July deadline.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues, none of which are consider high priority. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. 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 have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** 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. Recommendations Raised: -	2	**Priority Two:** 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. Recommendations Raised: 8	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 5

No.	Risk	Issue & Recommendation	Management Response
1	2	**Sustainable Financial Budget** The Authority has highlighted a number of risks regarding its ability to deliver a self-sufficient and sustainable financial budget in the medium term. Many of these risks are not specific to the Authority but to the sector as a whole, underpinned by reduced central funding and increasing demand for social care services. The Authority's outturn for 2017/18 and 2016/17 has been an overspend against budget. For 2017/18 the Authority has relied on a number on non-recurrent measures to help reduce the in year-overspend. Despite setting a balanced budget for 2018/19, it is likely that there will be emerging financial pressures that will require co-ordinated action by CLT. ***Recommendation*** CLT needs to monitor the financial position within 2018/19 and work together to deliver solutions to any issues that arise. Wherever non-recurrent measures are used to address recurrent issues there should be a clear plan as to the proposed solution for the future.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
2	2	**Group Governance Arrangements** The Authority has been progressing its overarching group governance processes to ensure that these are fit for purpose given the continued growth of the group. We consider that whilst progress has been made, it is important that the new framework meets the September 2018 implementation target date. ***Recommendation*** The Authority should ensure that the new group governance framework is in place by September 2018.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
3	2	**Capital Investment Strategy** Given the significant growth of the Authority's investment property portfolio it is vital that the Authority has in place a Capital Investment Strategy, we understand that this is something that the Authority has commenced developing given the confirmed level of planned capital and investment expenditure. ***Recommendation*** The Authority should develop and appropriately approve a capital investment strategy document as soon as possible, given the growth of its investment property portfolio and associated borrowing costs.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
4	2	**Journals Authorisation** Historically, journals posted by the Authority do not require authorisation. From a control environment point of view ideally there should be a robust segregation of duties where journals are posted by one individual, and then separately authorised electronically within the general ledger system. We understand that the new general ledger system has this functionality, and therefore we strongly recommend that the approvals functionality is considered as part of the implementation of the new system. There is a risk that without robust journal controls, inappropriate or inaccurate journals could be posted to the general ledger system. ***Recommendation*** The Authority should investigate and seriously consider the implementation of electronic journal authorisation within the new general ledger system.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
5	2	**Capital Cut-Off** Our testing over capital additions noted the inclusion of additions relating to 2016/17. We undertook further work in regards to the capital cut-off for 2017/18, whilst our procedures provided us with assurance that capital additions are materially stated we did identify further errors. We consider that this is an area the Authority revisits for future years to ensure the process to identify and account for capital accruals is robust. The errors identified related to schemes delivered internally. ***Recommendation*** The Authority should review its process for capturing and accounting for capital accruals, to ensure costs are capitalised in the correct period, notably in regards to internally delivered schemes.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
6	2	**Capitalising project management costs and surplus recovery fees** Our testing of capital additions identified that for internally managed capital projects by Highways and Energy Infrastructure, the Authority applies a general 8% addition to any direct costs incurred for project management costs, and a further 8% "surplus recovery fee". Whilst the amounts identified were not material, the Authority was unable to provide a robust assessment which set out how the 8% assumptions applied had been generated. We consider that project management costs should be applied at staff level as opposed to general percentage. ***Recommendation*** The Authority should: — review how it calculates its capitalised project management costs, notably the 8% add-on cost; and — review the basis of the "surplus recovery fee" capitalised cost for internally managed capital projects and why it is appropriate to capitalise this cost.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
7	3	**Documenting senior review and approval of actuarial assumptions** The Authority undertook a detailed review and challenge of actuarial assumptions applied by the Actuary in calculating the net pension liability, we noted that whilst we were informed this had been discussed and reviewed by senior finance staff, this review was not documented. There is a risk that should the actuarial assumptions ever be retrospectively challenged over their appropriateness, there is no audit trail to reflect appropriate timely scrutiny and review. ***Recommendation*** Actuarial assumptions should be reviewed and signed off by Senior Management at the Authority before the production of draft accounts.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
8	2	**Enviroenergy** As part of our testing we noted two key areas related to Enviroenergy: 1. The Authority currently has £14.1m debtor with Enviroenergy, against this there is a bad debt provision of £5.5m within the Authority's accounts. Enviroenergy has posted a £736k operating loss for 2017/18, however there has been no movement in the bad debt provision from the prior year. 2. The Authority has incurred capital additions c.£3m in maintaining the infrastructure utilised by Enviroenergy. Borrowing costs to fund the capital spend are past onto Enviroenergy as part of the existing SLA. We noted however that the SLA between the Authority and Enviroenergy is dated 1972. It is important that the financial positon of Enviroenergy is monitored and the Authority's exposure on its long term debtor reflected within its statements. There is a risk that without regular review the service level agreement between the Authority and Enviroenergy will not reflect current operations. ***Recommendation*** The Authority should review and confirm that the service level agreement it has with Enviroenergy, dated 1972 is still fit for purpose. The Bad debt provision against Enviroenergy's debtor should be reviewed for 31 March 2019.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Appendix 1:

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
9	3	**IT Security Policy** The Authority's IT Security Policy should be subject to annual review, but the policy has not been updated since 2015. There is a risk that the policy is out of date, notable against the backdrop of General Data Protection Regulations which impact from 25 May 2018. ***Recommendation*** IT Security Policy should be reviewed annually as determined by the Authority.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
10	2	**Northgate Leavers** Our testing identified one leaver with parking permits responsibilities had not had their access revoked to Northgate in a timely manner. We were able to mitigate the risk through further testing however leavers should be removed from systems in a timely fashion. ***Recommendation*** The Authority should ensure that leavers are removed immediately from the Northgate system.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
11	3	**Northgate User Access** User access reviews for Northgate Revenues and Benefits are not carried out by the Authority. We identified one leaver with parking permits responsibilities who had not had their access revoked to Northgate in a timely manner. ***Recommendation*** Annual user access reviews should take place on the Northgate system.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]
12	3	**Oracle Leavers** 24 leavers with financial reporting responsibilities had not had their access revoked to Oracle Financials in a timely manner, some of which had logged into Oracle after their HR leaving date. We were able to mitigate the risk through further testing . ***Recommendation*** Oracle leavers should be removed from system immediately.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
13	3	**Oracle Generic Accounts** The Authority operates Generic User Accounts, which we do not consider unreasonable, however we do consider that the Authority should operate a monitoring / detective control over the use of these accounts as a way of improving control. This should be realistic as usage of these accounts should be in exceptional circumstances only. ***Recommendation*** The Authority should introduce a monitoring control over the use of Generic User Accounts within the general ledger.	[Details of management response.] ***Responsible Officer*** [Name] – [Role] ***Implementation Deadline*** [Date]

Appendix 2:

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of priority.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in our ISA 260 Report 2016/17	4
Implemented in year or superseded	2
Supersceded	2

No.	Risk	Issue & Recommendation	Status as at 23 July 2018
1	2	**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.	**Superseded by recommendation 10** Whilst improvements have been made in year our testing identified one leaver with parking permits responsibilities had not had their access revoked to Northgate in a timely manner.

Appendix 2:

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Status as at 23 July 2018
2	3	**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.	**Implemented** No issues identified by KPMG follow-up. The IT team will only track failed requests if they have been submitted by the System Administrator (username SYSADMIN). Any failures are investigated on a daily basis. All other requests are monitored by the individual requestor.
3	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.	**Implemented** No issues identified by KPMG testing in 2017/18.

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Status as at 23 July 2018
4	3	**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 continue to log all general ledger batch control fails in the error log.	**Superseded by recommendation 11.** User access reviews for Northgate Revenues and Benefits are still not carried out by the Authority. We identified one leaver with parking permits responsibilities who had not had their access revoked to Northgate in a timely manner. We were able to mitigate the risk

Appendix 3:

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 2017-18 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 – Authority

The following table sets out the significant audit differences identified by our audit of Nottingham City Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted.

Table 1: Adjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Income and expenditure statement	Basis of audit difference
1	Dr Interest and similar charges and income £2.52m	Cr Other Finance and Investment £2.52m	Classification Error
	Dr £2.52m	**Cr £2.52**	**Total impact of adjustments 0**

Unadjusted audit differences

There are no unadjusted audit differences.

Appendix 4:

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 2017-18*, presented to you in June 2018.

Materiality for the Authority's accounts was set at £10.5 million (£11 million for the Group) which equates to around 1 percent of gross expenditure. 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, an individual difference is considered to be clearly trivial if it is less than £0.525 million for the Authority (£0.550 million for the Group).

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.

Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report (subject to completion of WGA by the time of giving the opinion)
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	The engagement team have complied with relevant ethical requirements regarding independence, with the exception of a single breach of FRC Ethical Standards. See Appendix 7 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 18.

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Key audit partner	We identified the key audit partner at page 24 in our *External Audit Plan 2017-18* presented to you in June 2018.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.
Independence of external experts engaged by KPMG and non-KPMG auditors	We have not engaged external experts for the performance of any aspects of our audit.
Communications with Audit Committee and management	We have described the nature, frequency and extent of communication with the Audit Committee and management at page 22 in our *External Audit Plan 2017-18* presented to you in June 2018.
Scope and timing of the audit	We have described the scope and timing of the audit at page 22 in our *External Audit Plan 2017-18* presented to you in June 2018.
Audit methodology	There are no substantial variations in our approach from the previous year's audit.
Valuation methods	On pages 16-18, we report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	There are no significant matters affecting the entity's ability to continue as a going concern. The CIPFA Code of Practice states that all local authority financial statements shall be prepared on a going concern basis.
Requested explanations and documents	No matters to report. All requested explanations and documents were provided by management.
Materiality	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 12 in our *External Audit Plan 2017-18* presented to you in June 2018. See also Appendix 4 of this report.
Non-compliance with laws and regulation or articles of association	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit
Non-KPMG component auditors	We described the work of non-KPMG component auditors at page 8.
Management's approach to consolidation	We report on management's approach to consolidation on page 41. It is consistent with the requirements of the Code. The consolidated financial statements include all material subsidiaries.

Appendix 6:

Consolidation of IFRS Group Financial Statements

We explain the scope of consolidation and the exclusion criteria applied by Nottingham City Council to the non-consolidated entities and our views on whether they comply with the financial reporting framework.

In accordance with the financial reporting framework, which is IFRS 10, the scope of the consolidated financial statements includes Nottingham City Council and all subsidiaries except those that may or are required to be excluded under IFRS 10.

The criteria for exclusion are in accordance with the financial reporting framework.

Identification of subsidiaries:	Applied [Y/N]	Not Applicable
– entities controlled by the company whereby the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.	Y	
– **Permitted exclusion:**		
– immaterial subsidiaries	Y	
Required exclusions:		
– post-employment benefit plan in the scope of IAS 19		Y
– where Nottingham City Council is an investment entity, all subsidiaries other than those that are not itself an investment entity and whose main purpose and activities are providing services that relate to the Nottingham City Council's investment activities.		Y

Appendix 7:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NOTTINGHAM CITY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Breaches of applicable ethical standards;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a Partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

Independence and objectivity considerations related to breaches of the FRC Ethical Standard

During the year there has been one breach of certain aspects of applicable independence regulations, as reported to you in a separate paper on 20 July 2018. That breach related to providing pensions advisory advice to Nottingham City Transport, which was finalised in August 2017. The work was provided prior to our awareness that the Authority was classified a public interest entity as a result of £617k of listed debt. The service provided however was not permissible to be provided to a public interest entity under FRC Ethical

Declaration of independence (cont.)

Independence and objectivity considerations related to breaches of the FRC Ethical Standard (cont.)

standards. We have concluded the breach did not impact on our independence and objectivity as auditors of the Authority for the following reasons and therefore its impact was minor:

1. The advisory services provided were in respect of the triennial funding valuation of the Fund and the provision of advice to the Company in respect of their discussions with the Trustees of the Fund on future funding. Given the nature of these services and the timing of any financial impact agreed between the Company and the Trustees, the services have had no impact on the Authority's financial statements for the year-ended 31 March 2018. Furthermore, the services did not involve any form of valuation or provide any accounting entries that would give rise to any self-review.
2. Whilst the Company results are consolidated into the Authority's results, KPMG are not the auditors of this Company or the Fund, therefore safeguarding any possible self-review threat. No members of the Authority's audit team were involved in the work for the Company .
3. Finally, we note that this is our last year as auditors of the Authority and therefore any future impact on the financials resulting from actions taken as a result of the advice provided under the service, will not be subject to audit by our firm.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 8, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 (£)	2016-17 (£)
Audit of the Authority	172,118	178,727
Total audit services*	**172,118**	**178,727**
Non-audit services	19,475	0
Audit related assurance services	10,500	13,200
Total Non Audit Services	**29,975**	**13,200**
Mandatory assurance services (Housing Benefits certification)	18,458	10,965**
Total Mandatory Assurance Services	**18,458**	**10,965**

*We have carried out additional work in a number of areas referred to in this report (eg PIE, group) and will discuss additional fee with the S151 officer. Any agreed fee will also be subject to PSAA agreement.

**2016/17 Housing Benefits work subject to fee variation yet to be agreed and confirmed with PSAA

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 17% . We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table on the following page.

We have agreed with the PSAA that our £31,000 fee for strategic advisory services work for Midlands Engine, procured on its behalf by the Authority, does not count towards the fee threshold as it is not for the

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services (cont.)

Authority. For clarity, your audit team is not involved in the Midlands Engine work. We are carrying out further work for the Midlands Engine in 2018/19 procured on its behalf by the Authority, and PSAA has again agreed that it is not relevant in terms of the thresholds as it is again not for the Authority.

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Pensions Advisory Services for Nottingham City Transport	Self-interest: These engagement is entirely separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. 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 2017/18 audit as it relates to 2016/17 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. We do not audit the Nottingham City Transport (NCT) in regards to our pensions work. Management threat: This work involved the certification of these returns only –all decisions were made by the Authority. In regards to the pensions work, we are not the auditors for NCT. 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.	Fixed daily rate	19,475	0

Note – an element of this work was subsequently deemed to be not compatible with PIE status, leading to the breach declaration within this section.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018 (cont.)

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return		Fixed Fee	2,500	0
Grant Certification – Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	4,000	0
SFA Sub-contracting Controls Assurance		Fixed Fee	4,000	0
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	10,965	18,458

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix 8:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £172,118 plus VAT (£172,118 in 2016/17), which is consistent with the prior year.

However, we propose an additional fee due to reclassification of the Authority to an EU PIE and other issues set out in this report. We will discuss and agree any additional fee with the S151 officer. This will be subject to PSAA's final determination.

Our work on the certification of the 2016/17 Authority's Housing Benefit Subsidy return is not yet complete. The planned scale fee for this is £10,965 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £10,500 plus VAT (£13,200 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Nottingham City Council	172,118	172,118
Additional fee	tbc*	6,609
Total audit services	**172,118**	**178,727**
Mandatory assurance services		
Housing Benefits Certification	18,458	10,965*
Total mandatory assurance services	**18,458**	**10,965**
Audit-related assurance services		
Teachers' Pension Return	2,500	2,500
Pooling of Housing Capital Receipts	4,000	4,000
Local Transport Grant	0	3,000
SFA Subcontracting Controls	4,000	3,000
Total audit-related assurance services	**10,500**	**12,500**
Total non-audit services	**19,475**	**0**
Total fees for the Authority	**220,551**	**202,192**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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Manager

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

CREATE: CRT086281A

Nottingham City Council

Nottingham City Council

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

Statement of Accounts 2017/18

Contents

Contents - Notes to the Financial Statements

Section 1
Narrative Report

1.1 Introduction to Nottingham City Council

Nottingham is known throughout the world for the legend of Robin Hood and today is a thriving modern city. It has an award winning public transport system which includes the largest publicly owned bus company in the United Kingdom and a successful tram system.

It is also a major sporting centre with the National Ice Centre, Holme Pierrepont, National Watersports Centre and Trent Bridge International cricket ground all located in and around the city. In October 2015 Nottingham was awarded the title of 'Home of English Sport'.

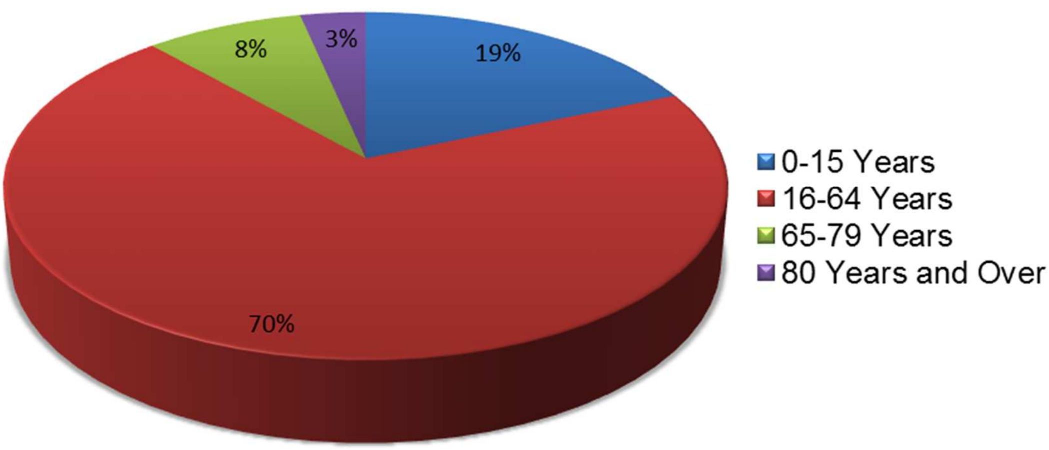
In December 2015, Nottingham was named a City of Literature by UNESCO, reflecting the city's literary heritage of Lord Byron, D.H Lawrence and Alan Sillitoe.

Putting Citizens at the Heart of everything is the core focus for the Council and is embedded across all functions of the organisation. Building new homes, tackling fuel poverty, education and providing jobs and training opportunities for young people are amongst the top priorities to make the city a great place for all who live, work and visit here.

1.1.1 Population

The latest estimate of the City's resident population is 325,300 (Office for National Statistics Mid-Year Estimates 2016). Projections suggest that this could reach 332,700 by 2024 mainly as a result of international migration and an increase in student numbers at the two universities in the city. The age profile of Nottingham's population is shown in the chart below.

Composition of Nottingham City Population



1.1.2 The Economy and External Environment

Local authorities continue to operate in a challenging financial environment of reduced levels of Government funding, with the full consequences of Brexit yet unknown. Key local economic indicators suggest an increase in unemployment and self-employment rates and in economic activity. Household disposable income within the city seems to have remained static although it has continued to rise in the wider Nottingham area. The long-term trend regarding skills is positive with more citizens holding higher-level qualifications. There are still challenges around more adults having no qualifications and that the number of 16 to 18 year olds not in education, employment or training has increased.

There are 223,000 people employed in Nottingham City, of which 67.1% are in full time employment. The rate of job growth is 1.2% which is slightly below the Core Cities Average of 1.7%.

Services are the main source of employment in Nottingham, accounting for 90% of the employed workforce. This is higher than the average for England of 85%. Manufacturing employment has been steadily declining for several decades and now accounts for less than 5% of jobs in Nottingham.

The public sector is an important source of employment in the city, accounting for 23% of all residents in employment. This exceeds the national average of 20.7%.

Nottingham Jobs is the Council's employment and skills service. It is playing a key role in helping and supporting Nottingham citizens to find paid employment. This not only has positive outcomes for the local economy but also serves to improve life chances and health outcomes for individuals and their families.

There are approximately 6,900 people unemployed in Nottingham, with increases in all age groups in the last year. The largest increases were amongst people aged 50 and over and women in the 30-39 age group.

1.1.3 The Financial Framework

The main financial objectives for the City Council focus on:

- Ensuring sound financial planning and management is embedded across all areas of the Council.
- Supporting citizens to have access to value for money services which are modern and fit for purpose.
- Maintaining good underlying financial health and good governance.
- Always taking a longer-term view.

This policy-led, medium term approach to financial planning and management is good practice and ensures that we can fund our vision, values and priorities. The City Council is committed to maintaining financial stability and delivering value for money through effective, economic and efficient services.

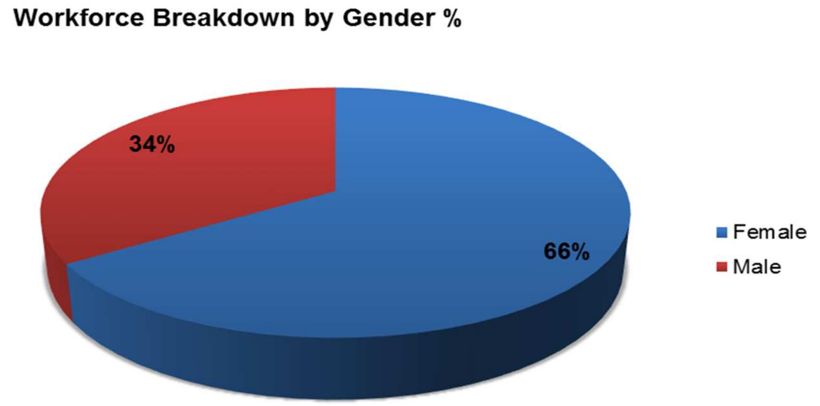
The Medium Term Financial Strategy (MTFS) sets out the principles we work to in order to deliver our aims and objectives. The City Council operates on a principal of medium term, policy-led financial planning. This connects the vision, values and priorities with decisions made in setting the annual budget within the Medium Term Financial Plan (MTFP).

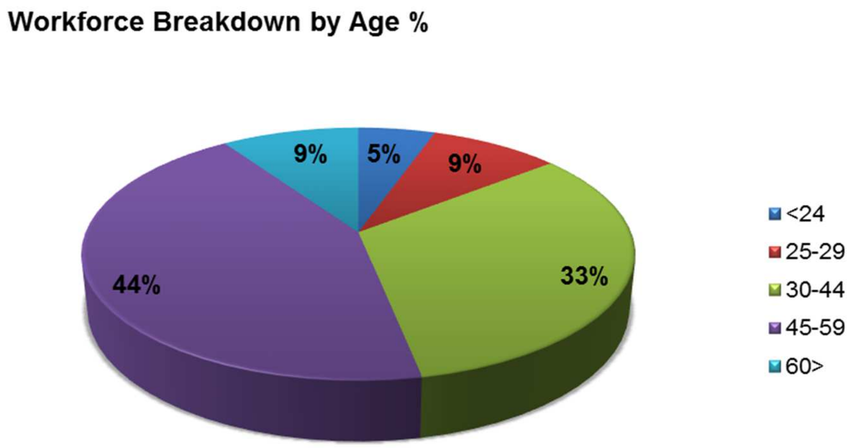
In particular, any new investment is considered in the context of how it will contribute to realising the City Council's vision and performance improvement more generally. Options are worked up for consideration and decisions to stop, reduce or reshape services are made in full knowledge of the impact on objectives. All proposals are scrutinised throughout the budget process by peers, senior colleagues and councillors. The whole approach is informed by the use of a variety of performance and financial data.

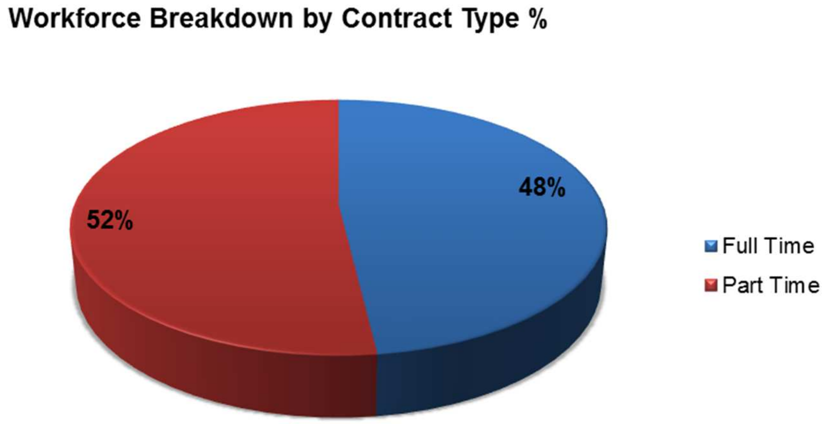
1.1.4 Employees

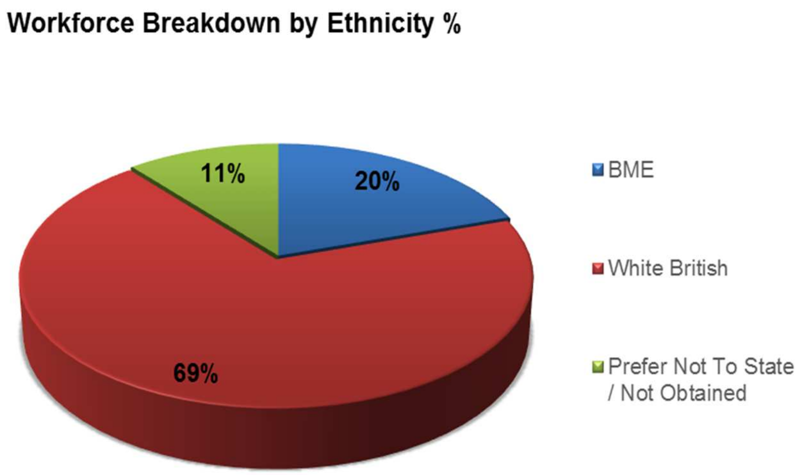
At 31 March 2018 Nottingham City Council employed 8,928 people in full time and part time contracts, including those employed in schools.

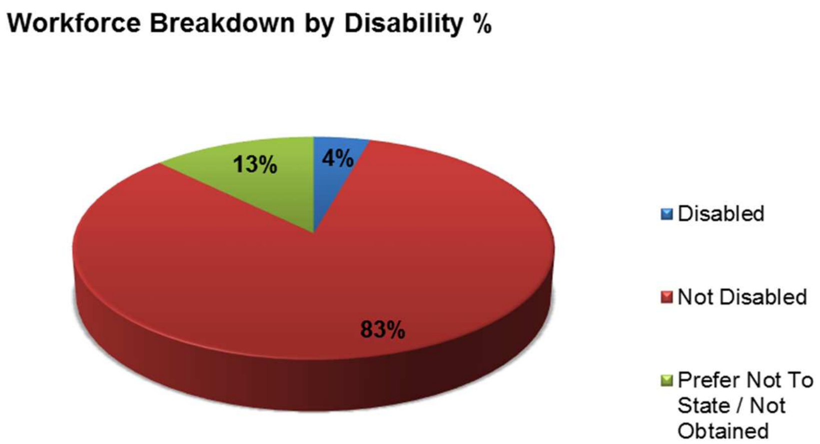
The charts below give a breakdown of employees by gender, age, contract type, ethnicity and disability.






Workforce Breakdown by Contract Type %
48%
52%
Full Time
Part Time


Workforce Breakdown by Ethnicity %
11%
20%
69%
BME
White British
Prefer Not To State / Not Obtained


Workforce Breakdown by Disability %
13%
4%
83%
Disabled
Not Disabled
Prefer Not To State / Not Obtained

1.1.5 Achievements

Despite the financial challenges facing the Council, significant regeneration activity is underway across Nottingham to build new homes, develop local transport infrastructure and open up key development sites across the city for regeneration. These projects aim to attract inward investment to drive growth, increase local employment opportunities and create communities where people want to live.

The achievements of 2017/18 include:

- The demolition of Broadmarsh Car Park and Bus Station commenced in July 2017. This is the first phase of a proposed programme of works on the southern entrance to the city. There is to be improved shopping, leisure and restaurant facilities in a vibrant new environment.
- Completion of the Discovery Building, BioCity's first purpose-built bioscience space for laboratories and offices which will support more than 700 new bioscience jobs over the next 30 years. The building is illuminated by a sculpture which uses live activity from the surface of the sun and acts as an energy efficient sunscreen for the five-storey structure.
- Embarkation on a programme of building new, environmentally friendly, affordable social housing for Nottingham families. The target is to build 2,500 homes between 2015 and 2019.
- Transformation of former wholesale buildings at Sneinton Market as part of the regeneration of the area. The buildings have been refurbished to offer workshops and studio spaces of varying sizes to provide accommodation for the creative sector.
- The introduction of Travel Choices, a scheme to provide tailored advice about travel options to households in Nottingham to help citizens make the most of Nottingham's great transport system. The aim is to get more people to try buses, trams, bikes and walking more or using low carbon alternatives such as electric vehicles, car club, car sharing and local delivery services. The project will improve air quality and support more active lifestyles – two key priorities for Nottingham City.
- Recognition of Nottingham's public transport system through winning two awards in November 2017. A new fleet of electric buses was launched during the year in partnership with Nottingham Community Transport. The Environment Award was given in recognition of this effort to improve the green credentials of bus services and improve the environment in the communities they operate. The Putting Passengers First Award was given for the Robin Hood Smartcard which makes it easier for citizens to travel on bus, tram and rail operators in the Nottingham area. Approximately 38,000 cards have been sold since the scheme launched in 2015 and research has shown that it has led to increased usage of public transport around the city.

1.2 Financial Performance

1.2.1 Economic and Funding Overview

The Autumn Budget, published on 23 November, reported that key economic indicators have worsened considerably since the previous March budget. There were no significant measures to address the rising demand and funding gaps for Adult Social Care and Children's services.

The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies. These have seen Revenue Support Grant (RSG) reduce as a proportion of the Council's total revenue funding and this trend will continue in future years. RSG is projected to fall from £126.819m in 2013/14 to £25.332m in 2019/20.

Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, primarily Adult Social Care and Children in Care that already accounted for over half of the Council's net budget. These increasing care pressures, alongside continuing funding cuts, will have a significant impact on the Council's ability to fund other local services. It is expected that his continuing trend will mean that local taxpayers will increasingly fund local services as Government funding continues to fall.

To address the gap in Government funding and protect key services, the Council's approach to setting recent budgets has, where possible, been guided by the following principles:

- To pursue commercialisation opportunities to generate income for the Council and help offset a proportion of the impact of grant reductions.
- Reducing demand and reviewing the way we commission our services.
- Redesigning and modernising our service provision and identifying efficiencies.
- To protect frontline services and minimise the impact of service reductions and changes on vulnerable citizens.

The Council remains committed to tackling crime and anti-social behaviour, keeping Nottingham city clean, protecting children and supporting vulnerable elderly people. It is also committed to tackling homelessness.

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 and other core cities.

1.2.2 Risks and Uncertainties related to the Provision of Services 2018/19

Funding Cuts

Grant funding has been cut by 50% over the past 3 years. Given that demand for Adult and Child care continues to increase this impacts on the ability to provide other services. This is being mitigated as far as possible by the proposed measures given above.

Business Rates

Localisation of Business Rates has significant risks for the Council. Under the retention scheme, there are risks in calculating the share of the yield due to the level of unknowns including:

- The number of successful rating appeals that could be made in the year.
- The number of bankruptcies and business going into administration.
- The number of empty and new properties etc.

In mitigation, the Council works with Analyse LOCAL, which is a system developed to help local authorities to make sound and prudent estimates of its business rate income for the year ahead. It uses a wide range of historic rating information to provide the most reliable base possible on which to base decisions.

General Data Protection Regulation (GDPR)

This bill came into effect on 25 May 2018. This has a huge impact on all local authorities and carries fines of up to 4% of annual turnover for serious breaches of compliance. In mitigation, the Council has appointed a Data Protection Officer who will update all policies and privacy notices. Awareness sessions have been delivered across the authority and all colleagues were to complete mandatory GDPR training by 24 May 2018.

Commercial Income

Investments in commercial property have been made to raise income to offset the reduction in funding. Given the uncertainties over the economy as a result of Brexit, it is difficult to predict the future or whether investments will be adversely affected. This is mitigated by making sound business cases at the outset which are checked and challenged and robust and rigorous monthly monitoring.

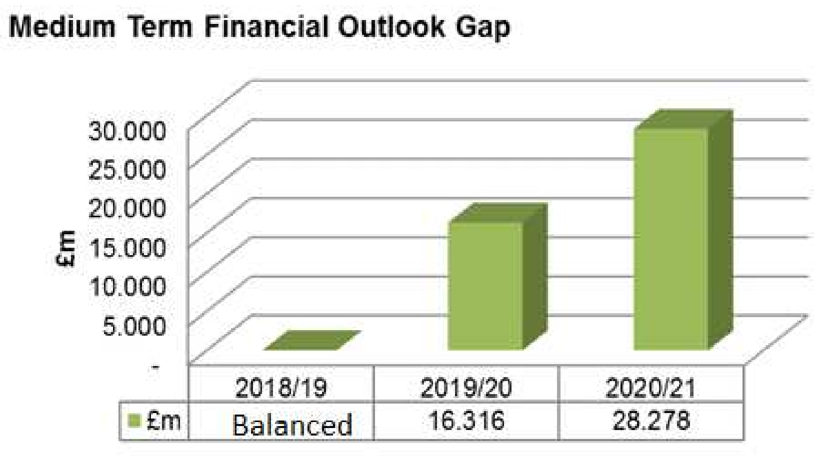
Group Companies

The Council has material financial interests in a number of group companies over which it has varying degrees of control or influence. There is a risk of exposure should any of the companies run into financial difficulties. This is being mitigated by the development of robust governance and monitoring framework which would give early warnings of any impending problems.

Universal Credit

Universal Credit is due to be rolled out in Nottingham in October 2018. As the Council will need to recover Council Tax and rents directly from residents, this gives rise to a potential increase in the level of bad debts and increase in the cost of collection.

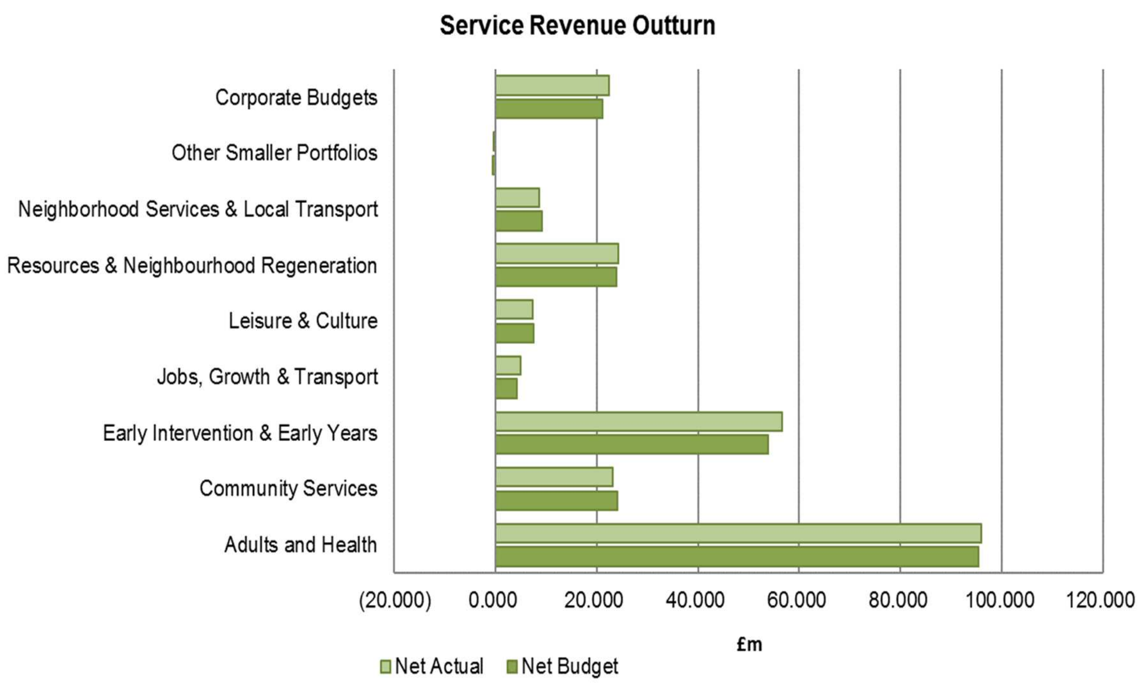
Local government continues to operate in a challenging environment and the budget assumptions are subject to ongoing review in light of changing circumstances. These issues have been brought together to produce a 3 year Medium Financial Outlook (MTFO) that is summarised in the table below:



1.2.3 Revenue

The Council's 2017/18 revenue outturn position is shown in the chart below. The original budget set at full Council in March 2017, 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 revenue outturn for 2017/18 is an over spend of £4.215m which was reported to Executive Board on 19 June 2018.



For budget management purposes, specific grant income, charges to users and expenditure items such as employees, premises, supplies and services are organized by groups of services known as portfolios (table 5.1). The outturn which was reported to Executive Board on 19 June 2018 was shown on this basis.

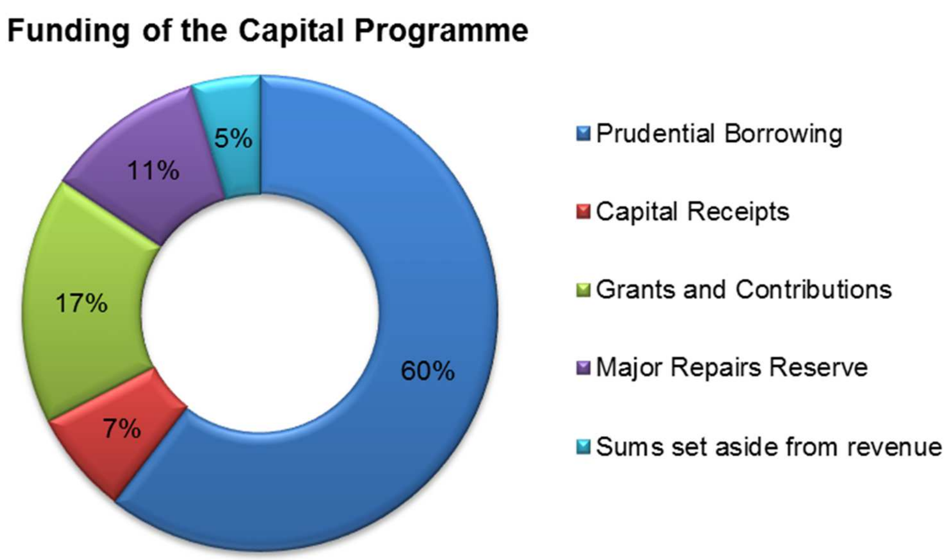
1.2.4 Capital

The Council's capital position as against the approved 2017/18 Capital Programme is shown below:

	Budget / Projection 2017/18 £m	Actual 2017/18 £m
General Fund Capital Programme		
Transport Schemes	19.571	13.596
Education / Schools	7.061	5.860
Adults & Health	0.454	0.382
Early Intervention & Early Years	0.707	0.405
Leisure & Culture	13.272	8.610
Business Growth & Transport	5.991	0.398
Energy & Sustainability	5.884	3.574
Planning & Housing	3.033	1.851
Strategic Regeneration	15.385	11.665
Community Services	1.743	1.883
Resources & Neighbourhood Regeneration	111.949	118.586
Total Capital Programme General Fund	**185.050**	**166.810**
Public Sector Housing	59.887	53.396
TOTAL PROGRAMME	**244.937**	**220.206**

The General Fund and Public Sector Housing have had project slippage in 2017/18. This is anticipated within the Capital Programme and does not constitute project underspend/resources being released. Budgets will be increased in 2018/19 to accommodate the slippage.

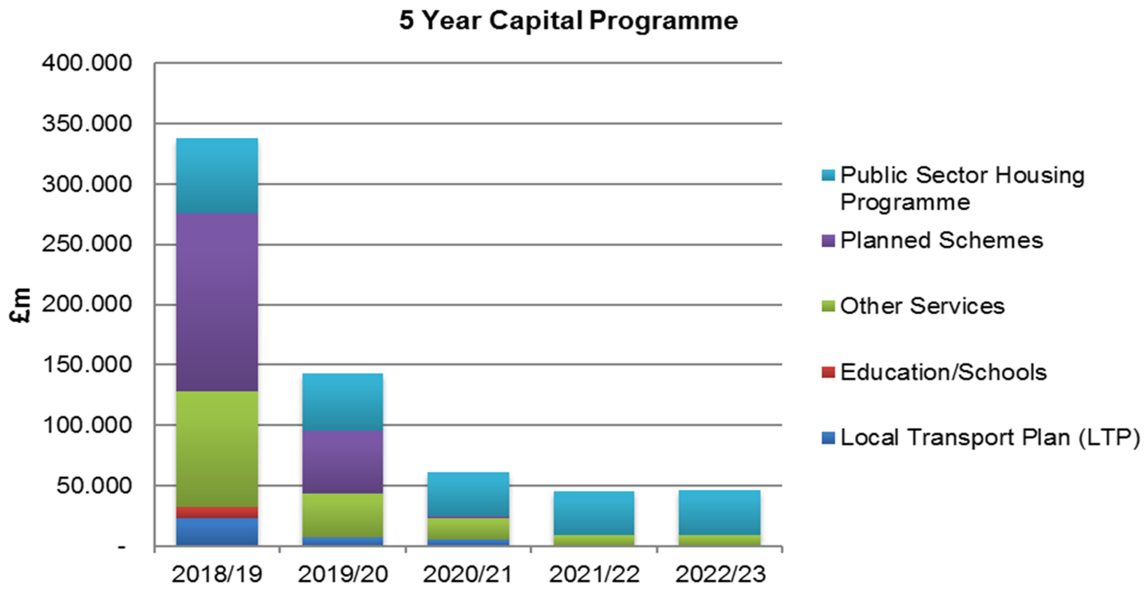
The chart below shows the funding breakdown for the 2017/18 Capital Programme. 60% of the programme is funded by prudential borrowing:

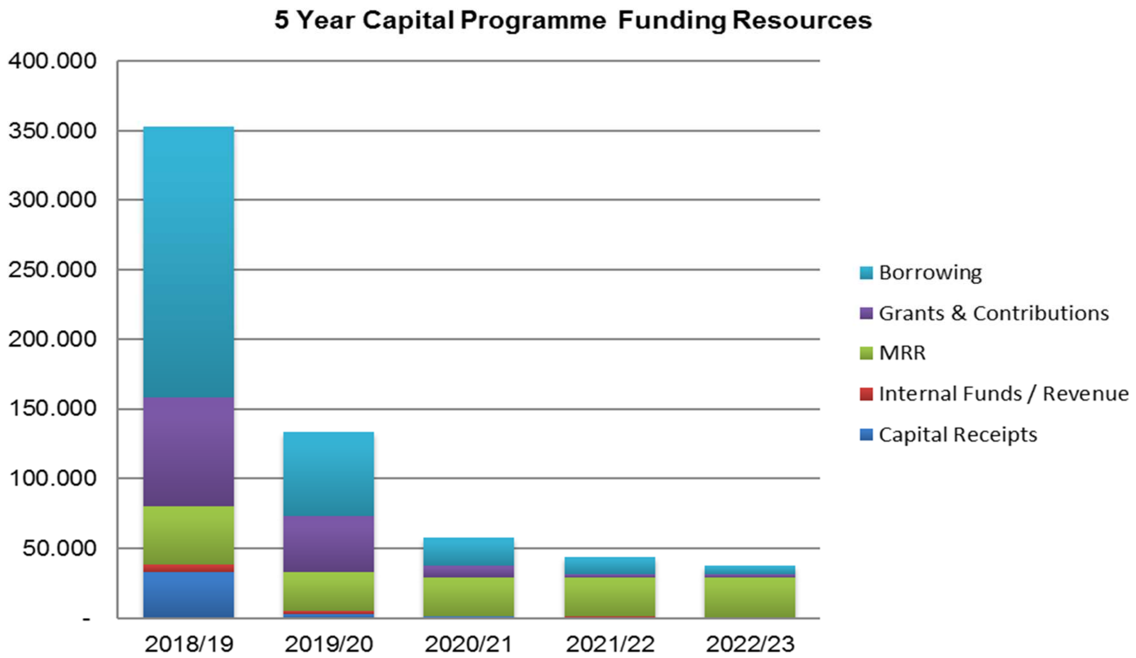


Capital Programme and Funding

The table below shows approved major schemes (i.e. excluding schemes in development) which exceed £20m expenditure. The table shows capital expenditure incurred to 2017/18, approved expenditure for 2018/19 to 2022/23.

CAPITAL SCHEME	Spend to 2017/18 £m	2018/19 to 2022/23 £m	TOTAL £m	DETAIL
Nottingham Castle	2.307	27.929	30.236	Improvements to Nottingham Castle to help make it a major tourist attraction.





1.2.5 Balance Sheet

The following table is a summary of the balance sheet:

	31 March 2017 £m	31 March 2018 £m
Long Term Assets	2,657.802	2,910.572
Net Current Assets	(155.771)	(111.857)
Long Term Liabilities	(1,784.004)	(1,872.173)
NET ASSETS	**718.027**	**926.542**
Usable Reserves	223.020	234.566
Unusable Reserves	495.007	691.976
TOTAL RESERVES	**718.027**	**926.542**

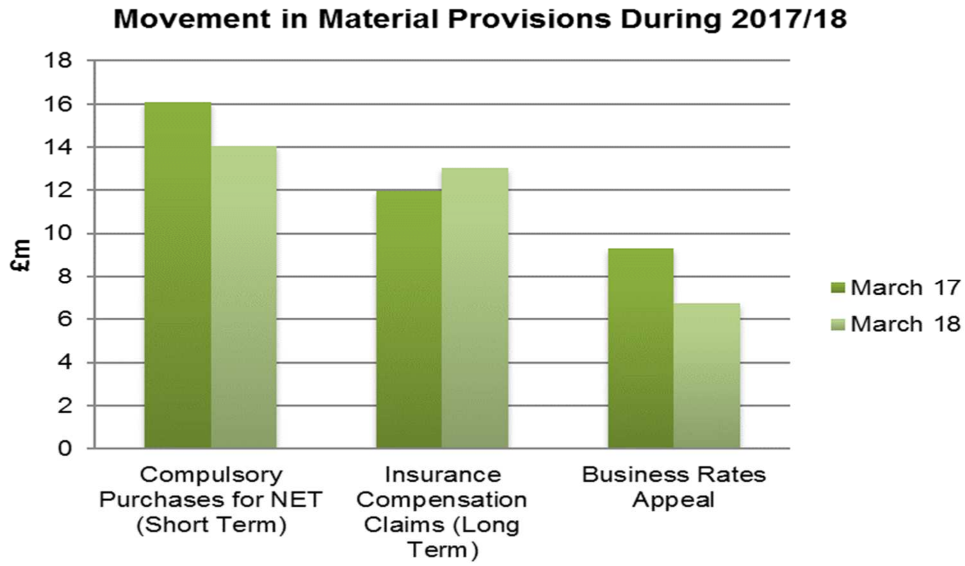
Long Term Assets increased in 2017/18 due to:

- A net increase in Property Plant & Equipment of £135.488m. This is mainly due to property revaluation gains which includes £74m of revaluation gains on Council dwellings (please refer to note 6.3.1 for further details), and
- Increase in Investment properties due to £95m of additional investment property purchases.

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

- Compulsory Purchases for NET (Short Term Provision) – The carrying value at 31 March 2018 (£14.065m) 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 31 March 2018 (£13.053m) 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 18 (£6.764m) is due to the Council bearing a risk of non-collection of business rates following appeal.

The movement in these provisions is shown in the chart below.



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 3.3.

Movement in Reserves 2017/18

	31 March 2017 £m	Movement 2017/18 £m	31 March 2018 £m
General Fund	8.463	(2.998)	5.465
Earmarked General Fund Reserves	157.483	(2.899)	154.584
Other Usable Reserves	57.074	17.443	74.517
Unusable Reserves	495.007	196.969	691.976
TOTAL AUTHORITY RESERVES	**718.027**	**208.515**	**926.542**

1.2.6 Pension Liability

The Council is a member of the Nottinghamshire County Council pension fund; an independent actuary evaluates assets and liabilities of that fund attributed to the Council on an annual basis. The actuary has estimated that, at 31 March 2018, the Council’s fund was in deficit by £820.201m (£860.824m as at 31 March 2017). Actuarial valuations are undertaken every three years and a deficit recovery plan is in place to reduce the liability to zero within 19 years.

1.3 Non-Financial Performance

1.3.1 Consultations with Citizens

In November 2017, Nottingham City Council held a 'Your City, Your Services' consultation. It allowed households to have their say on what they feel is most important to them as residents and for them to be able to express any concerns and comments. The results were available to Councillors for use as a guide in decisions made in the 2018/19 budget process.

Respondents were asked to rate a list of 26 council services on a scale of 1 to 5 where 5 is important. The top five services were:

- Tackling crime and anti-social behaviour – 82%
- Refuse collection – 79.7%
- Services to elderly and vulnerable people – 78.9%
- Child protection – 75.4%
- Public transport – 78%

Areas of concern given the current economic climate, 63% were concerned about cuts to public services and 41.2% who were very concerned about the impact on their health of financial hardship caused by the cuts.

1.3.2 Key Headlines from the Council Plan 2015 - 2019

The Council 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/

As at 31 March 2018, progress continues to be made against objectives of the Council Plan.

- The percentage of children attending a City school judged as good or outstanding is showing continuing improvement.

- The Council is on track to deliver 2,500 affordable homes by 2019.
- Work continues to reduce the level of victim based crime but there has been a marked decrease in anti-social behavior calls to the police.
- Robin Hood Energy, a not for profit energy company now has over 100,000 customers and made a small surplus in the year which will be reinvested back in to the company. Customers have seen typical savings of £197.85 for credit meter customers and £ 78.43 for pre-payment customers compared with the average of the large supplier standard tariffs.
- The number of 18-24 year olds claiming Job Seekers Allowance or the unemployment component of Universal Credit has fallen steadily since March 2017. The work undertaken by Nottingham Jobs and their partners has resulted in being able to offer all 18-24 year old City residents a job, training place or further education place.

1.4 Explanation of Accounting Statements

The Statement of Accounts sets out the Council's financial performance for 2017/18. 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 2017/18 and International Financial Reporting Standards.

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

The Statement of Accounts Core Statements are:

- The **Comprehensive Income and Expenditure Statement** (CIES) shows the Council's income and expenditure for the financial year. The top half of the statement analyses the income and expenditure by portfolio. The bottom half of the statement gives a breakdown of corporate transactions and funding. Expenditure is made up of:
    - The statutory services and activities that the Council is required to deliver, for example street cleaning and refuse collection and
    - Discretionary expenditure for local priorities and needs.
- The **Movement in Reserves Statement** (MIRS) summarises the changes within the Council's 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** is a snapshot of the Council's assets, liabilities, cash balances and reserves as at 31 March 2018.
- The **Cash Flow Statement** explains the reasons for 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 Supplementary Financial Statements are:

- The **Annual Governance Statement**, which sets out the governance, structures of the Council and its key internal controls.
- The **Group Accounts** which report the consolidated assets and liabilities of the Council and the companies and entities over which the Council has control or significant influence.
- The **Housing Revenue Account** (HRA) 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.
- The **Expenditure and Funding Analysis** (EFA) shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with International Financial Reporting Standards (IFRS's).

The notes to these financial statements provide more detail about the Council's accounting policies and transactions.

1.5 Medium Term Financial Plan

1.5.1 Revenue Plans

In February 2018 the Council approved a revised Medium Term Financial Plan (MTFP) covering the 3 year period from 2018/19 to 2020/21.

The MTFP reflects the culmination of the extensive work of councillors, colleagues and other stakeholders which has been scrutinised throughout the process to fulfil a legal obligation to enable the setting of a balanced budget for 2018/19 in the context of a three year MTFP to fund provision of a wide range of services, many of them statutory.

This policy-led, medium term approach to financial planning and management is good practice and ensures that we can fund our vision, values and priorities and the MTFP has been constructed under the following principles:

- Take account of the Council's priorities within the Council Plan 2015-2019.
- Address demographic and service pressures.
- Reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities.
- Support the City Council's determination to be efficient, improve performance and modernise the organisation.
- Minimise the impact of service reductions and changes on vulnerable citizens by protecting frontline services.
- Pursue commercialisation opportunities to generate income for the City Council.

The process included identifying budget savings and potential overspend risks 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:

	2018/19 £m	2019/20 £m	2020/21 £m
Expenditure:			
2017/18 Budget Requirement	238.544	238.544	238.544
Budget Refresh	32.769	38.949	45.541
Potential Overspends Risks	4.424	4.313	7.537
Sub-Total	**275.738**	**281.806**	**291.622**
Portfolio Proposals	(23.076)	(22.968)	(23.311)
Targeted Intervention	(5.299)	(5.191)	(5.191)
Partnership Funding Review	(1.000)	(1.000)	(1.000)
Assumed Net Budget	**246.363**	**252.648**	**262.121**
Funding:			
Retained Business Rates, Top-up & RSG	(131.024)	(122.393)	(116.273)
Council Tax	(110.406)	(113.939)	(117.570)
Collection Fund	(4.932)	-	-
FUNDING GAP	**-**	**16.316**	**28.278**

NB table may not sum exactly due to rounding

1.5.2 Capital Plans

The Council is planning to invest £633.179m 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 2017/18 Outturn are detailed below:

	CAPITAL PROGRAMME					
	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Expenditure:						
Public Sector Housing	61.622	47.351	36.686	36.727	36.892	**219.278**
Local Transport Plan	22.908	7.745	5.172	-	-	**35.825**
Education	9.470	-	-	-	-	**9.470**
All Other Services	95.599	35.617	17.814	8.885	9.142	**167.057**
Planned Schemes	147.787	51.936	1.826	-	-	**201.549**
TOTAL	**337.386**	**142.649**	**61.498**	**45.612**	**46.034**	**633.179**
Forecast Funding:						
Prudential Borrowing	(194.740)	(60.233)	(20.428)	(12.152)	(6.155)	**(293.708)**
Capital Receipts	(8.647)	(3.290)	(1.567)	(0.959)	(0.891)	**(15.354)**
Internal Funds / Revenue	(5.397)	(1.851)	(0.122)	(0.044)	(0.010)	**(7.424)**
Major Repairs Reserve	(27.633)	(27.715)	(27.881)	(28.036)	(28.036)	**(139.301)**
Grants & Contributions	(78.484)	(40.035)	(7.814)	(2.421)	(2.227)	**(130.981)**
TOTAL	**(314.901)**	**(133.124)**	**(57.812)**	**(43.612)**	**(37.319)**	**(586.768)**
Resources Brought Forward	(38.326)					
CUMULATIVE SURPLUS	**(15.841)**	**(6.316)**	**(2.630)**	**(0.630)**	**8.085**	

The capital programme is expecting total funding of £586.768m, leaving a funding shortfall of £8.085m. The shortfall is within the Public Sector Housing programme and is regarding fire safety works to high rise blocks which was approved following the tragic fire at Grenfell. The Council is seeking additional financial support from the Government and if it is not provided then other non-essential schemes may need to be deferred to ensure the programme can be fully resourced.

The Capital Programme includes a number of schemes that are currently at the planning stage. 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 following 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.
- **Works on the southern entrance to the City** – The demolition of Broadmarsh Car Park and Bus Station commenced in July 2017. This is the first phase of a proposed programme of works on the southern entrance to the City.

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. It complies with proper accounting practices and is prepared on a going concern basis. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) which is based on approved accounting standards. In addition, the Council's accounts also comply with the Service Reporting Code of Practice 2017/18, 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 2017/18

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

Prior Year Reclassifications

In line with the CIPFA reporting requirements the service part of the CIES is based on the organisational structure of the Council i.e. portfolios. A report is taken by the Leader of the Council to the City Council Committee in May each year detailing the changes to the Portfolios for the coming year. The 2016/17 CIES and associated notes have been restated where required to align with the 2017/18 Portfolio position of the Council.

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 2017/18 Code, and which came into effect from or before 1 January 2018.

The following standards are being introduced in the 2018/19 Code:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated. These are not expected to have a material effect on the Statement of Accounts next year.

The other narrow scope amendments and IFRIC included in the consultation on the 2018/19 Code listed below were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore have been rolled forward into the development programme for the 2019/20 Code:

- IAS 40 Investment Property: Transfers of Investment Property.
- Annual Improvements to IFRS Standards 2014-2016 Cycle.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

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
Heritage Assets	0.005

Componentisation

Where an asset consists of significant components that have different useful lives and/or depreciation methods, 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 asset life 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 A.

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accruals 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 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 value by an external valuer.

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 Appendix A, 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 derecognition 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 derecognition 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 carrying out a full review of all related organisations to evaluate 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 2017/18 Statements

For 2017/18 the Government has not implemented any legislative or funding changes that have made a material impact on the Council's Statement of Accounts.

The 2017/18 Code reflects the new principles based approach to narrative reporting and includes provisions to confirm the going concern basis of accounting for local authorities.

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 the Business Rates Retention Scheme 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 2018, 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, this being 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 £1.509m for every year that useful lives had to be reduced. Further details can be found in Note 6.3.1.
- Council Dwellings – A combination of general increases in market values and higher value new build properties has resulted in a valuation gain of £74.293m (£197.578m in 2016/17). Of this gain £51.181m (£178.476m 2016/17) reversed previous revaluation losses charged to the HRA. The balance of £23.112m (£19.102m in 2016/17) 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, for example 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 10 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 Retail Price Index 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

There were no subsequent material events that need to be reported after the reporting date of 31 July 2018, when the audited accounts were authorised for issue by the Chief Financial Officer.

2.3 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.

The EFA has been restated for 2016/17 to align with the 2017/18 Portfolio position of the Council.

	Restated 2016/17			2017/18		
	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	91.453	1.350	92.803	95.193	3.226	98.419
Business, Education and Skills	2.813	0.310	3.123	2.205	0.935	3.140
Community and Customer Services	22.764	1.962	24.726	23.165	5.440	28.605
Early Intervention and Early Years	54.245	15.359	69.604	56.515	2.660	59.175
Energy and Sustainability	12.193	2.336	14.529	12.931	3.225	16.156
Leisure and Culture	8.764	9.992	18.756	7.237	1.369	8.606
Neighbourhood Services and Local Transport	8.956	23.471	32.427	8.603	32.455	41.058
Planning, Housing and Heritage	(43.768)	28.135	(15.633)	(42.180)	28.627	(13.553)
Resources and Neighbourhood Regeneration	26.156	(1.949)	24.207	25.036	6.227	31.263
Strategic Infrastructure and Communications	(5.342)	21.830	16.488	(3.083)	18.905	15.822
Corporate Items	(34.766)	20.286	(14.480)	(36.683)	13.540	(23.143)
Exceptional revaluation gain on HRA Council Dwellings	-	(178.476)	(178.476)	-	(51.181)	(51.181)
Net Cost of Services	**143.468**	**(55.394)**	**88.074**	**148.939**	**65.428**	**214.367**
Other income and expenditure	(123.611)	(74.213)	(197.824)	(143.085)	(40.041)	(183.126)
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**19.857**	**(129.607)**	**(109.750)**	**5.854**	**25.387**	**31.241**
	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	(190.162)			(170.305)		
(Surplus)/Deficit on General Fund and HRA Balance in Year	19.857			5.854		
Closing General Fund, Earmarked General Fund Reserves and HRA Balance at 31 March*	**(170.305)**			**(164.451)**		

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

Section 3
Core Financial Statements

3.1 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 2016/17 Gross Expenditure £m	Restated 2016/17 Gross Income £m	Restated 2016/17 Net £m	2017/18 Gross Expenditure £m	2017/18 Gross Income £m	2017/18 Net £m
	Adults and Health	173.392	(80.589)	92.803	174.947	(76.528)	98.419
	Business, Education and Skills	144.292	(141.169)	3.123	137.769	(134.629)	3.140
	Community and Customer Services	36.252	(11.526)	24.726	50.627	(22.022)	28.605
	Early Intervention and Early Years	94.737	(25.133)	69.604	84.843	(25.668)	59.175
	Energy and Sustainability	21.024	(6.495)	14.529	22.426	(6.270)	16.156
	Leisure and Culture	54.181	(35.425)	18.756	44.071	(35.465)	8.606
	Neighbourhood Services and Local Transport	87.402	(54.975)	32.427	95.608	(54.550)	41.058
	Planning, Housing and Heritage	97.105	(112.738)	(15.633)	96.723	(110.276)	(13.553)
	Resources and Neighbourhood Regeneration	45.933	(21.726)	24.207	51.284	(20.021)	31.263
	Strategic Infrastructure and Communications	36.106	(19.618)	16.488	28.283	(12.461)	15.822
	Corporate Items	187.501	(201.981)	(14.480)	180.243	(203.386)	(23.143)
	Exceptional revaluation gain on HRA Council Dwellings	(178.476)	-	(178.476)	(51.181)	-	(51.181)
6.2.1	**Cost of Services**	**799.449**	**(711.375)**	**88.074**	**915.643**	**(701.276)**	**214.367**
6.2.2	Other operating expenditure			28.783			47.590
6.2.3	Financing and investment income and expenditure			65.926			51.986
6.2.4	Taxation and non-specific grant income			(292.533)			(282.702)
6.2.5	**(Surplus)/Deficit on Provision of Services**			**(109.750)**			**31.241**
6.2.6	Revaluation of PPE/Heritage assets			(56.610)			(166.863)
6.2.7	Re-measurement of pension assets/liabilities			211.763			(72.893)
	Other gains/losses recognised required			(0.013)			-
	Other Comprehensive Income and Expenditure			**155.140**			**(239.756)**
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**45.390**			**(208.515)**

3.2 Balance Sheet

This statement shows the value of assets and liabilities held by the Council as at 31 March. 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. cannot be used to fund Council 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 2017 £m	31 March 2018 £m
6.3.1	Property, Plant & Equipment	2,360.669	2,496.157
6.3.2	Heritage Assets	56.815	58.469
6.3.3	Investment Property	146.809	236.733
6.3.4	Intangible Assets	5.608	5.207
6.3.15(a)	Long Term Investments	5.345	20.395
6.3.15(a)	Long Term Debtors	75.006	93.611
	Assets Held for Sale (non-current)	7.550	-
	Long Term assets	**2,657.802**	**2,910.572**
6.3.5	Assets Held for Sale (current)	1.120	3.800
6.3.15(a)	Short Term Investments	18.135	10.000
6.3.6	Inventories	2.809	2.982
6.3.7	Short Term Debtors	105.440	91.115
6.3.8	Cash and Cash Equivalents	20.016	26.163
	Current Assets	**147.520**	**134.060**
6.3.15(b)	Short Term Borrowing	(138.847)	(73.785)
6.3.9	Short Term Creditors	(146.444)	(157.287)
6.3.10(a)	Provisions (current provisions)	(18.000)	(14.845)
	Current Liabilities	**(303.291)**	**(245.917)**
6.3.15(b)	Long Term Borrowing	(657.411)	(802.145)
6.3.15(b)	Other Long Term Liabilities	(228.403)	(211.045)
6.3.10(b)	Provisions (non-current)	(21.686)	(19.817)
6.3.13	Capital Grants Receipts in Advance	(15.680)	(18.965)
6.3.14	Defined Benefit Pension Scheme	(860.824)	(820.201)
	Long Term Liabilities	**(1,784.004)**	**(1,872.173)**
	NET ASSETS	**718.027**	**926.542**
6.3.11	Usable Reserves	223.020	234.566
6.3.12	Unusable Reserves	495.007	691.976
	TOTAL RESERVES	**718.027**	**926.542**

3.3 Movement in Reserves Statement

This statement shows the in-year movement of reserves, analysed into 'usable reserves' and 'unusable reserves' (see Section 3.2 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.

2017/18	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 March 2017	**8.463**	**157.483**	**4.359**	**26.459**	**10.292**	**15.964**	**223.020**	**495.007**	**718.027**
Movement in 2017/18:									
Total CIE (Table 3.2)	(86.824)	-	55.583	-	-	-	**(31.241)**	239.756	**208.515**
Funding basis adjustments (Note 6.4.1)	80.927	-	(55.540)	10.702	3.670	3.028	42.787	(42.787)	-
Net increase/decrease before transfers to earmarked reserves	**(5.897)**	**-**	**0.043**	**10.702**	**3.670**	**3.028**	**11.546**	**196.969**	**208.515**
Transfers to/from earmarked reserves	2.899	(2.899)	-	-	-	-	-	-	-
Movement in Year	**(2.998)**	**(2.899)**	**0.043**	**10.702**	**3.670**	**3.028**	**11.546**	**196.969**	**208.515**
BALANCE AT 31 MARCH 2018	**5.465**	**154.584**	**4.402**	**37.161**	**13.962**	**18.992**	**234.566**	**691.976**	**926.542**

* CIE - Comprehensive Income and Expenditure

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 March 2016	**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 MARCH 2017	**8.463**	**157.483**	**4.359**	**26.459**	**10.292**	**15.964**	**223.020**	**495.007**	**718.027**

* CIE - Comprehensive Income and Expenditure

3.4 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 value 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		2016/17 £m	2017/18 £m
	Net Surplus/(Deficit) on the provision of Services	**109.750**	**(31.241)**
6.5.1	Adjustments to net surplus or deficit on the provision of services for non-cash movements	1.685	192.949
6.5.2	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(53.629)	(58.131)
6.5.3	**Net Cash Flows from Operating Activities**	**57.806**	**103.577**
6.5.4	Investing activities	(160.721)	(166.904)
6.5.5	Financing activities	90.971	69.474
	Net Increase or Decrease in Cash and Cash Equivalents	**(11.944)**	**6.147**
	Cash and cash equivalents at the beginning of the reporting period	31.960	20.016
	CASH AND CASH EQUIVALENTS AT 31 MARCH	**20.016**	**26.163**

Section 4
Certifications

4.1 Independent Auditor’s Report to the members of Nottingham City Council

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 20 July 2018.

Signed: Date:

Councillor Michael Edwards
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 Code.
- Kept proper accounting records which were up-to-date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Authority's and the Group's ability to continue as a going concern disclosing, as applicable, matters relating to going concern.
- Used the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.
- Maintained such internal control as determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that these financial statements give a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.

Signed: Date:

Laura Pattman
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 5.2, and the movements in reserves are shown in section 6.4.

5.1 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.

2017/18	Adults and Health £m	Business, Education and Skills £m	Community and Customer Services £m	Early Intervention & Early Years £m	Energy and Sustainability £m	Leisure and Culture £m	Neighbourhood Services and Local Transport £m	Planning, Housing and Heritage £m	Resources & Neighbourhood Regeneration £m	Strategic Infrastructure and Communications £m	Corporate Items £m	Total £m
Fees, charges, other income	(17.829)	(9.283)	(8.025)	(1.495)	(6.528)	(32.523)	(47.655)	(2.271)	(10.020)	(23.606)	(3.401)	**(162.636)**
Government Grants and contributions	(58.699)	(125.336)	(13.998)	(24.173)	(0.054)	(2.931)	(7.282)	(1.152)	(10.754)	(1.711)	(204.970)	**(451.060)**
Interest and investment income	-	(0.194)	-	-	-	(0.012)	-	-	(0.050)	(0.038)	(8.382)	**(8.676)**
Total Income	**(76.528)**	**(134.813)**	**(22.023)**	**(25.668)**	**(6.582)**	**(35.466)**	**(54.937)**	**(3.423)**	**(20.824)**	**(25.355)**	**(216.753)**	**(622.372)**
Employee Expenses	24.860	71.722	24.017	40.479	5.133	18.586	27.680	3.214	23.208	2.435	11.120	**252.454**
Levies	-	-	-	-	-	-	-	-	-	-	0.072	**0.072**
Other service expenses	145.885	62.461	22.559	41.481	14.703	24.706	37.573	2.152	24.742	7.821	232.615	**616.698**
Support service recharges	0.976	2.835	(1.388)	0.223	(0.415)	(0.589)	(1.789)	0.016	(2.755)	(0.225)	0.018	**(3.093)**
Total Expenditure	**171.721**	**137.018**	**45.188**	**82.183**	**19.421**	**42.703**	**63.464**	**5.382**	**45.195**	**10.031**	**243.825**	**866.131**
NET EXPENDITURE	**95.193**	**2.205**	**23.165**	**56.515**	**12.839**	**7.237**	**8.527**	**1.959**	**24.371**	**(15.324)**	**27.072**	**243.759**

Restated 2016/17	Adults and Health	Business, Education and Skills	Community and Customer Services	Early Intervention & Early Years	Energy and Sustainability	Leisure and Cuture	Neighbourhood Services and Local Transport	Planning, Housing and Heritage	Resources & Neighbourhood Regeneration	Strategic Infrastructure and Communications	Corporate Items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges, other income	(16.493)	(10.487)	(10.145)	(2.246)	(6.453)	(32.279)	(50.119)	(2.238)	(12.326)	(15.671)	(2.756)	**(161.213)**
Government Grants and contributions	(64.095)	(130.705)	(1.381)	(22.888)	(0.190)	(3.131)	(5.351)	(1.849)	(10.463)	(5.911)	(205.383)	**(451.347)**
Interest and investment income	-	(0.155)	-	-	-	(0.015)	-	-	(0.053)	(0.054)	(6.928)	**(7.205)**
Total Income	**(80.588)**	**(141.347)**	**(11.526)**	**(25.134)**	**(6.643)**	**(35.425)**	**(55.470)**	**(4.087)**	**(22.842)**	**(21.636)**	**(215.067)**	**(619.765)**
Employee Expenses	25.243	80.863	22.740	39.348	4.555	19.128	27.794	3.115	24.379	3.166	8.809	**259.140**
Levies	-	-	-	-	-	-	-	-	-	-	0.071	**0.071**
Other service expenses	146.362	56.206	11.597	39.723	14.328	25.228	36.474	3.585	25.197	11.451	228.481	**598.632**
Support service recharges	0.436	7.091	(0.047)	0.307	-	(0.167)	0.155	0.042	(0.755)	(0.092)	0.010	**6.980**
Total Expenditure	**172.041**	**144.160**	**34.290**	**79.378**	**18.883**	**44.189**	**64.423**	**6.742**	**48.821**	**14.525**	**237.371**	**864.823**
NET EXPENDITURE	**91.453**	**2.813**	**22.764**	**54.244**	**12.240**	**8.764**	**8.953**	**2.655**	**25.979**	**(7.111)**	**22.304**	**245.058**

5.2 Reconciliation of CIES between Funding Basis and IFRS basis

Contributions from National Non-Domestic Rates (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 £1,851.74 (2016/17 £1,771.08).

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:

	2016/17 £m	2017/18 £m
Funding Basis		
Net Portfolio Spend	245.058	243.759
(Use)/Contributions to Reserves included above	19.035	1.755
Expenditure financed from Council Tax and Non-specific Grants	264.093	245.514
Council Tax and NNDR	(161.451)	(170.916)
Non-Specific Grants	(85.915)	(71.178)
(SURPLUS)/DEFICIT ON FUNDING BASIS BEFORE TRANSFERS TO RESERVES	**16.727**	**3.420**
ADJUSTMENTS TO MOVE TO ACCOUNTING BASIS		
Other Comprehensive Items		
Revaluation of Property, Plant and Equipment / Heritage assets	(56.610)	(166.863)
Re-measurement of pension assets/liabilities	211.763	(72.893)
Other gains/losses recognised	(0.013)	-
Movements In Non Current Assets	114.087	125.222
Capital Financing		
Revenue Expenditure Funded From Capital Under Statute	1.014	1.157
Provision for Debt Redemption	(35.782)	(33.693)
Cap Exp charged to GFB - DRF	(0.225)	(0.803)
Cap Exp charged to GFB - Reserves	(14.651)	(5.739)
Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.103	2.089
Deferred Capital Receipts Reversal	-	0.172
Pension Fund - IAS 19 Adjustments	25.751	32.270
Other Movements		
Capital Grants & Contributions	(39.738)	(36.529)
Financial Instrument Adjustment Account	(0.217)	(0.288)
Employee Benefits	0.195	(0.454)
Additional items required by Accounting Basis:		
Housing Revenue Account	(179.014)	(55.583)
TOTAL COMPREHENSIVE INCOME & EXPENDITURE	**45.390**	**(208.515)**

5.3 Capital

5.3.1 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:

	2016/17 £m	2017/18 £m
Planning and Housing	56.298	55.247
Jobs, Growth and Transport	22.358	13.994
Strategic Regeneration	125.696	130.251
Other	30.109	20.714
CAPITAL EXPENDITURE	**234.461**	**220.206**

The capital programme is actively managed throughout the year in line with agreed approvals and changes in funding.

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 to ensure 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 following table (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:

	2016/17 £m	2017/18 £m
Capital Investment on IFRS Basis		
Property, Plant and Equipment	135.661	96.919
Investment Properties	87.466	94.924
Intangible Assets	2.205	1.160
Long Term Debtors	6.200	14.487
Long Term Investments	-	7.500
Total Additions to Assets on IFRS Basis	**231.532**	**214.990**
Revenue Expenditure Funded from Capital under Statute	2.929	5.216
Total Expenditure to be Financed from Capital Sources	**234.461**	**220.206**
Financing		
Capital receipts	(9.426)	(15.463)
Government grants and other contributions	(37.907)	(37.279)
Sums set aside from revenue	(65.363)	(34.374)
UNDERLYING BORROWING REQUIREMENT IN YEAR	**121.765**	**133.090**

5.3.2 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:

	Restated 2016/17 £m	2017/18 £m
Opening Capital Financing Requirement	**1,195.943**	**1,280.545**
Increase in underlying need to borrow:		
Unsupported by government financial assistance	121.765	133.090
Statutory Minimum Revenue Provision	(28.826)	(27.488)
PFI Liability Discharged	(10.321)	(17.947)
New Capital Loans not financed by Unsupported borrowing	0.863	0.541
Other Items	1.121	1.089
CLOSING CAPITAL FINANCING REQUIREMENT	**1,280.545**	**1,369.830**

5.4 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 initially approved an operational boundary on the level of external debt during 2017/18 of £1,107.2m. This was subsequently increased to £1,275m due to the approval of new capital schemes which were to be financed by borrowing. The actual external debt on 1 April 2017 was £1,014.9m and increased to £1,073.6m (including PFI and finance lease related debt of £208.0m) by 31 March 2018.

Section 6

Notes to the Financial Statements

These notes provide information to support and help 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.

	Restated 2016/17				2017/18			
	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	0.630	0.720	-	**1.350**	0.745	2.481	-	**3.226**
Business, Education and Skills	0.110	0.200	-	**0.310**	0.237	0.698	-	**0.935**
Community and Customer Services	1.281	0.681	-	**1.962**	2.887	2.553	-	**5.440**
Early Intervention and Early Years	15.757	(0.398)	-	**15.359**	(0.835)	3.495	-	**2.660**
Energy and Sustainability	2.139	0.197	-	**2.336**	2.508	0.717	-	**3.225**
Leisure and Culture	9.414	0.578	-	**9.992**	(0.598)	1.967	-	**1.369**
Neighbourhood Services and Local Transport	22.574	0.897	-	**23.471**	29.495	2.960	-	**32.455**
Planning, Housing and Heritage	28.026	0.109	-	**28.135**	28.260	0.367	-	**28.627**
Resources and Neighbourhood Regeneration	(2.785)	0.836	-	**(1.949)**	3.391	2.836	-	**6.227**
Strategic Infrastructure and Communications	21.669	0.161	-	**21.830**	18.469	0.436	-	**18.905**
Corporate Items	19.863	0.228	0.195	**20.286**	22.633	(8.639)	(0.454)	**13.540**
Exceptional revaluation gain on HRA Council Dwellings	(178.476)		-	**(178.476)**	(51.181)	-	-	**(51.181)**
Net Cost of Services	**(59.798)**	**4.209**	**0.195**	**(55.394)**	**56.011**	**9.871**	**(0.454)**	**65.428**
Other Income and Expenditure from the Expenditure and Funding Analysis	(92.084)	21.542	(3.671)	**(74.213)**	(59.709)	22.399	(2.731)	**(40.041)**
DIFFERENCE BETWEEN GENERAL FUND SURPLUS OR DEFICIT AND COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	**(151.882)**	**25.751**	**(3.476)**	**(129.607)**	**(3.698)**	**32.270**	**(3.185)**	**25.387**

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

This note shows the income and expenditure by portfolio.

Page 96

2017/18	Adults and Health	Business, Education and Skills	Community and Customer Services	Early Intervention and Early Years	Energy and Sustainability	Leisure and Culture	Neighbourhood Services and Local Transport	Planning, Housing and Heritage	Resources and Neighbourhood Regeneration	Strategic Infrastructure and Communications	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	-	-	-	-	-	-	-	-	-	-	-	**-**	-	-	(195.627)	**(195.627)**	**(195.627)**
Fees, charges, other income	(17.829)	(9.283)	(8.025)	(1.495)	(6.216)	(32.522)	(47.268)	(109.124)	(9.218)	(10.719)	(2.475)	**(254.174)**	-	(15.536)	-	**(15.536)**	**(269.710)**
Government Grants and Contributions	(58.699)	(125.336)	(13.997)	(24.173)	(0.054)	(2.931)	(7.282)	(1.152)	(10.754)	(1.711)	(200.891)	**(446.980)**	-	-	(48.564)	**(48.564)**	**(495.544)**
Interest and investment income	-	(0.194)	-	-	-	(0.012)	-	-	(0.049)	(0.030)	(0.020)	**(0.305)**	-	(8.407)	-	**(8.407)**	**(8.712)**
Total Income	**(76.528)**	**(134.813)**	**(22.022)**	**(25.668)**	**(6.270)**	**(35.465)**	**(54.550)**	**(110.276)**	**(20.021)**	**(12.460)**	**(203.386)**	**(701.459)**	**-**	**(23.943)**	**(244.191)**	**(268.134)**	**(969.593)**
Expenditure																	
Employee expenses	24.860	71.721	24.017	40.479	5.003	18.586	27.511	4.318	22.815	2.435	11.120	**252.865**	-	0.693	-	**0.693**	**253.558**
Interest payments	-	(0.002)	-	-	-	-	(0.009)	-	-	-	-	**(0.011)**	-	50.460	-	**50.460**	**50.449**
Levies	-	-	-	-	-	-	-	-	-	-	0.072	**0.072**	-	-	-	**-**	**0.072**
Other service expenses	145.885	62.464	22.558	41.481	14.613	24.705	37.406	60.970	24.833	7.168	155.493	**597.576**	-	1.020	-	**1.020**	**598.596**
Support service recharges	0.976	2.835	(1.388)	0.223	(0.415)	(0.589)	(1.755)	2.808	(2.591)	(0.226)	0.018	**(0.104)**	-	(0.198)	-	**(0.198)**	**(0.302)**
Adjustments for capital purposes	-	-	-	-	-	-	-	-	-	-	-	**-**	(0.139)	72.465	-	**72.326**	**72.326**
Other adjustments	-	-	-	-	-	-	-	-	-	-	-	**-**	-	0.253	0.495	**0.748**	**0.748**
Total Expenditure	**171.721**	**137.018**	**45.187**	**82.183**	**19.201**	**42.702**	**63.153**	**68.096**	**45.057**	**9.377**	**166.703**	**850.398**	**(0.139)**	**124.693**	**0.495**	**125.049**	**975.447**
TOTAL INCLUDED IN THE NET EXPENDITURE CHARGEABLE TO THE GENERAL FUND AND HRA BALANCES	**95.193**	**2.205**	**23.165**	**56.515**	**12.931**	**7.237**	**8.603**	**(42.180)**	**25.036**	**(3.083)**	**(36.683)**	**148.939**	**(0.139)**	**100.750**	**(243.696)**	**(143.085)**	**5.854**

Restated 2016/17	Adults and Health	Business, Education and Skills	Community and Customer Services	Early Intervention and Early Years	Energy and Sustainability	Leisure and Culture	Neighbourhood Services and Local Transport	Planning, Housing and Heritage	Resources and Neighbourhood Regeneration	Strategic Infrastructure and Communications	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	(16.493)	(10.487)	(10.145)	(2.246)	(6.305)	(32.279)	(49.625)	(110.888)	(11.211)	(13.663)	(1.973)	**(265.315)**	-	(4.770)	-	**(4.770)**	**(270.085)**
Government Grants and Contributions	(64.095)	(130.705)	(1.381)	(22.888)	(0.190)	(3.131)	(5.351)	(1.849)	(10.463)	(5.911)	(199.954)	**(445.918)**	-	-	(63.808)	**(63.808)**	**(509.726)**
Interest and investment income	-	(0.155)	-	-	-	(0.015)	-	-	(0.053)	(0.045)	(0.054)	**(0.322)**	-	(7.031)	-	**(7.031)**	**(7.353)**
Total Income	**(80.588)**	**(141.347)**	**(11.526)**	**(25.134)**	**(6.495)**	**(35.425)**	**(54.976)**	**(112.737)**	**(21.727)**	**(19.619)**	**(201.981)**	**(711.555)**	**-**	**(11.801)**	**(245.824)**	**(257.625)**	**(969.180)**
Expenditure																	
Employee expenses	25.243	80.863	22.740	39.348	4.475	19.128	27.592	4.209	23.477	3.166	8.809	**259.050**	-	1.185	-	**1.185**	**260.235**
Interest payments		(0.003)					(0.023)					**(0.026)**	-	50.494	-	**50.494**	**50.468**
Levies											0.071	**0.071**	-		-	**-**	**0.071**
Other service expenses	146.362	56.209	11.597	39.723	14.214	25.228	36.207	61.927	25.161	11.203	158.324	**586.155**	-	0.770	-	**0.770**	**586.925**
Support service recharges	0.436	7.091	(0.047)	0.307		(0.167)	0.156	2.834	(0.755)	(0.092)	0.010	**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	**172.041**	**144.160**	**34.290**	**79.378**	**18.689**	**44.189**	**63.932**	**68.970**	**47.883**	**14.277**	**167.214**	**855.023**	**-**	**137.496**	**(3.482)**	**134.014**	**989.037**
TOTAL INCLUDED IN THE NET EXPENDITURE CHARGEABLE TO THE GENERAL FUND AND HRA BALANCES	**91.453**	**2.813**	**22.764**	**54.244**	**12.194**	**8.764**	**8.956**	**(43.767)**	**26.156**	**(5.342)**	**(34.767)**	**143.468**	**-**	**125.695**	**(249.306)**	**(123.611)**	**19.857**

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:

	2016/17 £m	2017/18 £m
Revenue Grants		
Ministry of Housing, Communities and Local Government: PFI Grant	(2.898)	(2.899)
Department for Education: Dedicated School Grant	(115.210)	(111.487)
Department for Education: PFI Grant	(5.620)	(5.620)
Department for Education: Universal Free School Meals	(1.772)	(1.761)
Department of Transport: PFI Grants	(61.491)	(61.491)
Department for Work & Pensions: Housing Benefit Admin	(1.860)	(1.706)
Growth Fund	(1.442)	(0.119)
Mandatory Rent Allowances: Subsidy	(79.114)	(77.848)
Public Health	(35.601)	(34.723)
Pupil Premium Grant	(8.348)	(7.133)
Rent Rebates Granted to HRA Tenants	(59.381)	(58.491)
Other Revenue Grants	(22.019)	(39.607)
Contributions	(51.162)	(44.095)
TOTAL	**(445.918)**	**(446.980)**

6.2.2 Other Operating Expenditure

Other Operating Expenditure includes the following items:

	2016/17 £m	2017/18 £m
Derecognition of Academies	15.792	30.315
Other Derecognitions	15.018	19.930
Payments to the Government Housing Capital Receipts Pool	2.103	2.089
Reversal of Deferred Capital Receipt	-	0.172
Net Gain/Loss on the disposal of non-current assets	(4.130)	(4.916)
TOTAL	**28.783**	**47.590**

6.2.3 Financing and Investment Income and Expenditure

Financing and Investment is shown in the table below. Further information on Trading Operations can be found in note 6.6.1:

	Restated 2016/17			2017/18		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	21.521	-	21.521	22.328	-	22.328
Interest and similar charges and income	50.620	(3.526)	47.094	50.460	(5.884)	44.576
Trading Operations	1.647	(1.758)	(0.111)	0.879	(1.434)	(0.555)
Income and expenditure in relation to investment properties and changes in their fair value	3.939	(2.017)	1.922	2.094	(12.963)	(10.869)
Other Finance and Investment items	-	(4.500)	(4.500)	0.169	(3.663)	(3.494)
TOTAL	**77.727**	**(11.801)**	**65.926**	**75.930**	**(23.944)**	**51.986**

The restated 2016/17 figures in the table above are due to all investment property income and expenditure, including changes in their fair value, now being reported on one line.

6.2.4 Taxation and Non-Specific Grant Income

	2016/17 £m	2017/18 £m
Revenue:		
Council Tax income		
Demand on the Collection Fund	(94.212)	(100.947)
Apportionment of Collection Fund Surplus/Deficit	(2.010)	(2.954)
National Non Domestic Rates (NNDR)		
Demand on the Collection Fund	(61.782)	(67.489)
Top Up Grant	(27.536)	(26.693)
Apportionment of Collection Fund Surplus/Deficit	(2.749)	0.972
Other	(0.698)	(0.498)
Non-ringfenced government grants		
Revenue Support Grant	(58.379)	(44.485)
New Homes Bonus	(5.429)	(4.079)
Capital:		
Government Departments	(35.871)	(32.846)
Other	(3.867)	(3.683)
TOTAL	**(292.533)**	**(282.702)**

6.2.5 Expenditure and Income analysed by Nature

	2016/17 £m	2017/18 £m
Income		
Council Tax and NNDR	(188.987)	(197.609)
Fees, charges, other income	(270.085)	(269.710)
Government grants and contributions	(549.464)	(532.073)
Interest and investment income	(7.353)	(8.712)
Total Income	(1,015.889)	(1,008.104)
Expenditure		
Employee expenses	264.660	263.045
Interest payments	71.990	72.776
Levies	0.071	0.072
Other service expenses	587.939	600.035
Support service recharges	9.773	(0.302)
Capital charges including depreciation, amortisation, impairment, revaluations	(56.982)	56.254
Payments to Housing Capital Receipts Pool	2.103	2.089
Disposal of assets	26.585	45.376
Total Expenditure	906.139	1,039.345
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	**(109.750)**	**31.241**

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

During 2017/18 revaluation gains and losses charged to Other Comprehensive Income and Expenditure amounted to a net revaluation gain of £165.208m for PPE assets (see note 6.3.1) and £1.654m 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 2017/18.

6.2.7 Transactions Relating to Post-employment Benefits (including Pensions)

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

	Local Government Pension Scheme		Teachers Benefits	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m
Cost of Services:				
Service cost	34.432	43.197	-	-
Administration expenses	0.314	0.412	-	-
Financing and Investment Income and Expenditure:				
Net interest on the defined liability (asset)	20.856	21.502	0.665	0.826
Total Charged to (Surplus)/Deficit on Provision of Services	**55.602**	**65.111**	**0.665**	**0.826**
Other Comprehensive Income and Expenditure (OCIE):				
Re-measurements of the net defined benefit liability (asset):				
Return on Fund assets in excess of interest	(169.488)	0.178	-	-
Other actuarial (gains)/losses on assets	4.333	-	-	-
Change in financial assumptions	392.033	(71.794)	4.237	(1.277)
Change in demographic assumptions	8.220	-	(0.066)	-
Experience (gain)/loss on defined benefit obligation	(35.164)	-	7.658	-
Total Charged to OCIE	**199.934**	**(71.616)**	**11.829**	**(1.277)**
TOTAL CHARGED TO THE CIES	**255.536**	**(6.505)**	**12.494**	**(0.451)**

These transactions are summarised in the following table:

	2016/17 £m	2017/18 £m
Comprehensive Income and Expenditure Statement:		
Cost of services	34.746	43.609
Financing and Investment income and expenditure	21.521	22.328
Other Comprehensive Income and Expenditure	211.763	(72.893)
TOTAL	**268.030**	**(6.956)**

6.3 Balance Sheet Notes

6.3.1 Property Plant and Equipment

2017/18	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	835.958	854.468	218.355	678.567	32.268	35.018	53.488	**2,708.122**	**290.321**
Accumulated Depreciation b/f	-	(60.162)	(94.190)	(183.601)	(9.280)	-	(0.005)	**(347.238)**	**(16.536)**
Accumulated Impairment b/f	-	(0.015)	-	-	(0.200)	-	-	**(0.215)**	-
Net Book Value at 1 April 2017	**835.958**	**794.291**	**124.165**	**494.966**	**22.788**	**35.018**	**53.483**	**2,360.669**	**273.785**
Additions - Capital Expenditure	29.239	9.289	3.549	22.513	0.958	1.243	30.128	**96.919**	-
Depreciation Charge	(26.126)	(26.274)	(15.420)	(27.242)	(1.068)	(0.572)	-	**(96.702)**	(12.776)
Revaluations - Recognised in Revaluation Reserve	23.112	141.469	-	-	-	0.627	-	**165.208**	9.117
Revaluations - Recognised in the CIES	51.181	(1.041)	-	-	-	(6.579)	-	**43.561**	2.237
Derecognition - Disposals	(14.549)	(0.410)	(0.055)	-	-	(5.247)	-	**(20.261)**	-
Derecognition - Other	(3.663)	(45.274)	(0.038)	-	-	(1.270)	-	**(50.245)**	-
Impairments - Recognised in the CIES	-	0.015	-	-	-	-	-	**0.015**	-
Other Movements - Transfers to Assets Held for Sale	-	-	-	-	-	(2.680)	-	**(2.680)**	-
Other Movements - Other	26.027	25.078	-	(0.325)	(0.133)	4.456	(55.430)	**(0.327)**	0.734
Net Book Value at 31 March 2018	**921.179**	**897.143**	**112.201**	**489.912**	**22.545**	**24.996**	**28.181**	**2,496.157**	**273.097**
Gross Book Value c/f	921.179	903.458	214.380	700.755	33.050	24.996	28.181	**2,825.999**	301.277
Accumulated Depreciation c/f	-	(6.315)	(102.179)	(210.843)	(10.305)	-	-	**(329.642)**	(28.180)
Accumulated Impairment c/f	-	-	-	-	(0.200)	-	-	**(0.200)**	-
NET BOOK VALUE AT 31 MARCH 2018	**921.179**	**897.143**	**112.201**	**489.912**	**22.545**	**24.996**	**28.181**	**2,496.157**	**273.097**

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 1 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**	-
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 the CIES	-	0.055	-	-	(0.200)	-	-	**(0.145)**	-
Other Movements - Transfers to Assets 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 31 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**

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 2017/18, 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 because of capital investment, material impairment or reclassification. A review of Depreciated Replacement Cost (DRC) based valuations using up to date site information and build rates resulted in additional valuations in 2017/18.

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

8 properties/sites with a total value of £30.315m 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.

Material revaluation gains included an increase of £74.293m for Council Dwellings (see note 2.2.2 for further details) and £55.079m for three museum sites as a result of the DRC revaluation review referred to above.

Material revaluation losses in 2017/18 included £16.653m in relation to the Bio Science site moving from a specialised construction value to existing use value as required by the accounting standards.

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 2017/18.

Valuation at 31 March 2018

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			112.201	489.912	22.545			624.658
Valued at depreciated current value as at:								
2013/14		14.607						14.607
2014/15		49.643						49.643
2015/16		61.142						61.142
2016/17		100.789						100.789
2017/18	921.179	670.962				24.996	28.181	1,645.318
NET BOOK VALUE AT 31 MARCH 2018	**921.179**	**897.143**	**112.201**	**489.912**	**22.545**	**24.996**	**28.181**	**2,496.157**

Capital Commitments

At 31 March 2018, the Council had entered into a number of contracts for the construction or enhancement of PPE with future costs estimated as £89.633m. The equivalent figure as at 31 March 2017 was £74.762m. The commitments have increased due to a number of additional schemes being approved as at the 31 March 2018. The major commitments are summarised below:

Capital Programme Element	Major Schemes	31 March 2018 £m
Public Sector Housing	Decent Homes - Safe	11.150
Public Sector Housing	Decent Homes - Warm & Modern	10.856
Public Sector Housing	Energy Efficient & Tackling Fuel Poverty	5.734
Public Sector Housing	Building A Better Nottingham	15.243
Public Sector Housing	Other Public Sector Housing Schemes	5.956
Education	Middleton Primary Expansion	3.700
Education	Glade Hill Primary Expansion	1.900
Education	Other Education Schemes	0.804
Other Services	Eastcroft Plant Works	2.732
Other Services	Skills Hub	19.600
Other Services	Growing Places Loans	4.717
Other Services	Nottingham Science Park	1.197
Other Services	Highfields Park Refurbishment	1.575
Other Services	Other Schemes	4.178
Transport	Various	0.291
TOTAL		**89.633**

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 no 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	Wollaton Non-Operational Buildings	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 April 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**
Additions	-	-	-	0.007	-	-	-	-	**0.007**
Revaluations	0.337	0.023	0.093	0.817	0.015	-	0.031	0.331	**1.647**
31 MARCH 2018	**14.994**	**0.585**	**4.124**	**36.337**	**0.680**	**0.015**	**1.403**	**0.331**	**58.469**

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 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:

	2016/17 £m	2017/18 £m
Balance at 1 April	59.292	146.809
Additions	87.466	94.924
Disposals	(0.655)	(3.607)
Net gains/(losses) from fair value adjustments	0.362	(1.394)
Transfers to / from Property Plant and Equipment	0.344	0.001
BALANCE AT 31 MARCH	**146.809**	**236.733**

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 2018 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 2018 £m
Industrial	-	47.254	-	47.254
Land	-	15.085	2.029	17.114
Leisure / Other	-	9.335	1.209	10.544
Office	-	64.496	0.451	64.947
Retail	-	95.027	0.730	95.757
Services	-	0.864	0.253	1.117
Total	**-**	**232.061**	**4.672**	**236.733**

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 2017/18 for investment properties.

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

	As at 31 March 2018 £m	Valuation Technique Used to measure fair value	Unobservable Inputs	Level of Confidence	Sensitivity
Land	2.029	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 significantly lower or higher fair value
Leisure / Other	1.209	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 significantly lower or higher fair value
Office	0.451	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 significantly lower or higher fair value
Retail	0.730	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 significantly lower or higher fair value
Services	0.253	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 significantly 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 is 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 balances shown below relate to purchased software licences that are not an integral part of a particular IT system. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use. 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 2017/18 was £1.561m.

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

	2016/17 £m	2017/18 £m
Balance at start of year:		
Gross carrying amounts	9.429	11.635
Accumulated amortisation	(4.871)	(6.027)
Net carrying amount at start of year	**4.558**	**5.608**
Additions - Purchases	2.206	1.160
Amortisation for the period	(1.156)	(1.561)
NET CARRYING AMOUNT AT END OF YEAR	**5.608**	**5.207**
Comprising:		
Gross carrying amounts	11.635	12.795
Accumulated amortisation	(6.027)	(7.588)
NET CARRYING AMOUNT AT END OF YEAR	**5.608**	**5.207**

6.3.5 Assets Held for Sale

Current

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

	2016/17 £m	2017/18 £m
Balance outstanding at start of year	**0.160**	**1.120**
PPE declassified as held for sale	(0.160)	-
PPE newly classified as held for sale	1.120	2.680
BALANCE AT 31 MARCH	**1.120**	**3.800**

6.3.6 Inventories

	2016/17				2017/18			
	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	**0.652**	**0.125**	**1.103**	**1.880**	**0.758**	**0.150**	**1.901**	**2.809**
Purchases	5.051	0.052	2.378	7.481	3.490	0.224	11.955	15.669
Recognised as an expense in the year	(4.945)	(0.027)	(1.580)	(6.552)	(3.603)	(0.129)	(11.764)	(15.496)
BALANCE AT 31 MARCH	**0.758**	**0.150**	**1.901**	**2.809**	**0.645**	**0.245**	**2.092**	**2.982**

6.3.7 Short Term Debtors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	12.875	21.083
Other local authorities	3.069	2.995
NHS Bodies	3.428	6.894
Other entities and individuals	86.068	60.143
TOTAL	**105.440**	**91.115**

6.3.8 Cash and Cash Equivalents

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

	31 March 2017 £m	31 March 2018 £m
Cash held by the Authority	0.402	0.208
Bank current accounts	7.614	4.646
Short-term deposits	12.000	21.309
TOTAL	**20.016**	**26.163**

The Council has offset overdrafts of £6.997m (£9.819m in 2016/17) against credit balances held within its bank current accounts.

6.3.9 Short Term Creditors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	(18.545)	(26.133)
Other local authorities	(7.266)	(4.292)
NHS Bodies	(2.888)	(3.976)
All Other Bodies	(117.745)	(122.886)
TOTAL	**(146.444)**	**(157.287)**

6.3.10 Provisions

Current Provisions

These are amounts set aside to meet specific expenditure in 2018/19.

The NET2 provision has reduced during 2017/18 due to acquisition prices being agreed on compulsory purchases. The closing balance is for compulsory purchases where the purchase price has yet to be agreed.

A number of Single Status payments (£1.403m) have been made in 2017/18 against the job evaluation provision.

	Compulsory Purchases for NET2 £m	Job Evaluation £m	Other £m	Total £m
Balance at 1 April 2017	**(16.107)**	**(1.707)**	**(0.186)**	**(18.000)**
Additional provisions made	-	-	(0.290)	(0.290)
Amounts used	2.042	1.403	-	3.445
BALANCE AT 31 MARCH 2018	**(14.065)**	**(0.304)**	**(0.476)**	**(14.845)**

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 2017	**(11.946)**	**(9.305)**	**(0.435)**	**(21.686)**
Additional provisions made	(3.814)	(0.764)	-	(4.578)
Amounts used	2.707	3.305	-	6.012
Unused amounts reversed	-	-	0.435	0.435
BALANCE AT 31 MARCH 2018	**(13.053)**	**(6.764)**	**(0.000)**	**(19.817)**

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 2017/18 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. An increase of £1.559m in the provision (included within the movement on provision) has been made as a result of the assessment of outstanding appeals at 31st March 2018, 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. There are no further claims and the provision is no longer required.

6.3.11 Usable Reserves

Movements in the Council's usable reserves are summarised in the Movement in Reserves Statement (Table 3.3). Further details of the earmarked reserves are shown below:

	Restated 2016/2017			2017/18	
	Balance at 1 April 2016 £m	Net Movements £m	Balance at 31 March 2017 £m	Net Movements £m	Balance at 31 March 2018 £m
Restricted Reserves:					
Capital	27.750	(7.298)	20.452	2.029	22.481
Schools	21.864	(3.114)	18.750	(2.294)	16.456
Other Reserves:					
Asset Maintenance	3.467	0.286	3.753	0.263	4.016
Contingency & Risk	18.713	(3.647)	15.066	5.457	20.523
Information Technology	6.485	1.947	8.432	(0.546)	7.886
Local Economy	6.376	0.136	6.512	0.380	6.892
Private Finance Initiatives	46.288	(2.531)	43.757	1.109	44.866
Services	12.811	(3.277)	9.534	(2.533)	7.001
Transformation	5.313	(3.911)	1.402	3.753	5.155
Treasury Management	14.927	(5.375)	9.552	(4.711)	4.841
Workforce	10.937	9.336	20.273	(5.806)	14.467
TOTAL	**174.931**	**(17.448)**	**157.483**	**(2.899)**	**154.584**

Restricted reserves have been identified separately as they are generally not available to support General Fund revenue expenditure.

The detailed categories are explained below:

Capital

Sums that have been set aside in previous years to provide additional funding for the capital programme or to manage the impact of new capital schemes that have not yet been included in the capital programme.

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.

Asset Maintenance

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

Contingency & Risk

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.

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

Information Technology

These reserves are set aside to provide a source of funding for any major changes to information technology that may be required.

Local Economy

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

Private Finance Initiatives

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

Services

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

Transformation

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

Treasury Management

Reserves have been set aside to protect the Council's financial position from revenue shocks caused by economic or financial market volatility.

Workforce

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

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 not available as a source of general funding.

	2016/17 £m	2017/18 £m
Revaluation Reserve	392.902	529.088
Capital Adjustment Account	971.110	987.174
Financial Instruments Adjustment Account	(6.400)	(6.146)
Pensions Reserve	(860.824)	(820.201)
Deferred Capital Receipts Reserve	1.235	2.146
Collection Fund Adjustment Account	1.460	3.937
Accumulated Absences Account	(4.476)	(4.022)
TOTAL UNUSABLE RESERVES	**495.007**	**691.976**

Revaluation Reserve

The Revaluation Reserve contains the gains made 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, when the reserve was first created. Gains arising prior to 1 April 2007 are consolidated into the balance on the Capital Adjustment Account.

	2016/17 £m	2017/18 £m
Balance at 1 April	**351.829**	**392.902**
Upward revaluation of assets	73.676	215.848
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(17.066)	(48.985)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	56.610	166.863
Difference between fair value depreciation and historical cost depreciation	(10.694)	(12.875)
Accumulated gains on assets sold or scrapped	(4.843)	(17.802)
Amount written off to the Capital Adjustment Account	(15.537)	(30.677)
BALANCE AT 31 MARCH	**392.902**	**529.088**

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 to finance costs of acquisition, construction and enhancement.

The account also contains accumulated gains and losses on Investment Properties, gains recognised on donated assets yet to be consumed by the Council, and revaluation gains accumulated on PPE prior to 1 April 2007.

	Restated 2016/17 £m	2017/18 £m
Balance at 1 April	**794.066**	**971.110**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(1.156)	(1.561)
Charges for depreciation of non-current assets	(91.092)	(96.702)
Charges for impairment of non-current assets	(0.145)	0.015
Revaluation losses on Property, Plant and Equipment	148.989	43.560
Movements in the market value of Investment Properties	0.387	(1.394)
Revenue expenditure funded from capital under statute (REFCUS)	(2.929)	(5.216)
REFCUS expenditure funded by grants	1.915	3.777
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(41.522)	(74.113)
Adjusting amounts written out of the Revaluation Reserve	15.537	30.677
	29.984	(100.957)
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	9.426	15.463
Use of the Major Repairs Reserve to finance new capital expenditure	44.112	24.115
Application of grants to fund capital expenditure	35.992	33.501
Statutory provision for the financing of capital investment charged against the General Fund	28.827	26.761
Voluntary Revenue Provision for Capital Financing	-	0.728
Adjustment to MRP as a result of PFI Projects	7.460	6.932
Capital expenditure charged against the General Fund and HRA balances	21.250	10.258
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Principal Repayment of Capital Loans	(0.007)	(0.737)
	147.060	117.021
BALANCE AT 31 MARCH	**971.110**	**987.174**

Available for Sale Financial instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Council arising from changes in the value of its investments that have quoted market prices or 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.

	2016/17 £m	2017/18 £m
Balance at 1 April	**(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	**-**	**-**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses for certain financial instruments and for bearing losses or benefiting from gains as 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).

	2016/17 £m	2017/18 £m
Balance at 1 April	**(6.584)**	**(6.400)**
Premiums incurred in the year	0.363	0.363
Discounts incurred in the year	(0.072)	(0.072)
Lenders Option Borrowers Option Loans	0.004	0.005
Soft Loans	(0.111)	(0.042)
BALANCE AT 31 MARCH	**(6.400)**	**(6.146)**

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, liabilities are updated to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements require benefits earned to be financed as employer's contributions are made to pension funds or eventually the Council will pay 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. Statutory arrangements ensure that funding will have been set aside by the time the benefits are due to be paid.

	2016/17 £m	2017/18 £m
Balance at 1 April	**(623.310)**	**(860.824)**
Return on plan assets	169.488	(0.178)
Actuarial gains or (losses) on pensions assets and liabilities	(381.251)	73.071
Reversal of items relating to retirement benefits debited or credited to (Surplus)/Deficit on Provision of Services in the CIES	(56.267)	(65.937)
Employer's pensions contributions and direct payments to the pensioners payable in the year	30.516	33.667
BALANCE AT 31 MARCH	**(860.824)**	**(820.201)**

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 the cash is received, and it is then transferred to the Capital Receipts Reserve.

	2016/17 £m	2017/18 £m
Balance at 1 April	**1.248**	**1.235**
Transfer to the Capital Receipts Reserve upon receipt of cash	(0.013)	(0.017)
Created in year	-	1.100
Reversal in year	-	(0.172)
BALANCE AT 31 MARCH	**1.235**	**2.146**

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.

	2016/17 £m	2017/18 £m
Balance at 1 April	**(2.028)**	**1.460**
Adjustment for council tax income and NNDR credited to the CIES on an accounting basis instead of funding basis	3.488	2.477
BALANCE AT 31 MARCH	**1.460**	**3.937**

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.

	2016/17 £m	2017/18 £m
Balance at 1 April	**(4.281)**	**(4.476)**
Settlement or cancellation of accrual made at the end of the preceding year	4.281	4.476
Amounts accrued at the end of the current year	(4.476)	(4.022)
Adjustment to CIES to include officer remuneration on an accounting (accruals) basis instead of funding basis	**(0.195)**	**0.454**
BALANCE AT 31 MARCH	**(4.476)**	**(4.022)**

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 they are not met.

The balances at the year-end are as follows:

	2016/17 £m	2017/18 £m
Department for Education	(0.156)	(0.103)
Ministry of Housing, Communities and Local Government	(8.924)	(10.635)
Office for Low Emission Vehicles	(1.780)	(3.503)
S106 Contributions - Affordable Housing	(3.281)	(2.399)
S106 Contributions - Open Space	(0.953)	(1.259)
S106 Contributions - Transport / Public Realm / Training	(0.497)	(0.977)
Other Grants and Contributions	(0.089)	(0.089)
TOTAL	**(15.680)**	**(18.965)**

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 payments as 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 Teachers' Pensions.

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

Further details for these schemes can be found in Appendix B.

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	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m
Opening balance at 1 April	**(1,476.004)**	**(1,883.534)**	**(29.955)**	**(40.347)**
Current service cost	(34.518)	(52.248)	-	-
Interest cost	(52.344)	(49.980)	(0.665)	(0.826)
Change in financial assumptions	(392.033)	71.794	(4.237)	1.277
Change in demographic assumptions	(8.220)	-	0.066	-
Experience loss/(gain) on defined benefit obligation	35.164	-	(7.658)	-
Liabilities assumed/extinguished on settlements	3.772	14.517	-	-
Estimated benefits paid net of transfers in	50.116	47.949	-	-
Past Service costs including curtailments	(1.950)	(0.983)	-	-
Contributions by scheme participants and other employers	(8.632)	(8.681)	-	-
Unfunded pension payments	1.115	1.067	2.102	2.078
CLOSING BALANCE AT 31 MARCH	**(1,883.534)**	**(1,860.099)**	**(40.347)**	**(37.818)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2016/17 £m	2017/18 £m
Opening balance at 1 April	**882.649**	**1,063.057**
Interest on assets	31.488	28.478
Return on assets less interest	169.488	(0.178)
Other actuarial gains/losses	(4.333)	-
Administration expenses	(0.314)	(0.412)
Contributions by the employer including unfunded	28.414	31.589
Contributions by scheme participants and other employers	8.632	8.681
Estimated benefits paid plus unfunded net of transfers in	(51.231)	(49.016)
Settlement prices received/paid	(1.736)	(4.483)
CLOSING BALANCE AT 31 MARCH	**1,063.057**	**1,077.716**

The total return on the fund assets for the year to 31 March 2018 is £28.300m.

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

	Local Government Pension Scheme		Teachers Benefits	
	31 March 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Present value of obligation	(1,867.667)	(1,845.240)	-	-
Fair value of scheme assets (bid value)	1,063.057	1,077.716	-	-
Net Liability	**(804.610)**	**(767.524)**	**-**	**-**
Present value of unfunded obligation	(15.867)	(14.859)	(40.347)	(37.818)
NET LIABILITY IN BALANCE SHEET	**(820.477)**	**(782.383)**	**(40.347)**	**(37.818)**

The liabilities show the Council's commitment to pay post-employment (retirement) benefits. The total liability of £820.201m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. 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 Ministry of Housing, Communities and Local Government, 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 2017/18 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 these financial instruments within assets and liabilities.

The following tables show the appropriate value of all financial instruments on the Balance Sheet as at 31 March 2018 (and 31 March 2017).

	Notes	Long-term 31 March 2017 £m	Long-term 31 March 2018 £m	Current 31 March 2017 £m	Current 31 March 2018 £m
Investments					
Loans and receivables					
- investments (principal)		-	-	15.000	10.000
- accrued interest		-	-	0.006	-
- Icelandic deposits		-	-	3.129	-
		-	**-**	**18.135**	**10.000**
Unquoted equity investment at cost		5.345	20.395	-	-
TOTAL INVESTMENTS		**5.345**	**20.395**	**18.135**	**10.000**
Cash and Cash Equivalents					
- cash (including bank accounts)		-	-	8.016	4.854
- cash equivalents (principal)		-	-	12.000	21.300
- accrued Interest		-	-	-	0.009
TOTAL CASH EQUIVALENTS		**-**	**-**	**20.016**	**26.163**
Debtors					
Loans and receivables	1	75.006	93.611	82.438	73.786
TOTAL DEBTORS		**75.006**	**93.611**	**82.438**	**73.786**

Notes:

1. Debtors exclude non-contractual items e.g. NNDR and Council Tax, and with payments in advance.

	Notes	Long-term 31 March 2017 £m	Long-term 31 March 2018 £m	Current 31 March 2017 £m	Current 31 March 2018 £m
Borrowings					
Financial liabilities at amortised cost					
- principal	1	656.481	801.219	132.416	64.366
- interest		-	-	6.431	9.419
- accounting adjustments		0.930	0.926	-	-
TOTAL BORROWINGS		**657.411**	**802.145**	**138.847**	**73.785**
Other Long Term Liabilities					
PFI and finance lease liabilities	1	218.696	201.026	7.297	7.018
Growing Places Fund and other		9.707	10.019	8.999	8.507
TOTAL OTHER LONG TERM LIABILITIES		**228.403**	**211.045**	**16.296**	**15.525**
Creditors					
Financial liabilities at amortised cost	2	-	-	96.118	85.841
TOTAL CREDITORS		**-**	**-**	**96.118**	**85.841**

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):

	2016/17 £m	2017/18 £m
Interest expense	(38.153)	(38.262)
Impairment losses	-	-
Total Expense in (Surplus)/Deficit on Provision of Services	**(38.153)**	**(38.262)**
Interest and investment income	2.687	3.017
Interest and other income - impaired financial assets	0.349	0.078
Dividend Income	2.070	2.014
Total Income in (Surplus)/Deficit on Provision of Services	**5.106**	**5.109**
NET GAIN/(LOSS) FOR THE YEAR	**(33.047)**	**(33.153)**

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 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 2018, using the following methods and assumptions:

- PWLB loans borrowed by the Council have been valued on the basis of using the PWLB new borrowing rates matching the remaining duration of the loans.
- The fair values of other long-term borrowing has been estimated using UK government gilt prices plus a margin (80 bpts) for the most appropriate maturity and repayment profiles as proxy for fair value in the absence of any detailed market transactions.
- 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.
- Where appropriate 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 2018. The fair value on the remaining long term debtors is deemed to be the balance outstanding at 31st March 2018.

- Shares in Nottingham City Transport (NCT), Blue Print Limited and Robin Hood Energy (RHE) have been recognised at cost within the Council's accounts with the fair value as at 31 March 2018 being equal to cost.
- 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.

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 stock of £0.627m in the table below includes £0.619m of listed debt on the London Stock Exchange.

The fair values calculated are as follows:

		Restated 31 March 2017		31 March 2018	
	Fair value level	Carrying amount	Fair value	Carrying amount	Fair value
		£m	£m	£m	£m
PWLB debt	2	629.449	782.598	796.094	927.119
Market loans	2	50.420	79.092	50.421	77.484
Stock	2	0.629	0.762	0.627	0.754
PFI and finance leases	2	225.993	380.614	208.044	311.220
Other debt	*	115.759	115.759	28.788	28.788
Trade creditors	*	96.118	96.118	85.841	85.841
TOTAL FINANCIAL LIABILITIES		**1,118.368**	**1,454.943**	**1,169.815**	**1,431.206**
Money Market & Pooled Funds (< 1 year)	*	12.000	12.000	21.309	21.309
Other Investments (< 1 year)	*	18.135	18.135	10.000	10.000
Investments (> 1 year)	2	-	-	-	-
Shares in unlisted companies	3	5.345	5.345	20.395	20.395
Debtors	*	82.438	82.438	73.786	73.786
Long-term debtors	2	75.006	83.033	93.611	105.712
TOTAL FINANCIAL ASSETS		**192.924**	**200.951**	**219.101**	**231.202**

* 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 as at the balance sheet date.

This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

The 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 £732.959m would be valued at £872.772m. 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 £1,004.567m.

All loans and receivables held on the Balance Sheet at 31 March 2018 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 2018, 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 Ltd (RHE) to a total value of £4.9m, which is 80% of the liability to its wholesale energy suppliers, this has been assessed as having a minimal probability of being called as at 31 March 2018 and so has not been recognised within the accounts.

The Council has also given RHE a Deed of Guarantee Bond in relation to pension fund obligations. The guarantee is limited to a maximum of 80% of fund liabilities and subject to a cap of £0.696m (with 20% to be provided by RHE). In line with other financial guarantees it has been assessed as having a minimal probability of being called as at 31 March 2018. Due to the guarantee being immaterial and the minimal probability of it being called, there is no fair value assessment of it in the statement of 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 then £0.150m issued in 2017 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

2017/18	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
Non Current Assets						
● Amortisation of Intangible Fixed Assets	1.556	0.005	-	-	-	(1.561)
● Depreciation	68.917	27.785	-	-	-	(96.702)
● Impairment	(0.015)	-	-	-	-	0.015
● Revaluation Losses	7.485	(51.045)	-	-	-	43.560
● Investment Property Movement	1.489	(0.095)	-	-	-	(1.394)
● Derecogniton of Fixed Assets	46.582	3.663	-	-	-	(50.245)
● (Loss)/Gain on Sale of Fixed Assets	(0.793)	(3.938)	27.499	-	-	(22.768)
	125.221	(23.625)	27.499	-	-	(129.095)
Capital Financing						
● Revenue Expenditure Funded From Capital Under Statute	1.158	0.281	-	-	-	(1.439)
● Statutory Minimum Revenue Provision for Capital Financing	(26.761)	-	-	-	-	26.761
● Voluntary Revenue Provision for Capital Financing	-	(0.728)	-	-	-	0.728
● PFI Minimum Revenue Provision	(6.932)	-	-	-	-	6.932
● Capital Expenditure charged in year to General Fund Balance	(6.542)	(3.717)	-	-	-	10.259
● Transfer to/from Major Repairs Reserve	-	(27.785)	-	3.670	-	24.115
● Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.089	-	(2.089)	-	-	-
● Other Items: Regional Housing Grant, Bulwell LIFT, WD LT debtor	0.172	-	0.755	-	-	(0.927)
● Use of Capital Receipts Reserve to finance new Capital expenditure	-	-	(15.463)	-	-	15.463
● Capital Grants Applied	(25.111)	-	-	-	(8.390)	33.501
	(61.927)	(31.949)	(16.797)	3.670	(8.390)	115.393

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2017/18	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	(0.454)	-	-	-	-	0.454
Pension Fund						
● Net charges made for Retirement Benefits in accordance with IAS19	65.937	-	-	-	-	(65.937)
● Employers contributions payable to the NCC Pension Fund and Retirement Benefits payable direct to pensioners.	(33.667)	-	-	-	-	33.667
	32.270	-	-	-	-	(32.270)
Other Movements						
● Capital Grants & Contributions	(11.418)	-	-	-	11.418	-
● Financial Instrument Adjustment Account	(0.288)	0.034	-	-	-	0.254
● Transfer to/(from) Collection Fund Adjustment Account	(2.477)	-	-	-	-	2.477
	(14.183)	0.034	-	-	11.418	2.731
TOTAL ADJUSTMENTS	**80.927**	**(55.540)**	**10.702**	**3.670**	**3.028**	**(42.787)**

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
● Investment Property Movement	(0.387)	-	-	-	-	0.387
● 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

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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
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**

6.4.2 Post-employment Benefits Transactions

The Council recognises 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. 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 applied to the General Fund Balance via the MIRS during the year:

	Local Government Pension Scheme		Teachers Benefits	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(55.602)	(65.111)	(0.665)	(0.826)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	28.414	31.589		
Retirement benefits payable to pensioners			2.102	2.078

These transactions can be summarised as follows:

	2016/17 £m	2017/18 £m
Movement in Reserves Statement:		
Reversal of Charges made in accordance with the Code	(56.267)	(65.937)
Charges to General Fund made on a funding basis	30.516	33.667
TOTAL	**(25.751)**	**(32.270)**

6.5 Cash Flow Statement Notes

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

	2016/17 £m	2017/18 £m
Depreciation	91.092	96.702
Impairment and movement in asset valuations	(148.844)	(43.575)
Amortisation	1.156	1.561
Material Impairment losses on Investments debited to surplus or deficit on the provision of services in year	0.006	-
Soft Loans (non Subsidiary)-Interest adjustment credited to I+E Account during year	0.111	0.042
Adjustment for effective interest rates	(0.004)	(0.004)
Net PFI Debtor Adjustments	-	8.157
Increase/Decrease in Interest Creditors	(0.142)	5.978
Increase/Decrease in Creditors	(2.770)	11.630
Increase/Decrease in Interest and Dividend Debtors	(0.432)	1.319
Increase/Decrease in Debtors	(3.109)	0.694
Increase/Decrease in Inventories	(0.929)	(0.173)
Movement in Pension Liability	25.751	32.270
Other non cash adjustment	1.649	0.315
Contributions to/(from) Provisions	(2.986)	(5.024)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	41.523	81.663
Movement in Investment Property Values	(0.387)	1.394
TOTAL	**1.685**	**192.949**

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

	2016/17 £m	2017/18 £m
Capital Grants credited to surplus or deficit on the provision of services	(38.765)	(28.889)
Net adjustment from the sale of short and long term investments	0.093	(0.077)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(14.957)	(29.165)
TOTAL	**(53.629)**	**(58.131)**

6.5.3 Operating Activities

The cash flows for operating activities include the following items:

	2016/17 £m	2017/18 £m
Interest received	2.366	3.956
Interest paid	(38.293)	(32.288)
Dividends received	2.070	2.514
	(33.857)	**(25.818)**

6.5.4 Investing Activities

	2016/17 £m	2017/18 £m
Purchase of property, plant and equipment, investment property and intangible assets	(241.556)	(223.705)
Purchase of short-term and long-term investments	-	(7.500)
Other payments for investing activities	(14.063)	(23.903)
Proceeds from short-term and long-term investments	29.994	27.448
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	14.746	8.206
Other receipts from investing activities	50.158	52.550
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(160.721)**	**(166.904)**

6.5.5 Financing Activities

	2016/17 £m	2017/18 £m
Cash receipts of short and long-term borrowing	135.500	208.500
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(7.462)	(6.931)
Repayments of short and long-term borrowing	(37.067)	(132.095)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**90.971**	**69.474**

6.6 Other Notes

6.6.1 Trading Operations

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, with all others classed as smaller activities:

	2016/17			2017/18		
	Expenditure	Income	(Surplus) Deficit	Expenditure	Income	(Surplus) Deficit
	£m	£m	£m	£m	£m	£m
Included within Services:						
Car Parking	3.819	(8.001)	(4.182)	5.993	(7.733)	(1.740)
Commercial Waste	3.822	(5.431)	(1.609)	3.838	(4.985)	(1.147)
Education Catering	7.473	(8.416)	(0.943)	7.592	(8.156)	(0.564)
Garage	7.802	(1.712)	6.090	7.781	(1.619)	6.162
Highways	0.529	(1.724)	(1.195)	1.250	(2.247)	(0.997)
Leisure Centres	8.334	(6.538)	1.796	6.064	(7.393)	(1.329)
Property	26.308	(11.807)	14.501	6.388	(10.321)	(3.933)
Royal Centre Theatre	18.030	(16.618)	1.412	16.898	(15.107)	1.791
Smaller activities	5.050	(5.486)	(0.436)	5.428	(5.863)	(0.435)
Included in Finance and Investment:						
Commercialism Services	4.599	(0.072)	4.527	0.011	(0.478)	(0.467)
Investment Properties	(0.591)	(2.017)	(2.608)	2.094	(12.963)	(10.869)
Smaller Activities	1.647	(1.686)	(0.039)	0.868	(0.956)	(0.088)
TOTAL (SURPLUS)/DEFICIT	**86.822**	**(69.508)**	**17.314**	**64.205**	**(77.821)**	**(13.616)**

Generally the trading operations are included within the cost of services in the CIES. The net surplus of trading operations which are not an integral part or do not directly support NCC's services are charged to Financing and Investment Income and Expenditure.

The increase in Investment Properties income from 2016/17 to 2017/18 reflects the Council's strategy of securing external income streams through long-term property investment.

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 so is 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 57.4%.

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	
	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m
Income:				
Direct external income - LCC	(1.401)	(1.414)	-	-
Direct external income - NCC	(0.631)	(0.617)	(0.631)	(0.617)
Total Income	**(2.032)**	**(2.031)**	**(0.631)**	**(0.617)**
Expenditure:				
Direct costs incurred by LCC	6.321	6.259	-	-
Direct costs incurred by NCC	0.262	0.267	0.262	0.267
Third party payments to LCC	-	-	2.848	2.766
Total Expenditure	**6.583**	**6.526**	**3.110**	**3.033**
NET EXPENDITURE	**4.551**	**4.495**	**2.479**	**2.416**

6.6.4 Councillors' Allowances

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

	2016/17 £m	2017/18 £m
Allowances	1.103	1.032
Expenses	0.001	0.001
TOTAL	**1.104**	**1.033**

6.6.5 Officers Remuneration

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

POST HOLDER	2016/17 £	2017/18 £
Chief Executive - Ian Curryer		
- Salary, Fees & Allowances	161,600	163,216
- Pension Contributions	-	-
	161,600	**163,216**
Corporate Director of Resilience [1]		
- Salary, Fees & Allowances	98,365	27,507
- Pension Contributions	-	-
	98,365	**27,507**
Corporate Director - Children and Adults		
- Salary, Fees & Allowances	141,400	142,814
- Pension Contributions	17,675	19,566
	159,075	**162,380**
Corporate Director - Commercial and Operations		
- Salary, Fees & Allowances	121,200	122,412
- Pension Contributions	15,150	16,770
	136,350	**139,182**
Corporate Director - Development and Growth		
- Salary, Fees & Allowances	136,350	137,638
- Pension Contributions	17,043	18,856
	153,393	**156,494**
Corporate Director for Strategy and Resources [2]		
- Salary, Fees & Allowances	50,500	122,412
- Pension Contributions	6,256	16,521
	56,756	**138,933**
Strategic Director Strategy and Commissioning [3]		
- Salary, Fees & Allowances	55,889	-
- Pension Contributions	6,906	-
	62,795	**-**
Strategic Director of Finance and Section 151 Officer [4]		
- Salary, Fees & Allowances	95,809	48,643
- Pension Contributions	11,976	6,664
	107,785	**55,307**
Strategic Director of Finance and Section 151 Officer [5]		
- Salary, Fees & Allowances	-	44,482
- Pension Contributions	-	6,094
	-	**50,576**

1. Corporate Director - Resilience left 07/07/2017. Post now removed from structure
2. Appointed in New Post- Corporate Director for Strategy and Resources 01/11/2016
3. Strategic Director Strategy and Commissioning left 31/10/2016
4. Strategic Director of Finance and Section 151 Officer left 30/09/2017
5. New Strategic Director of Finance and Section 151 Officer Appointed 16/10/2017

A total of 183 employees (including senior employees) received remuneration of more than £0.050m, of which 73 are employed directly by schools. The figures do not include staff employed by academy schools, as they are not Council employees:

Remuneration Banding	Number of Employees 2016/17			2017/18		
£	School Based Staff	Senior Employees	Other Staff	School Based Staff	Senior Employees	Other Staff
50,000 - 54,999	25	-	28	25	-	33
55,000 - 59,999	24	-	24	14	-	24
60,000 - 64,999	21	-	18	12	-	17
65,000 -69,999	9	-	9	14	-	8
70,000 - 74,999	2	-	5	3	-	4
75,000 - 79,999	3	-	-	1	-	4
80,000 - 84,999	3	-	8	1	-	5
85,000 - 89,999	1	-	2	1	-	3
90,000 - 94,999	1	-	2	1	-	4
95,000 - 99,999	-	2	2	1	1	-
100,000 - 104,999	-	-	-	-	1	-
105,000 - 109,999	1	1	-	-	-	-
110,000 - 114,999	-	-	-	-	-	-
115,000 - 119,999	-	-	-	-	-	-
120,000 - 124,999	-	1	-	-	2	-
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	**90**	**7**	**99**	**73**	**8**	**102**
GRAND TOTAL			**196**			**183**

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:

	Restated 2016/17			2017/18		
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	63	10	12	72	10	5
Other departures agreed	5	4	3	6	3	1
TOTAL DEPARTURES	**68**	**14**	**15**	**78**	**13**	**6**
Total Cost	£526,506	£390,692	£1,134,915	£486,456	£343,482	£312,175

6.6.6 External Audit Costs

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

	Restated 2016/17 £m	2017/18 £m
Statutory audit	0.179	0.172
Certification of Housing Benefit grant claim	0.011	0.018
Certification of other grant claims and returns	0.014	0.011
TOTAL	**0.204**	**0.201**

The restatement for 2016/17 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 2017/18 are as follows:

Notes		Central Expenditure £m	ISB £m	Total £m
A	Final DSG for 2017/18 before Academy recoupment			**257.768**
B	Academy figure recouped for 2017/18			**(146.281)**
C	Total DSG after Academy recoupment for 2017/18			**111.487**
D	Plus: Brought forward from 2016/17			**11.514**
E	Carry forward to 2018/19 agreed in advance			**6.350**
F	Agreed initial budgeted distribution in 2017/18	29.601	92.244	**121.845**
G	In year Adjustments	3.042	(7.830)	**(4.788)**
H	Final Distribution for 2017/18	32.643	84.414	**117.057**
I	Less Actual central expenditure	30.493		
J	Less ISB deployed to schools		(84.414)	
K	Plus Local Authority contribution 2017/18	-	-	-
L	**CARRY FORWARD TO 2018/19 AGREED IN ADVANCE**	**2.150**	**-**	**8.500**

Notes to DSG:

A Figure as announced by the Department for Education (DfE) in March 2018.

B Figure recouped from the Council in 2017/18 by the DfE for the conversion of maintained schools into Academies.

C Total figure after DfE recoupment for 2017/18.

D Figure brought forward from 2016/17 as agreed with the DfE.

E The amount which the Council planned after consultation with the schools forum to carry forward to 2018/19, rather than distribute in 2017/18.

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 2017/18.

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 2017/18 which will have the effect of substituting for DSG in funding the Schools Budget.

L Carry forward to 2018/19. The total figure is the carry forward to 2018/19 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. These are 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. Capital grants received in advance as at 31 March 2018 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 2017/18 is shown in the Councillors' allowances note 6.6.4.

During 2017/18 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:

	2016/17 £m	2017/18 £m
Payments	101.580	104.707
Receivables	(28.024)	(26.023)
Debtors	8.146	8.149
Creditors	(12.718)	(8.896)

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

Other Public Bodies

The Council has pooled budget arrangements with Integrated Community Equipment and Loan Services (ICELS), Better Care Fund and the Adult Safeguarding Partnership Board. There were no significant transactions with ICELS and Adult Safeguarding Partnership Board in 2017/18.

The Better Care Fund (BCF) is a local single pooled budget. Its aim is 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:

	2017/18 £m
Funding	
Balance brought forward	-
NHS Nottingham City Clinical Commissioning Group	(23.253)
Nottingham City Council (Capital)	(2.075)
Nottingham City Council	(0.716)
Nottingham City Council(Improved Better Care Fund)	(8.570)
Total Funding	(34.614)
Expenditure	
Access & Navigation	2.291
Assistive Technology	1.061
Carers	1.350
Co-ordinated Care	15.957
Capital Grants	2.075
Independence Pathway	11.636
Programme Costs	0.244
Total Expenditure	34.614
Brought forward pool	-
BALANCE CARRIED FORWARD	-

The Council paid £0.072m in 2017/18 (£0.071m 2016/17) 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.

	2016/17		2017/18	
	Payments £m	Receipts £m	Payments £m	Receipts £m
Nottingham City Transport	7.894	(1.713)	6.725	(2.753)
Nottingham City Homes (NCH) Ltd	67.592	(11.744)	75.497	(11.213)
Enviroenergy Ltd	4.522	(5.183)	0.710	(5.257)
Futures Advice, Skills and Employment Ltd	4.715	(0.013)	3.027	(0.046)
Nottingham Revenues & Benefits Ltd	0.107	(5.973)	0.060	(7.066)
Robin Hood Energy Ltd	11.344	(2.784)	18.483	(9.595)
Other Related Parties	0.705	(2.972)	1.574	(3.791)

	2016/17		2017/18	
	Debtors £m	Creditors £m	Debtors £m	Creditors £m
Nottingham City Transport	0.862	(0.056)	0.732	-
Nottingham City Homes (NCH) Ltd	21.710	(11.637)	30.291	(9.462)
Enviroenergy Ltd	14.667	(1.000)	14.664	(0.197)
Futures Advice, Skills and Employment Ltd	-	(0.487)	-	(0.378)
Nottingham Revenues and Benefits Ltd	0.567	-	1.110	(1.564)
Robin Hood Energy Ltd	11.579	(3.047)	12.446	(3.538)
Other Related Parties	5.045	(0.364)	3.571	(0.109)

6.6.9 Road Charging Schemes under the Transport Act 2000

The Council introduced the workplace parking levy on 1 April 2012 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 2018 are as follows:

	2016/17 £m	2017/18 £m
Income	(9.422)	(9.178)
Expenditure	0.588	0.219
NET INCOME	**(8.834)**	**(8.959)**

6.6.10 Leases

Council as Lessee

Finance Leases

The assets acquired under finance leases are carried as PPE in the Balance Sheet within the classification of Other Land and Buildings. The net amount at 31 March 2018 was £24.286m (31 March 2017: £39.852m).

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 2017 £m	31 March 2018 £m
Finance lease liabilities*:		
current	0.001	0.001
non-current	2.203	2.201
Finance costs payable in future years	12.645	12.411
MINIMUM LEASE PAYMENTS	**14.849**	**14.613**

* 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 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Not later than one year	0.236	0.236	0.001	0.001
Between one and five years	0.945	0.945	0.006	0.006
Later than five years	13.668	13.432	2.197	2.195
TOTAL	**14.849**	**14.613**	**2.204**	**2.202**

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 2017 £m	31 March 2018 £m
Not later than one year	0.777	0.885
Between one and five years	2.618	2.640
Later than five years	8.961	8.762
TOTAL	**12.356**	**12.287**

The expenditure charged to the CIES during 2017/18 in relation to these leases was £0.777m (£0.575m in 2016/17).

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 2017 £m	31 March 2018 £m
Long term finance lease debtor*	1.022	1.022
Finance income receivable in future years	51.263	50.752
Anticipated residual value of property	11.661	14.612
GROSS INVESTMENT IN THE LEASE	**63.946**	**66.386**

* 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 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
Not later than one year	0.096	0.063	0.094	0.061
Between one and five years	0.386	0.288	0.377	0.281
Later than five years	63.464	66.035	62.332	64.858
TOTAL	**63.946**	**66.386**	**62.803**	**65.200**

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 uncollectable 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 2017 £m	31 March 2018 £m
Not later than one year	10.849	15.458
Between one and five years	37.768	54.714
Later than five years	151.945	212.323
TOTAL	**200.562**	**282.495**

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 2017/18 of £0.663m (2016/17 £0.268m). There were no contingent rents for any of the other types of lease arrangement.

6.6.11 Private Finance Initiatives and Similar Contracts

The Council has four PFI arrangements which 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 the 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 being 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 located in Hyson Green and Bulwell and have been procured using the LIFT vehicle in partnership with NHS Nottingham City. 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. The Council does not have an option to purchase the asset when the contract expires.
- Bulwell Riverside (Bulwell), contract expires October 2036 at which time the Council has an option to purchase the asset.

Clifton Cornerstone Joint Service Centre was procured in 2007. This arrangement has been treated as an operating lease so 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 for Street Lighting. The first five years of the contract provided 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 operation and maintenance of the street lighting network.

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

Future Contractual Payments

The next table shows the Council's future contractual payments. The future Service Charge payments are estimated using the Service Charge payments incurred during 2017/18, which are then inflated using the inflation rate implicit with each PFI arrangement:

	2018/19 £m	2019/20 - 2022/23 £m	2023/24 - 2027/28 £m	2028/29 - 2032/33 £m	2033/34 - 2037/38 £m	2038/39 - 2042/43 £m	Total £m
NET							
Repayment of Liability	4.305	27.697	36.035	37.622	2.098	-	**107.757**
Interest Charges	13.149	44.985	35.296	14.588	0.120	-	**108.138**
Service Charges	19.967	84.986	118.744	134.348	28.918	-	**386.964**
NET Unitary Charge	**37.421**	**157.668**	**190.075**	**186.558**	**31.136**	**-**	**602.859**
BSF							
Repayment of Liability	1.252	7.135	12.072	15.836	10.230	0.679	**47.204**
Interest Charges	3.590	13.154	12.776	7.388	1.626	0.012	**38.546**
Service Charges	3.260	13.877	19.389	21.937	13.543	0.832	**72.838**
BSF Unitary Charge	**8.102**	**34.166**	**44.237**	**45.161**	**25.399**	**1.523**	**158.588**
LIFT							
Repayment of Liability	0.445	2.153	3.283	4.373	2.720	-	**12.974**
Interest Charges	1.094	3.997	3.935	2.468	0.668	-	**12.162**
Service Charges	1.140	4.854	6.782	7.673	3.379	-	**23.828**
LIFT Unitary Charge	**2.679**	**11.004**	**14.000**	**14.514**	**6.767**	**-**	**48.964**
Street Lighting							
Repayment of Liability	1.014	5.320	10.792	11.030	9.746	-	**37.902**
Interest Charges	4.002	14.737	14.289	7.836	1.431	-	**42.295**
Service Charges	2.100	8.676	11.457	21.474	9.199	-	**52.906**
Street Lighting Unitary Charge	**7.117**	**28.733**	**36.538**	**40.339**	**20.375**	**-**	**133.103**
TOTAL CHARGES	**55.319**	**231.571**	**284.851**	**286.573**	**83.677**	**1.523**	**943.514**

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.

	2016/17	2017/18				
	Total £m	BSF £m	NET £m	LIFT £m	Street Lighting £m	Total £m
Opening balance at 1 April	**234.108**	48.359	123.220	13.394	38.814	**223.787**
Repayment of Liability	**(10.321)**	(1.152)	(15.463)	(0.419)	(0.912)	**(17.946)**
CLOSING BALANCE AT 31 MARCH	**223.787**	**47.207**	**107.757**	**12.975**	**37.902**	**205.841**

6.6.12 Trust Funds

The Council acts as 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 £27.675m (£26.702m at 31 March 2017) with a turnover of £2.199m (£2.278m 2016/17), primarily from the rental of investment properties. The Trust was established for the repair and maintenance of Trent Bridge and the construction of new bridges over the River Trent.

The Council is also sole trustee for a number of other Trusts whose net assets total £1.149m (£1.065m as at 31 March 2017) with a turnover of £0.391m (£0.387m 2016/17). 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 2018, the Council has the following contingent liability 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 in the 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 exposure to fixed and variable rates.
  - Its maximum and minimum exposure in the maturity structure of its debt.
  - Its maximum annual exposure 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 a 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 2017/18 are:

- Minimum credit ratings – a minimum long-term credit rating of A- (or equivalent) except for UK local authorities.
- Individual cash limits on unsecured investments – a limit of £10m per eligible counterparty except the UK Central Government.
- 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.
- Country limits – other than UK institutions, a total investment limit for all counterparties in a particular country. No more than £10m will be placed with any one country.
- Money Market Funds – individual cash limit of £10m with any one fund and an overall limit of £50m for all Money Market Funds.

The Council's maximum exposure to credit risk in relation to its investments of £31.3m at 31 March 2018 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 2018 that this was likely to crystallise.

The following table summarises the value of the Council's investment portfolio at 31 March 2018 and confirms that all investments were made in line with the approved credit rating criteria:

Credit Rating	Long Term		Short Term	
	31 March 2017 £m	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m
AAA	-	-	12.000	21.300
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
A	-	-	5.000	-
A-	-	-	-	-
Unrated local authorities	-	-	10.000	10.000
TOTAL INVESTMENTS	**-**	**-**	**27.000**	**31.300**

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.
- 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 2018 is:

	31 March 2017 £m	31 March 2018 £m
Less than 1 year	132.416	64.366
1 to 2 years	35.258	31.187
2 to 5 years	96.876	90.721
5 to 10 years	129.189	130.035
10 – 25 years	185.865	159.984
25 – 40 years	165.147	169.673
40 – 70 years	43.524	219.000
Irredeemable	0.622	0.619
TOTAL	**788.897**	**865.585**

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, and cash equivalent financial assets as at 31 March 2018 is shown below.

	31 March 2017 £m	31 March 2018 £m
Less than 1 year	30.135	31.309
1 to 2 years	-	-
TOTAL	**30.135**	**31.309**

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 wide and complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates or short term borrowings – 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 2017/18 strategy allowed for a maximum net exposure to variable interest rates of £300m.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher, with all other variables held constant, the financial effect would be:

	31 March 2018 £m
Increase in interest payable on variable rate borrowings	0.828
Increase in interest receivable on variable rate investments	(0.313)
Impact on Surplus or Deficit on the Provision of Services	0.515
Share of overall impact debited to the HRA	(0.510)
IMPACT ON OTHER COMPREHENSIVE INCOME AND EXPENDITURE	0.005

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 £20.395m in a number of joint ventures and in local industry, as at 31 March 2018. These holdings are generally illiquid and are shown in the balance sheet at cost. The main equity holdings are in Nottingham City Transport Limited, Robin Hood Energy Limited and Blue Print Limited which are all 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.

Foreign Exchange Risk

The Council has no material exposure to the risk of adverse movements in foreign exchange rates.

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.

	2016/17 £m	2017/18 £m
Expenditure		
Repairs and maintenance	30.349	30.439
Supervision and Management	27.558	28.444
Rents, rates, taxes and other charges	3.096	3.002
Depreciation and impairment of non-current assets	27.235	27.925
Debt management costs	0.048	0.064
Movement in the allowance for bad debts	1.143	1.012
Exceptional revaluation gain on HRA Council dwellings	(178.476)	(51.181)
Total Expenditure	**(89.047)**	**39.705**
Income		
Dwelling Rents	(99.330)	(96.362)
Non Dwelling Rents	(2.811)	(3.294)
Charges for Services and Facilities	(6.509)	(7.197)
Total Income	**(108.650)**	**(106.853)**
Net Cost of HRA Services as included in the CIES	**(197.697)**	**(67.148)**
HRA services' share of Corporate and Democratic Core	0.035	0.035
NET COST FOR HRA SERVICES	**(197.662)**	**(67.113)**
HRA Share of the Operating Income and Expenditure included in the CIES		
Fixed Asset Derecognition	10.672	3.663
Gain or (loss) on sale of HRA non-current assets	(3.915)	(3.938)
Interest payable and similar charges	12.235	12.159
Interest and Investment Income	(0.344)	(0.354)
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	**(179.014)**	**(55.583)**

7.1.2 Movement on the HRA Statement

	2016/17 £m	2017/18 £m
Balance on HRA at the start of the Year	**4.000**	**4.359**
Surplus or (deficit) for the year	179.014	55.583
Adjustments between accounting basis and funding basis	(178.655)	(55.540)
Increase or (Decrease) in Year on the HRA	**0.359**	0.043
BALANCE ON THE HRA AT THE END OF THE YEAR	**4.359**	**4.402**

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 2017 Number	31 March 2018 Number
Houses and Bungalows		
1 Bedroom	1,005	1,039
2 Bedroom	5,753	5,806
3 Bedroom	9,917	9,652
4 or more Bedrooms	500	501
Flats		
1 Bedroom	7,248	7,207
2 Bedroom	1,506	1,476
3 or more Bedrooms	136	127
TOTAL	**26,065**	**25,808**

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 2017 £m	Value at 31 March 2018 £m
Operational Assets		
Council Dwellings	835.958	921.179
Other Land and Buildings	7.585	7.761
Assets Under Construction	19.395	13.146
Surplus Assets not held for sale	0.653	0.376
Investment Properties	0.893	0.988
Infrastructure	25.411	27.311
TOTAL VALUE OF ASSETS	**889.895**	**970.761**

7.1.3.3 Asset value of Dwellings

The vacant possession valuation of Council dwellings at 31 March 2018 was £2,193.285m (1 April 2017 £1,990.377m). The Balance Sheet value of dwellings was £921.179m. The difference of £1,272.106m between the vacant possession valuation and the balance sheet value 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 2018.

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:

	2016/17 £m	2017/18 £m
Balance Brought Forward	**(27.078)**	**(10.292)**
Credits - Depreciation on HRA Assets	(27.166)	(27.785)
Credits - Additional credit to the MRR	(0.160)	-
Debits - Capital Expenditure	44.112	24.115
BALANCE AT END OF YEAR	**(10.292)**	**(13.962)**

7.1.3.5 Capital Expenditure

Capital expenditure of £53.396m (£54.218m in 2016/17) in respect of HRA assets was financed from a range of sources in 2017/18. This is set out below:

	2016/17 £m	2017/18 £m
CAPITAL EXPENDITURE	**54.218**	**53.396**
Financed By:		
Capital Receipts Reserve	2.901	6.671
Major Repairs Reserve (MRR)	44.112	24.115
Direct Revenue Financing*	6.280	3.717
Other Capital Grants and Contributions	0.925	3.749
Borrowing	-	15.144
TOTAL FINANCING	**54.218**	**53.396**

* 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 £19.427m (£12.516m in 2016/17) arose from the sale of land, houses and other property within the HRA in 2017/18. Of this total, £18.928m (£11.201m in 2016/17) related to the disposal of houses and flats under the right to buy scheme and there were no receipts (£0.204m in 2016/17) from the sale of vacant non-purpose built council houses.

	2016/17 £m	2017/18 £m
Land	0.994	0.131
Houses	11.405	18.928
Other Property	0.117	0.368
TOTAL	**12.516**	**19.427**

7.1.3.7 Depreciation

Depreciation was charged in respect of HRA operational assets in 2017/18 as follows:

	2016/17 £m	2017/18 £m
Dwellings	25.573	26.126
Other Operational HRA Assets:		
Other Land and Buildings	0.119	0.119
Vehicles, Plant, Furniture and Equipment	0.067	0.014
Infrastructure and Community Assets	1.405	1.523
Surplus Assets not Held for Sale	0.002	0.003
TOTAL	**27.166**	**27.785**

In addition a debit of £0.005m (£0.006m in 2016/17) for amortisation was charged in the year.

7.1.3.8 Revaluations and Impairments during the Financial Year

£51.046m in respect of revaluation gains and losses have been posted to the HRA during the year (£178.413m in 2016/17). £51.181m of this amount related to a revaluation gain on Council Dwellings. This results from increases to market values and higher valued new build properties.

There were no donated assets within the year.

A de-recognition write out of £3.663m (£10.672m in 2016/17) was made to reflect the residual value of assets replaced.

The revaluation of investment properties has resulted in a credit of £0.096m (£0.025m debit in 2016/17).

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 £4.823m at 31 March 2018 (£4.844m at 31 March 2017). A total bad debt provision of £4.460m has been established at 31 March 2018 (£4.119m at 31 March 2017).

7.1.3.10 Average Rent for HRA Dwellings

Year	Average Rent £
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
2017/18	76.43

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.

	2016/17	2017/18		
	Total £m	Business Rates £m	Council Tax £m	Total £m
INCOME				
Council Tax Receivable	(116.963)	-	(124.456)	(124.456)
Business Rates Receivable	(130.751)	(132.831)	-	(132.831)
TOTAL INCOME	**(247.714)**	**(132.831)**	**(124.456)**	**(257.287)**
EXPENDITURE				
Precepts, Demands and Shares				
Central Government	63.043	68.866	-	68.866
Police Authority	11.171	-	11.623	11.623
Fire Authority	5.846	1.377	4.771	6.148
Nottingham City Council	155.994	67.489	100.947	168.436
Charges to Collection Fund				
Write offs of uncollectable amounts	3.565	1.586	2.380	3.966
Increase /Decrease (-) in Bad Debt Provision	2.495	0.145	1.286	1.431
Increase /Decrease (-) in Provision for Appeals	(3.236)	(5.185)	-	(5.185)
Cost of Collection	0.489	0.493	-	0.493
Interest charged on Cost of Collection	0.014	0.002	-	0.002
Apportionment of previous year's estimated Collection Fund Surplus				
Police & Crime Commissioner	0.421	-	0.442	0.442
Central Government	(2.059)	(4.293)	-	(4.293)
Nottinghamshire Fire & Rescue Service	0.132	(0.085)	0.181	0.096
Nottingham City Council	1.465	(4.208)	3.728	(0.480)
TOTAL EXPENDITURE	**239.340**	**126.187**	**125.358**	**251.545**
Movement on the Collection Fund Balance	(8.374)	(6.644)	0.902	(5.742)
(Surplus)/Deficit Brought Forward	9.314	6.127	(5.187)	0.940
(SURPLUS)/DEFICIT CARRIED FORWARD	**0.940**	**(0.517)**	**(4.285)**	**(4.802)**

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%).

	2016/17 £	2017/18 £
Rate in the pound	49.7p	47.9p
Total non-domestic rateable value per NNDR system	325,294,769	366,630,338
Gross Debit	161,671,500	175,615,932
Net debit after adjustments and reliefs	134,157,857	137,752,855

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.

	2016/17	2017/18
Council Tax Base	**64,410**	**65,598**
Council Tax (Band D) Property	**£1,771.08**	**£1,851.74**

Band	Average Number of Properties	Taxable Properties after discounts, exemptions etc.	Conversion Factor to Band D	Band D Equivalents
A	86,232	50,487	6/9	33,658
B	22,597	14,662	7/9	11,404
C	16,036	11,568	8/9	10,283
D	6,760	5,228	9/9	5,228
E	2,414	2,049	11/9	2,504
F	1,038	930	13/9	1,343
G	707	625	15/9	1,042
H	112	69	18/9	137

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:

	2016/17	2017/18		
	Total £m	Council Tax £m	NNDR £m	Total £m
Nottingham City Council	(1.460)	(3.689)	(0.253)	(3.942)
Nottinghamshire Police Authority	(0.514)	(0.427)	-	(0.427)
Nottinghamshire Fire and Rescue Authority	(0.150)	(0.169)	(0.005)	(0.174)
Central Government	3.063	-	(0.259)	(0.259)
TOTAL	**0.940**	**(4.285)**	**(0.517)**	**(4.802)**

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 2017/18 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 2017/18 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:

	2016/17		2017/18	
	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	(109.750)	(99.254)	31.241	39.815
Other CIES	155.140	191.645	(239.756)	(244.651)
Total CIES (Surplus)/Deficit	45.390	92.391	(208.515)	(204.836)
Balance Sheet:				
Long Term Assets	2,657.802	2,726.797	2,910.572	2,969.087
Current Assets	147.520	150.601	134.060	165.580
Current Liabilities	(303.291)	(325.578)	(245.917)	(277.743)
Long Term Liabilities	(1,784.004)	(1,906.485)	(1,872.173)	(2,006.144)
Nets Assets	718.027	645.335	926.542	850.780
Usable Reserves	223.020	225.807	234.566	237.550
Unusable Reserves	495.007	419.528	691.976	613.230
	718.027	645.335	926.542	850.780
Cash Flow Statement:				
Net Cash Flows from Operating Activities	57.806	51.634	103.577	104.827
Investing Activities	(160.721)	(162.453)	(166.904)	(180.718)
Financing Activities	90.971	98.099	69.474	85.917
Net Increase (Decrease) in Cash and Cash Equivalents	(11.944)	(12.720)	6.147	10.026
Cash and Cash Equivalents at the beginning of the reporting period	31.960	48.076	20.016	35.356
Cash and Cash Equivalents at 31 March	20.016	35.356	26.163	45.382

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 3.1 of the Council's single entity Statement of Accounts.

Notes		Restated 2016/17 Gross Expenditure £m	Restated 2016/17 Gross Income £m	Restated 2016/17 Net £m	2017/18 Gross Expenditure £m	2017/18 Gross Income £m	2017/18 Net £m
	Adults and Health	173.392	(80.589)	92.803	174.947	(76.528)	98.419
	Business, Education and Skills	144.292	(141.169)	3.123	137.769	(134.629)	3.140
	Community and Customer Services	36.252	(11.526)	24.726	50.627	(22.022)	28.605
	Early Intervention and Early Years	94.737	(25.133)	69.604	84.843	(25.668)	59.175
	Energy and Sustainability	21.024	(6.495)	14.529	22.426	(6.270)	16.156
	Leisure and Culture	54.151	(35.258)	18.893	44.057	(35.291)	8.766
	Neighbourhood Services and Local Transport	79.508	(54.965)	24.543	88.883	(54.544)	34.339
	Planning, Housing and Heritage	29.508	(87.886)	(58.378)	23.954	(87.400)	(63.446)
	Resources and Neighbourhood Regeneration	45.933	(21.726)	24.207	51.284	(20.021)	31.263
	Strategic Infrastructure and Communications	36.106	(19.618)	16.488	28.283	(10.916)	17.367
	Corporate Items	187.501	(201.981)	(14.480)	180.243	(203.386)	(23.143)
	Exceptional revaluation gain on HRA Council Dwellings	(178.476)	-	(178.476)	(51.181)	-	(51.181)
	Group Organisations	146.957	(92.784)	54.173	197.319	(137.888)	59.431
	Cost of Services	**870.885**	**(779.130)**	**91.755**	**1,033.454**	**(814.563)**	**218.891**
	Other operating expenditure			28.783			47.590
8.7.1.1	Financing and investment income and expenditure			72.540			56.916
	Taxation and non-specific grant income			(292.533)			(282.702)
	(Surplus)/Deficit on Provision of Services			**(99.455)**			**40.695**
	Share of the surplus or deficit on the provision of services by associates			(0.220)			(0.328)
	Tax expenses of subsidiaries			0.421			(0.552)
	Group (Surplus)/Deficit			**(99.254)**			**39.815**
	Revaluation of PPE/Heritage assets			(56.610)			(166.863)
	Re-measurement of pension assets/liabilities			248.298			(78.180)
	Other gains/losses recognised required			(0.038)			(0.058)
	Share of other comprehensive income and expenditure of associates and joint ventures			(0.005)			0.450
	Other Comprehensive Income and Expenditure			**191.645**			**(244.651)**
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**92.391**			**(204.836)**

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.

		2016/17			2017/18	
	Authority	Minority Interest	Total	Authority	Minority Interest	Total
	£m	£m	£m	£m	£m	£m
Group (surplus) / Deficit	(99.200)	(0.054)	(99.254)	39.752	0.063	39.815
Other CIES	191.575	0.070	191.645	(244.701)	0.050	(244.651)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**92.375**	**0.016**	**92.391**	**(204.949)**	**0.113**	**(204.836)**

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

	2016/17	2017/18
	£m	£m
Total (surplus)/deficit on the authority's single entity CIES	45.390	(208.515)
Add (surplus)/deficit arising from group entities:		
Subsidiaries	46.170	4.530
Joint Ventures	(0.225)	0.122
Trust Funds	1.056	(0.973)
TOTAL (SURPLUS)/DEFICIT ON THE GROUP CIES	**92.391**	**(204.836)**

8.4.2 Group Balance Sheet

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

Notes		31 March 2017 £m	31 March 2018 £m
8.7.2.1	Property, Plant & Equipment	2,423.538	2,579.194
	Heritage Assets	56.815	58.469
8.7.2.2	Investment Property	174.244	264.914
	Intangible Assets	6.137	7.354
	Long Term Investments	1.263	1.286
	Long Term Debtors	56.161	48.969
	Investments in Associates and Joint Ventures	8.251	8.129
	Deferred Tax Asset	0.388	0.772
	Long Term Assets	**2,726.797**	**2,969.087**
	Short Term Investments	22.039	12.027
	Assets Held for Sale	1.120	3.800
	Inventories	5.323	5.356
8.7.2.3	Short Term Debtors	86.566	98.800
8.7.2.4	Cash and Cash Equivalents	35.356	45.382
	Current Tax Asset	0.197	0.215
	Current Assets	**150.601**	**165.580**
	Short Term Borrowing	(138.847)	(72.465)
8.7.2.5	Short Term Creditors	(167.023)	(188.359)
	Provisions	(19.241)	(16.352)
	Current Tax Liability	(0.467)	(0.567)
	Current Liabilities	**(325.578)**	**(277.743)**
	Long Term Creditors	(9.750)	(13.935)
	Provisions	(21.925)	(19.817)
	Long Term Borrowing	(657.413)	(802.137)
	Other Long Term Liabilities	(228.403)	(211.045)
	Capital Grants Receipts in Advance	(16.844)	(22.830)
	Deferred Tax Liability	(2.258)	(2.189)
	Defined Benefit Pension Scheme	(969.892)	(934.191)
	Long Term Liabilities	**(1,906.485)**	**(2,006.144)**
	NET ASSETS	**645.335**	**850.780**
8.7.2.6	Usable Reserves	225.807	237.550
8.7.2.7	Unusable Reserves	419.528	613.230
	TOTAL RESERVES	**645.335**	**850.780**

8.4.3 Group Movement in Reserves Statement

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

2017/18	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 March 2017	**8.463**	**157.483**	**4.359**	**26.459**	**10.292**	**15.964**	**223.020**	**495.007**	**718.027**	**(73.451)**	**0.759**	**645.335**
Opening balance restatement (Note 8.7.3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.615**	-	**0.615**
Movement in 2017/18:												
Total CIE (Table 8.4.1)	(35.350)	-	55.583	-	-	-	**20.233**	239.756	**259.989**	(55.040)	(0.113)	**204.836**
Adjustments between group accounts and authority accounts **(Note 8.7.3)**	(51.474)	-	-	-	-	-	(51.474)	-	(51.474)	51.468	-	**(0.006)**
Net Increase/Decrease before transfers	**(86.824)**	**-**	**55.583**	**-**	**-**	**-**	**(31.241)**	**239.756**	**208.515**	**(3.572)**	**(0.113)**	**204.830**
Funding basis adjustments	80.927	-	(55.540)	10.702	3.670	3.028	42.787	(42.787)	-	-	-	-
Net increase/decrease before transfers to earmarked reserves	**(5.897)**	**-**	**0.043**	**10.702**	**3.670**	**3.028**	**11.546**	**196.969**	**208.515**	**(3.572)**	**(0.113)**	**204.830**
Transfers to/from earmarked reserves	2.899	(2.899)	-	-	-	-	-	-	-	-	-	-
Movement in Year	**(2.998)**	**(2.899)**	**0.043**	**10.702**	**3.670**	**3.028**	**11.546**	**196.969**	**208.515**	(3.572)	(0.113)	**204.830**
BALANCE AT 31 MARCH 2018	**5.465**	**154.584**	**4.402**	**37.161**	**13.962**	**18.992**	**234.566**	**691.976**	**926.542**	**(76.408)**	**0.646**	**850.780**

* CIE - Comprehensive Income and Expenditure

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 March 2016	**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)**	(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 MARCH 2017	**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

8.4.4 Group Cash Flow Statement

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

Notes		2016/17 £m	2017/18 £m
	Net (Surplus)/Deficit on the provision of Services	**99.455**	**(40.695)**
	Adjustments to net surplus or deficit on the provision of services for non-cash movements	6.060	204.249
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(53.881)	(58.727)
8.7.4.1	**Net Cash Flows from Operating Activities**	**51.634**	**104.827**
8.7.4.2	Investing activities	(162.453)	(180.718)
8.7.4.3	Financing activities	98.099	85.917
	Net Increase or Decrease in Cash and Cash Equivalents	**(12.720)**	**10.026**
	Cash and cash equivalents at the beginning of the reporting period	48.076	35.356
	CASH AND CASH EQUIVALENTS AT 31 MARCH	**35.356**	**45.382**

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 2017/18 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 2018 is £11.682m (31 March 2017 £11.682m)

Nottingham City Homes Limited (Registered Company Number: 05292636)

Nature of the business

The principal activities of the Group are to act as the managing agent of the Council's housing stock and to provide a repairs and maintenance service to the landlord in respect of these properties, as well as owning housing stock of its own for social and market rent.

The Group comprises Nottingham City Homes Ltd (NCH), NCH Registered Provider Ltd and NCH Enterprises Ltd, although the latter was dormant during 2017/18.

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 £22.842m (2016/17 £22.516m).

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.

The Council has a NCH debtor balance of £30.291m at 31 March 2018 (£21.710m at 31 March 2017), this is made up of a loan and a short term debtor balance.

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 (NCT) 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 equally 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 53 week period ending 31 March 2018 (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

	2016/17		2017/18	
	NCT £m	5% Minority Interest £m	NCT £m	5% Minority Interest £m
Profit for the period attributable to equity shareholders	(2.635)	(0.132)	(1.374)	(0.069)
Ordinary Dividends Paid	1.579	0.078	2.632	0.132
Other Comprehensive Income and Expenditure	1.390	0.070	1.011	0.050
TOTAL COMPREHENSIVE INCOME	0.334	0.016	2.269	0.113
Non-current Assets	33.847	1.692	41.587	2.079
Current Assets	12.099	0.605	12.955	0.648
Current Liabilities	(15.098)	(0.755)	(17.002)	(0.850)
Non-current Liabilities	(15.663)	(0.783)	(24.624)	(1.231)
NET ASSETS	15.185	0.759	12.916	0.646

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 (RHE), owning 100% of the issued share capital. The company has the following shares in issue:

- 7,500,000 ordinary shares at £1 each, which are owned by the Council.

Risk
The Council has a RHE debtor balance of £12.446m at 31 March 2018 (£11.579m at 31 March 2017), 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.

On 3 May 2018 Places for People bought out the Igloo Regeneration Partnership share.

Summarised Financial Information of Blueprint

	2016/17 £m	2017/18 £m
Turnover	(5.881)	(6.098)
Cost of Sales	5.375	5.275
Gross Profit	**(0.506)**	**(0.823)**
Other Operating Income	(0.425)	(0.210)
Administrative Expenses	0.503	0.478
Operating Profit	**(0.428)**	**(0.555)**
Interest Receivable	(0.012)	(0.016)
Profit for the Year	**(0.440)**	**(0.571)**
Other Comprehensive Income and Expenditure	(0.010)	(0.085)
TOTAL COMPREHENSIVE LOSS/(PROFIT) FOR THE YEAR	**(0.450)**	**(0.656)**
Current Assets	17.531	17.150
Current Liabilities	(0.804)	(0.779)
Non-current Liabilities	(0.224)	(0.112)
NET ASSETS AS AT 31 MARCH	**16.503**	**16.259**
INVESTMENT IN JOINT VENTURE INCLUDED IN THE COUNCIL'S GROUP ACCOUNTS (50% OF NET ASSETS)	**8.251**	**8.129**
Amounts included in the above figures:		
Cash at Bank and In Hand (included in current assets)	3.563	5.369
Accruals and Deferred Income (included in Current Liabilities)	(0.729)	(0.269)

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 Futures accumulated net liability and profit / loss in year as at 31 March 2018, equating to £7.348m (2016/17 £8.334m) and £0.986m profit (2016/17 £1.764m loss) 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 £1.165m in 2018/19, being grant funding for the delivery of careers advice.

Summarised Financial Information of Futures group

	2016/17 £m	2017/18 £m
Revenue	(17.704)	(18.027)
Operating Charges	16.510	17.062
Operating Loss	**(1.194)**	**(0.965)**
Finance Costs	0.587	0.575
Investment Income	(0.010)	(0.013)
Loss before Tax	**(0.617)**	**(0.403)**
Income Tax Expense	0.272	0.355
Loss for the Year	**(0.345)**	**(0.048)**
Other Comprehensive Income and Expenditure	3.873	(1.923)
TOTAL COMPREHENSIVE LOSS/(PROFIT) FOR THE YEAR	**3.528**	**(1.971)**
Non-current Assets	0.032	0.074
Current Assets	6.702	7.782
Current Liabilities	(2.328)	(1.925)
Non-current Liabilities	(21.073)	(20.627)
NET LIABILITIES AS AT 31 MARCH	**(16.667)**	**(14.696)**
COUNCIL'S SHARE (50%) OF NET LIABILITY NOT RECOGNISED IN THE GROUP ACCOUNTS UNDER IAS 28	**(8.334)**	**(7.348)**
Amounts included in the above figures:		
Depreciation (in Operating Charges)	0.088	0.011
Interest on Bank Overdrafts and Loans (in Finance Costs)	0.005	-
Defined Benefit Pension Finance Costs (in Finance Costs)	0.582	0.575
Interest Earned on Loans and Deposits (in Investment Income)	(0.010)	(0.013)
Cash and Cash Equivalents (in Current Assets)	4.326	5.536
Accruals (in Current Liabilities)	(1.575)	(1.127)
Retirement Benefit Obligation (in Non-current Liabilities)	(20.885)	(20.466)

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 Technical Accounting, Strategy and 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.

On 3 May 2018 Places for People bought out the Igloo Regeneration Partnership share.

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 2016/17			2017/18		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	23.975	-	23.975	25.192	-	25.192
Interest and similar charges and income	57.901	(7.566)	50.335	51.410	(2.566)	48.844
Trading Operations	1.647	(1.758)	(0.111)	0.879	(1.434)	(0.555)
Income and expenditure in relation to investment properties and changes in their fair value	5.317	(2.017)	3.300	2.301	(15.482)	(13.181)
Other Finance and Investment items	5.377	(10.336)	(4.959)	0.279	(3.663)	(3.384)
TOTAL	**94.217**	**(21.677)**	**72.540**	**80.061**	**(23.145)**	**56.916**

8.7.2 Group Balance Sheet Notes

8.7.2.1 Property, Plant and Equipment

2017/18	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	835.958	875.092	299.751	678.567	32.268	35.018	58.443	**2,815.097**	**290.321**
Accumulated Depreciation b/f	-	(61.996)	(136.529)	(183.601)	(9.280)	-	0.062	**(391.344)**	**(16.536)**
Accumulated Impairment b/f	-	(0.015)	-	-	(0.200)	-	-	**(0.215)**	-
Net Book Value at 1 April 2017	**835.958**	**813.081**	**163.222**	**494.966**	**22.788**	**35.018**	**58.505**	**2,423.538**	**273.785**
Additions - Capital Expenditure	29.239	20.339	18.956	22.513	0.958	1.243	31.493	**124.741**	-
Depreciation Charge	(26.126)	(26.856)	(22.024)	(27.242)	(1.068)	(0.572)	-	**(103.888)**	(12.776)
Revaluations - Recognised in Revaluation Reserve	23.112	141.469	-	-	-	0.627	-	**165.208**	9.117
Revaluations - Recognised in the CIES	51.181	(1.041)	-	-	-	(6.579)	-	**43.561**	2.237
Derecognition - Disposals	(14.549)	(0.410)	(0.539)	-	-	(5.247)	-	**(20.745)**	-
Derecognition - Other	(3.663)	(45.274)	(0.038)	-	-	(1.270)	-	**(50.245)**	-
Impairments - Recognised in the CIES	-	0.015	0.016	-	-	-	-	**0.031**	-
Other - Transfers to Held for Sale	-	-	-	-	-	(2.680)	-	**(2.680)**	-
Other Transfers	26.027	28.470	2.486	(0.325)	(0.133)	4.456	(61.308)	**(0.327)**	0.734
Net Book Value at 31 March 2018	**921.179**	**929.793**	**162.079**	**489.912**	**22.545**	**24.996**	**28.690**	**2,579.194**	**273.097**
Gross Book Value c/f	921.179	938.524	308.457	700.755	33.050	24.996	28.690	**2,955.651**	301.277
Accumulated Depreciation c/f	-	(8.731)	(146.378)	(210.843)	(10.305)	-	-	**(376.257)**	(28.180)
Accumulated Impairment c/f	-	-	-	-	(0.200)	-	-	**(0.200)**	-
NET BOOK VALUE AT 31 MARCH 2018	**921.179**	**929.793**	**162.079**	**489.912**	**22.545**	**24.996**	**28.690**	**2,579.194**	**273.097**

Page 177

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 1 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**	-
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 31 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**

8.7.2.2 Investment Properties

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

	2016/17 £m	2017/18 £m
Opening Balance At 1 April	87.752	174.244
Additions	87.859	94.924
Disposals	(0.655)	(3.607)
Net gains/losses from fair value adjustments	(1.056)	(0.648)
Transfers to / from Property Plant and Equipment	0.344	0.001
CLOSING BALANCE AT 31 MARCH	**174.244**	**264.914**

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 2017 £m	31 March 2018 £m
Central government bodies	15.257	21.678
Other local authorities	4.192	3.338
NHS bodies	3.428	6.985
Public corporations and trading funds	1.731	-
Other entities and individuals	61.958	66.799
TOTAL	**86.566**	**98.800**

8.7.2.4 Cash and Cash Equivalents

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

	31 March 2017 £m	31 March 2018 £m
Cash held by the Authority / Group Organisation	0.402	0.208
Bank current accounts	22.954	16.142
Short-term deposits with banks and building societies	12.000	29.032
TOTAL CASH AND CASH EQUIVALENTS	**35.356**	**45.382**

8.7.2.5 Short Term Creditors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	(20.341)	(29.236)
Other local authorities	(3.434)	(4.731)
NHS bodies	(2.975)	(4.102)
Other entities and individuals	(140.273)	(150.290)
TOTAL	**(167.023)**	**(188.359)**

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.

	31 March 2017 £m	31 March 2018 £m
Revaluation Reserve	401.418	538.372
Capital Adjustment Account	986.821	1,002.887
Financial Instruments Adjustment Account	(6.400)	(6.146)
Pensions Reserve	(860.824)	(820.201)
Deferred Capital Receipts Reserve	1.235	2.146
Collection Fund Adjustment Account	1.460	3.937
Accumulated Absences Account	(4.476)	(4.022)
Profit and Loss and Other Reserves of Group Entities	(101.166)	(104.968)
Authority's share of Profit and Loss and Other Reserves of an associate / joint venture	0.701	0.579
Minority Interest - Equity	0.759	0.646
TOTAL	**419.528**	**613.230**

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, when the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2016/17 £m	2017/18 £m
Opening Balance at 1 April	**361.348**	**401.418**
Upward revaluation of assets	73.676	217.395
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(18.092)	(49.786)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**55.584**	**167.609**
Difference between fair value depreciation and historical cost depreciation	(10.671)	(12.853)
Accumulated gains on assets sold or scrapped	(4.843)	(17.802)
Amount written off to the Capital Adjustment Account	**(15.514)**	**(30.655)**
CLOSING BALANCE AT 31 MARCH	**401.418**	**538.372**

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 when the Revaluation Reserve was created.

	2016/17 £m	2017/18 £m
Opening Balance at 1 April	**810.198**	**986.821**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(1.156)	(1.561)
Charges for depreciation of non-current assets	(91.088)	(96.700)
Charges for impairment of non-current assets	(0.145)	0.015
Revaluation losses on Property, Plant and Equipment	148.989	43.560
Donated Assets		
Movements in the market value of Investment Properties	0.387	(1.394)
Revenue expenditure funded from capital under statute (REFCUS)	(2.929)	(5.216)
REFCUS expenditure funded by grants	1.915	3.777
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(41.523)	(74.113)
Adjusting amounts written out of the Revaluation Reserve	15.537	30.677
	29.987	(100.955)
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	9.427	15.463
Use of the Major Repairs Reserve to finance new capital expenditure	44.112	24.115
Application of grants to fund capital expenditure	35.992	33.501
Statutory provision for the financing of capital investment charged against the General Fund	4.101	26.761
Voluntary Revenue Provision for Capital Financing	24.726	0.728
Adjustment to MRP as a result of PFI Projects	7.460	6.932
Capital expenditure charged against the General Fund and HRA balances	20.825	10.258
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Principal Repayment of Capital Loans	(0.007)	(0.737)
	146.636	117.021
CLOSING BALANCE AT 31 MARCH	**986.821**	**1,002.887**

8.7.3 Group Movement in Reserves Statement Notes

The 2016/17 financial statements of RHE have been restated. An opening balance adjustment of £0.615m has been included in the Group MIRS.

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

2017/18	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	(79.508)	(79.508)	(79.508)	79.508	-
Receipts in relation to goods and services provided to subsidiaries	23.056	23.056	23.056	(23.056)	-
Interest and investment income from/to subsidiaries	3.433	3.433	3.433	(3.433)	-
Contributions from subsidiaries	1.545	1.545	1.545	(1.545)	-
Other movements	-	-	-	(0.006)	(0.006)
TOTAL ADJUSTMENTS	(51.474)	(51.474)	(51.474)	51.468	(0.006)

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	-
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)

8.7.4 Group Cash Flow Notes

8.7.4.1 Operating Activities

The cash flows for operating activities include the following items:

	2016/17 £m	2017/18 £m
Interest received	2.496	4.071
Interest paid	(39.147)	(34.202)
Dividends received	2.070	2.514
Dividends paid	(1.867)	(2.920)

8.7.4.2 Investing Activities

	2016/17 £m	2017/18 £m
Purchase of property, plant and equipment, investment property and intangible assets	(250.220)	(240.343)
Purchase of short-term and long-term investments	(0.019)	(7.500)
Other payments for investing activities	(14.063)	(23.903)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	14.998	9.052
Proceeds from short-term and long-term investments	29.994	29.426
Other receipts from investing activities	56.857	52.550
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(162.453)**	**(180.718)**

8.7.4.3 Financing Activities

	2016/17 £m	2017/18 £m
Cash receipts of short and long-term borrowing	148.700	223.196
Other receipts from financing activities	-	3.946
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(11.881)	(13.374)
Repayments of short and long-term borrowing	(38.720)	(132.303)
Other payments for financing activities	-	(3.048)
Issue of share capital	-	7.500
NET CASH FLOWS FROM FINANCING ACTIVITIES	**98.099**	**85.917**

Section 9 (Appendix A)
Accounting Policies

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

9.1 General Principles

9.1.1 Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council’s transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. 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 2017/18 (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 2017/18. 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.

9.1.2 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.

9.1.3 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.

9.1.4 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.

9.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accruals 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 forecast 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.

9.2 Policies primarily affecting the CIES

9.2.1 Government Grants and Contributions

Government grants and other contributions are recognised as being 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.

9.2.2 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.

9.2.3 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.

9.2.4 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 allowed under terms and conditions of service, which employees have earned during the year and 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 or the relevant portfolio line in the CIES (depending on reason for termination) 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 Business, Education 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. This 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 Corporate Items in the CIES.

Discretionary Benefits

The Council 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.

9.2.5 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.

9.2.6 Financing and Investment

The financing and 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 following the appropriate accounting treatment as per the Code.
- Interest costs and expected return on Defined Benefit Pension Schemes.

9.2.7 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 de-recognition 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

9.2.8 Overheads and Support Services

Overheads and support services are reported within portfolio lines of the CIES, based on the organisational structure under which the Council operates.

9.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services based on the current market price of allowances, and a corresponding liability is 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.

9.2.10 Council Tax and National Non Domestic Rates (NNDR)

As a billing authority the Council acts as agent, collecting Council Tax and NNDR 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 for the collection from taxpayers and distribution to preceptors, the Council and the Government of Council Tax and NNDR. The Council's share of the Council Tax and NNDR 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 NNDR belong to the bodies (ie preceptors, the Council and the Government) on behalf of which the Council collects these taxes.

9.2.11 Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that use the assets and resources of the venturers but is not 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 CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

9.2.12 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.

9.2.13 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.

9.3 Policies primarily affecting the Balance Sheet

9.3.1 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, if 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). The Council carries the assets used under the contracts, on its Balance Sheet as PPE and 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 are comprised of 5 elements. The Current Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are all 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 2016 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 2014. 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. Acquisitions are held at their purchase price, adjusted annually each year (except in year of purchase), until the next valuation.

- 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. 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
Heritage Assets	0.005

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. 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 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. 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

9.3.2 Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation. It 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.

9.3.3 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.

9.3.4 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. They are 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.

9.3.5 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.

9.3.6 Financial Liabilities

Financial liabilities except those held for trading 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 as at 31st March.

Financial liabilities held for trading are recognised at fair value through profit and loss.

9.3.7 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.

9.3.8 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.

9.3.9 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.

9.3.10 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.

9.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair 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.

9.3.12 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.

9.4 Policies Affecting the Cash Flow Statement

9.4.1 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.

9.5 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 statutory provisions.

9.5.1 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 2% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted within the Capital Adjustment Account.

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

9.5.2 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.

9.5.3 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.

9.5.4 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.

9.5.5 Employee Benefits

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

9.5.6 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.

9.5.7 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.

9.5.8 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 within the Financial Instruments Adjustment Account.

9.5.9 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.

9.6 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 back pay arising from unequal pay claims
- Treatment of foreign currency translations
- Acquired operations
- Discontinued operations

Section 10 (Appendix B)
PENSION SCHEMES

10.1 Defined Benefit Pension Schemes accounted for as Defined Contribution Schemes

10.1.1 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Business Services Ltd 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 more than of 8,000 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 2017/18, the Council paid £3.399m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £3.741m and 16.48%. The employer contribution rate for 2018/19 stay at 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 10.2.1 below. The teacher's benefits arrangements have no assets to cover its liabilities.

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

10.1.2 NHS Pension Scheme

Public Health employees who transferred into the Council from Nottingham City PCT on 01 April 2013 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. However, in March 2017 a levy on the employers of 0.08% was introduced to pay for the administration of the NHS Pension 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 2017/18 the Council's contribution to the Scheme was £0.086m, representing 14.38% of pensionable pay (£0.596m). The Councils expected contributions to the Scheme for 2018/19 are 14.38% (which includes the 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.

10.2 Defined Benefit Pension Scheme

10.2.1 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. Some functions are delegated to the Fund's professional advisers where appropriate.

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 are 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. This will determine the termination contribution due by the Employer, based on 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 whilst 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 cash flows. 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 with insufficient assets to cover their pension obligations so 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 2019 are as follows:

	LGPS 31 March 2019 £m	Teachers Benefits 31 March 2019 £m
Service cost	48.554	-
Net interest on the defined liability (asset)	19.547	0.901
Administration expenses	0.418	-
TOTAL	**68.519**	**0.901**
Employer Contributions	30.738	-

Note that these figures exclude the capitalised cost of any early retirement or augmentations which may occur after 31 March 2018.

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 has 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 and the results of the 31 March 2017 IAS19 report which was carried out for accounting purposes.
- Estimated whole fund income and expenditure items for the period to 31 March 2018.
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016, 31 March 2017 and 31 December 2017, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2018.
- Estimated Fund income and expenditure in respect of the employer for the period to 31 March 2018.
- Details of any new early retirements for the period to 31 March 2018 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 they received the data. The actuary checks the data for reasonableness to ensure it is sufficient for them to be able to provide advice.

Employer Membership Statistics

The table below summarises the membership data, used for the formal valuation 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 as at 31 March 2016:

	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 2018 is calculated using an estimate of the total pensionable payroll during the year of £134.638m. The projected service cost for the year ending 31 March 2019 has been calculated assuming the payroll remains at this level over the year.

There were 27 new early LGPS retirements in respect of the year ending 31 March 2018. The total annual pension that came into payment was £0.126m.

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. The monetary amounts are due to be paid in monthly instalments.

	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 has been notified separately of these amounts. If the Council does not 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 2018 is estimated to be 3%. The actual return on Fund assets over the year may be different.

The LGPS estimated asset allocation for the Council as at 31 March 2018 is as follows:

	Local Government Pension Scheme			
	31 March 2017		31 March 2018	
	£m	%	£m	%
Equities	743.505	70%	708.636	66%
Gilts	32.498	3%	24.688	2%
Other Bonds	64.136	6%	125.892	12%
Property	118.195	11%	135.382	13%
Cash	53.482	5%	21.293	2%
Inflation-linked pooled fund	26.538	2%	26.663	2%
Infrastructure	24.703	2%	35.162	3%
TOTAL	**1,063.057**	**100%**	**1,077.716**	**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 2018 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 21%.

The following information has been provided by the administering authority regarding the detail of the assets as at 31 December 2017. It represents the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not).

Asset Breakdown	31 Dec 2017	
	% Quoted	% Unquoted
Fixed Interest Government Securities:		
UK	2.3%	-
Corporate Bonds:		
UK	11.2%	-
Overseas	0.5%	-
Equities:		
UK	24.7%	0.1%
Overseas	39.4%	-
Property:		
All	-	12.6%
Others:		
Private Equity	-	1.6%
Infrastructure	-	3.3%
Inflation Linked	-	2.5%
Cash/Temporary Investments	-	2.0%
TOTAL	**78.0%**	**22.0%**

Please note that as above, no adjustments for presentational purposes have been made to the percentages shown.

Valuation Approach

To assess the value of the Council's liabilities at 31 March 2018, the value of the Council's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions compliant 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 2018 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 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.

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	
	2016/17	2017/18	2016/17	2017/18
Mortality Assumptions (Years):				
Longevity at 65 retiring today:				
Males	22.5	22.6	22.5	22.6
Females	25.5	25.6	25.5	25.6
Longevity at 65 retiring in 20 years:				
Males	24.7	24.8	24.7	n/a
Females	27.8	27.9	27.8	n/a
Financial Assumptions:				
RPI increase	3.60%	SEIR approach	3.20%	SEIR approach
CPI increase	2.70%	2.30%	2.30%	2.35%
Rate of increase in salaries	4.20%	3.80%	n/a	n/a
Rate of increase in pensions	2.70%	2.30%	2.30%	2.35%
Rate for discounting scheme liabilities	2.70%	2.55%	2.10%	2.45%
Estimate in years of duration of liabilities	19	19	11	11

The financial assumptions are set with reference to market conditions at 31 March 2018.

An estimate of the Council's future cash flows is made using notional cash flows based on the estimated duration of liabilities. These estimated cash flows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cash flows described above. The single inflation rate derived is that which gives the same net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield spot curve, as applying the Bank of England (BoE) implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer Price Index (CPI) rather than RPI, a further assumption about CPI is that it will be 1.0% p.a. below RPI i.e. 2.3%. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where CPI was assumed to be 0.9% lower than RPI.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale in the long term. However, a short-term overlay for salaries to rise at 2.707% for the year to 31 March 2019 and by 2.802% for the year to 31 March 2020 has been allowed for. This differs from the previous year where salaries were assumed to increase by 1.0% p.a. to 31 March 2020.

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 would be considered a past service cost. No additional benefits were granted over the year ending 31 March 2018.

Curtailments

The cost of curtailments is calculated as a result of the payment of unreduced pensions on early retirement. The cost of curtailments is calculated at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, 27 former Council employees became entitled to unreduced early retirement benefits under the LGPS. The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £0.983m. This has been included within the service cost.

Settlements

As a result of some members transferring into / out of the Council over the year liabilities have been settled at a cost different to the accounting reserve. The capitalised gain of this settlement is £10.034m.

A summary of the transfers into/out of the Council over the last year is set out below. This includes the value of the assets transferred to/from the Council in respect of any transfers and the value of the transferred defined benefit obligation (as calculated on a basis consistent with the start of the year). Where applicable, the date of the report provided to the Administering Authority in relation to the transfer which includes a summary of the membership data used to calculate the value of the assets and liabilities transferred has been provided.

Some of the transfers occurred in the previous accounting period but the actuary was not notified of completion until after the production of last year's IAS19 report. These transfers have been included as settlements in this accounting period.

Settlements In	Transfer Date	Assets Transferred £m	Liabilities Transferred £m	Report Date
Council transferred from:				
Nottingham City Homes	1 June 2017	0.174	0.392	n/a
TOTAL		**0.174**	**0.392**	
Council transferred to:				
Aspens Catering Services (St Patricks Catholic Primary)	1 January 2017	0.046	0.073	5 January 2017
Scotholme Primary School	1 February 2017	0.513	1.858	31 May 2017
Unity Learning Centre	1 April 2017	0.119	0.432	18 August 2017
Denewood Learning Centre	1 April 2017	0.046	0.213	18 August 2017
Robert Shaw Primary and Nursery School	1 June 2017	0.428	1.300	6 September 2017
William Booth Primary School	1 June 2017	0.481	1.552	15 September 2017
Whitegate Primary School	1 July 2017	0.599	1.793	27 September 2017
Mapplewells Primary School	1 July 2017	0.270	0.895	28 September 2017
Springfield Primary School	1 June 2017	0.515	1.621	20 October 2017
Woodlands School	1 April 2017	0.627	2.056	30 October 2017
Westbury School	1 April 2017	0.607	2.035	27 October 2017
Stanstead Nursery and Infants School	1 September 2017	0.244	0.722	28 September 2017
Oakwood Academy	30 August 2017	0.161	0.360	n/a
TOTAL		**4.656**	**14.910**	

Demographics

The demographics used by the actuary are consistent with those used for the most recent Fund valuation, carried out 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	1,825.715	1,860.099	1,895.165	37.403	37.818	38.239
Projected service cost	47.366	48.554	49.773	-	-	-
Adjustment to long term salary increase:	+0.1%	0.0%	-0.1%	-	-	-
Present value of total obligation	1,863.179	1,860.099	1,857.039	-	-	-
Projected service cost	48.554	48.554	48.554	-	-	-
Adjustment to pension increases and deferred revaluation:	+0.1%	0.0%	-0.1%	+0.1%	0.0%	-0.1%
Present value of total obligation	1,892.137	1,860.099	1,828.659	38.239	37.818	37.402
Projected service cost	49.775	48.554	47.362	-	-	-
Adjustment to life expectancy assumptions:	+1 Year	None	-1 Year	+1 Year	None	-1 Year
Present value of total obligation	1,930.397	1,860.099	1,792.442	39.559	37.818	36.155
Projected service cost	50.103	48.554	47.053	-	-	-

Section 11
ABBREVIATIONS/GLOSSARY

11.1 Abbreviations

BID - Business Improvement District
BSF - Building Schools for the Future
CIES - Comprehensive Income and Expenditure Statement
CFR - Capital Financing Requirement
CRC - 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
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

11.2 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
This reflects the extent to which the movements of the pension assets and liabilities over the accounting year have not been exactly as assumed at the previous accounting date, and also the effect on the pension liabilities of changes to the assumptions used to value them.

Agency Services
Services that are performed by or for another Council or public body, where the Council responsible for the service reimburses the Council 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
Was an independent public corporation that existed between 1 April 1983 until 31 March 2015 which had the responsibility of appointing **external auditors** to local authorities. This responsibility has now been passed to **PSAA Ltd**.

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 **National 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 the acquisition or enhancement of property, plant and equipment that has a long-term value to the Council. This includes grants or advances paid to third parties to assist them in acquiring or enhancing their own property, plant and equipment.

Capital Financing Requirement
An amount calculated from the value of Fixed Assets less the balances on Capital Adjustment Account and **Revaluation Reserve**. This represents the Council's "underlying" need to borrow. 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 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 allotments.

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).

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 property.

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, such as 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 asset's 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
A charge to the revenue account to reflect the reduction in an asset's value as a result of its use in the delivery of services.

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 **PSAA 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 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. Assets 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 consolidated financial position of the Council and all organisations in which it has an interest.

Heritage Assets
Assets with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for their contribution to knowledge and culture.

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 buildings that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services as well as for investment purposes does not meet the definition of an investment property.

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 (NNDR)
The means by which local businesses contribute to the cost of providing the Council's services. NNDR cover all property consisting of land or buildings not classed as domestic property or exempt from rating. The Valuation Office Agency gives a rateable value to each non-domestic property and this is used by local councils to calculate a property's business rates.

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 and **investment properties**. 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 Council'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 legislation allows to be funded from capital resources that does not result in in an **asset** to the Council (e.g. Housing improvement grants). This 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 was 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 cannot be spent on anything else.

Stocks
Comprise of 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 commercially to provide 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
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: LP

Your Ref:

Contact: Laura Pattman

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Nottingham City Council

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Tony Crawley
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20th July 2018

Dear Tony

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 2018, 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 2018 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 2017/18.

These financial statements comprise 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 (including the Expenditure and Funding Analysis).

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 2018 and of the Authority's and the Group's expenditure and income for the year then ended;

   ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

   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. A list of the uncorrected misstatements is attached to this representation letter.

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:

    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.

8. 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.

9. 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.

10. 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.

11. 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 Appendix 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 2017/18.

12. 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.

13. 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 20 July 2018.

Yours faithfully,

Chair of the Audit Committee

Strategic Director of Finance

Appendix to the Authority Representation Letter of Nottingham City Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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