

# Statement of Accounts 2016 to 2017



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINGSTON UPON HULL CITY COUNCIL**

### **Opinion on the Kingston upon Hull City Council financial statements**

We have audited the financial statements of Kingston upon Hull City Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Kingston upon Hull City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Kingston upon Hull City Council as a body, for our audit work, for this report or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Transformation (Section 151 Officer) and auditor**

As explained more fully in the Statement of Responsibilities, the Director of Finance and Transformation (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Transformation (Section 151 Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

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

## **Opinion on other matters**

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

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

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

### **Respective responsibilities of the Council and the auditor**

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Kingston upon Hull City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## **Certificate**

We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the Comptroller and Auditor General.

Cameron Waddell

For and on behalf of Mazars LLP

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29 September 2017

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## NARRATIVE REPORT

### 1. *Introduction*

Hull City Council plays a leading role in ensuring that the City has a prosperous and successful future, attracting people and businesses to visit and invest in the area. Whilst there are challenges to face, for example, in terms of health and education, the City has seen great recent success through generating significant inward investment with the creation of new skilled jobs as well as an increasing national and international profile associated with the City becoming 2017 City of Culture.

The financial challenge facing the Council is to balance support for the City's regeneration whilst maintaining key service provision, including care for the vulnerable, in the context of much reducing funding from central Government.

In order to be successful the Council is working with partners to drive forward priority developments, as articulated in the City Plan and at the same time reviewing how and what services are provided in order that costs can be contained within affordable limits and the financial stability of the Council assured.

### 2. *Profile of the City*

Hull is a unique city with a proud maritime heritage. As an 'entirely urban island' surrounded by the deeply rural East Riding of Yorkshire and the Humber Estuary; it serves a large hinterland of coast and countryside.


Covering 7,145 hectares (27.59 square miles) Hull has one of the most tightly drawn administrative boundaries in the country. Its population of 258,995 live across 23 wards and include a disproportionate share of low-income, poorly-qualified, unemployed and economically inactive residents living in some of the most deprived areas of England. The city's natural suburban villages (e.g. Cottingham, Hedon, Hessle, and Willerby.) are in the more affluent East Riding of Yorkshire, many of whose residents commute into the city for work and for retail / leisure activities.

Hull is the only east coast city to have a port within its administrative boundaries. The Port of Hull is the largest single item of transport infrastructure within the City and is poised to become a major national centre for the offshore renewables sector. The sustained redevelopment programme undertaken by Associated British Ports has made Hull one of the best-equipped freight and passenger centres in the UK, with additional capacity for growth. The M62, stretching across Britain, links Hull to Liverpool (via Leeds and Manchester) and intersects with the north-south A1/M1 (London to Edinburgh) route.


#### Hull Key Facts


- Hull has a young, larger than average, working age population – currently dependent on international inward migration.
- Whilst economic performance in Hull still tends to be below average; in recent years the city has seen significant progress and improvement.
- Employment in Hull is now the highest on record, whilst unemployment and unemployment benefit claimants are at an all-time low.
- This improvement has occurred at a quicker rate than nationally – meaning there has been a significant closing of the gap between local and national performance.
- There are now more jobs in the city than ever before and local wages, whilst below the national average, have grown faster than nationally.
- The city has a strong production and manufacturing industry base with continued growth in this sector since 2011.
- For the third consecutive quarter, the majority of people in Hull are now employed as professionals. Employment in elementary occupations, Hull's historically largest occupational sector has now fallen to third position.
- Hull still has issues to tackle; educational attainment is low and showing slow improvement whilst the health of our residents is significantly below average – particularly for females.

## City Scorecard: June 2017

 Population	Period	No	%	England	Previous	Direction
Total Population	2015	258,895	-	-	257,700	▲
Working Age (16 – 64)	2015	170,881	66.0%	63.3%	66.0%	—
Mean Age	2015	35.8	-	39.7	36.0	▼
Non UK Born Population <sup>1</sup>	2015	26,000	10.2%	14.6%	10.2%	—


 Working Age Employment	Period	No	%	England	Previous	Direction
In Employment *	Jan 16 – Dec 16	117,600	68.5%	74.3%	67.5%	▲
Unemployment	Jan 16 – Dec 16	9,300	7.3%	4.8%	8.2%	▼
Economically Inactive	Jan 16 – Dec 16	42,900	25.5%	21.9%	26.0%	▼
Claimant Count <sup>2*</sup>	Apr – 17	6,425	3.8%	1.9%	3.8%	—


 Economy	Period	No	Rate	England	Previous	Direction
GVA / GVA Per Head	2015	£5,129 mill	£19,803	£26,159	£19,416	▲
No of Enterprises / No Per 1,000	2016	5,815	22.5	40.4	5,650	▲
No of Local Units / No Per 1,000	2016	8,195	31.6	47.2	8,145	▲
Jobs / Jobs Per 1000 Aged 16-64	2015	118,000	690.5	717.3	117,000	▲


 Deprivation	Period	No	%	England	Previous	Direction
Multiple Deprivation (LA Rank)	2015	3rd	-	-	5th	▼
Household Income	2016	£28,513	-	-	£26,165	▲
Resident Weekly Wages	2016	£454.00	-	£544.70	£443.60	▲
Children in Poverty (Under 16)	2014	16,180	31.7%	20.1%	31.1%	▲

<sup>1</sup> As ONS will no longer produce mid-year estimates of ethnicity this indicator has been replaced with an annually updated estimate of non UK born residents

<sup>2</sup> ONS has decided to remove Claimant Count from its statistical bulletins as it may now be providing a misleading representation of the UK labour market. They are continuing to provide the data and Claimant Count will be kept under review to see if, once Universal Credit roll-out is complete, it would be possible to reintroduce it to the bulletins and remove its experimental designation. This scorecard will continue to use the Claimant Count as its headline indicator as this is the only current complete measure of people claiming unemployment-related benefits.

	<b>Health</b>	<b>Period</b>	<b>No</b>	<b>%</b>	<b>England</b>	<b>Previous</b>	<b>Direction</b>
	Male Life Expectancy	2013 – 15	76.5	-	79.5	76.6	▼
	Female Life Expectancy	2013 – 15	80.2	-	83.1	80.5	▼
	Working Age Disability	Jan 16 – Dec 16	39,500	23.5%	19.5%	24.1%	▼
	ESA and Incapacity Claimants *	Aug – 16	15,910	9.3%	5.8%	9.3%	—

	<b>Crime</b>	<b>Period</b>	<b>No</b>	<b>Rate</b>	<b>England</b>	<b>Previous</b>	<b>Direction</b>
	All Offences *	Apr – 17	2,802		-	2,953	▼
	Criminal Damage and Arson *	Apr – 17	438		-	471	▼
	Violent Crime *	Apr – 17	857		-	976	▼
	ASB *	Apr – 17	668		-	773	▼
	Domestic Abuse Offences	Nov – 16	328		-	328	▼

	<b>Young People and Education</b>	<b>Period</b>	<b>No</b>	<b>% / Rate</b>	<b>England</b>	<b>Previous</b>	<b>Direction</b>
	5+ GCSE A* - C inc Eng and Maths <sup>3</sup>	2015/16		46.3%	53.5%	46.7%	▼
	16 – 18 Year Olds NEET	2015	570	6.2%	N/A	5.7%	▲
	Primary and Secondary Absences	2015/16	-	4.7%	4.6%	4.9%	▼
	Looked After Children / Per 10,000 Child	As at 31 Mar 16	645	116.0	60.0	119.0	▼
	Children in Need / Per 10,000 Child	As at 31 Mar 16	3307	594.7	337.7	683.4	▼

	<b>Housing</b>	<b>Period</b>	<b>No</b>	<b>% / Rate</b>	<b>England</b>	<b>Previous</b>	<b>Direction</b>
	No of House Sales *	Jan – 17	119			116	▲
	Average House Price (All Types) *	Mar – 17	£103,254		£232,530	£106,715	▼
	Average Private Rent (All Types)	Yr to Sep-16	£424		£839	£411	▲
	Homeless and In Priority Need / Per 1,000	2015/16	399	3.48	2.52	3.60	▼
	Prevention and Relief Cases / Per 1,000	2015/16	5378	46.90	9.27	51.60	▼

\* These figures have been updated since the last score card



### 3. **City Plan**

The City Plan was launched in June 2013, setting out a journey to transform the city over the next ten years with a clear sense of purpose and a strong economic rationale. Key to the future prosperity of the city is creating jobs, developing a thriving economy, and identifying and preventing the need for acute services through early intervention. The Council, as a community leader, place-shaper, and a key provider and commissioner of services, has made this vision central to prioritisation, investment, and business planning.

The City Plan shows how working in partnership the Council is able to grasp 'once in a generation' opportunities, such as the creation of the renewable industry and being awarded UK City of Culture. Through the City Plan, the Council and partners have set out a clear and long term vision and for the city that will create thousands of jobs and create a strong and sustainable economic future.

The City Plan has three main themes:

- **UK Energy City:** Harnessing all of the local assets to become the UK hub for renewable energy industries and investment.
- **Destination Hull:** Aiming to become a world class visitor destination attracting visitors from across the UK and beyond to experience its unique heritage and culture.
- **Community and Opportunity:** Making money go further, prevention and early Intervention, and safeguarding the most vulnerable.

### 4. **Council Performance**

The Council reviews progress against a range of performance indicators across services provided by the Council, in order to give an overview of operational delivery, and a link between the City Plan's goals and Council's core business activities. Based on this approach 41 indicators were identified to cover all services.

These indicators:

- provide a high level indication of the performance of the service (i.e. a bell-weather of the service's 'health' and its impact),
- link directly between service provision, activities, and impacts of its work,
- measureable now (and have history to be able to show trend); and are,
- published on a regular and frequent basis (monthly or quarterly).

Overall, during the last year out of 41 indicators, 25 achieved the year-end target, with the remainder, 16, not achieving their expected position. Amongst those that saw an improvement and reached or exceeded the year-end target position were:

- spend with local suppliers
- jobs created through inward investment
- visitor numbers to leisure and cultural facilities
- speed of processing benefits claims
- priority families achieving significant and sustained progress
- visits to libraries
- percentage of good or better schools
- children adopted from care
- number of learners attending training and development

<b>City Plan Priority 1: Harness all Hull's assets to become the leading UK energy city</b>			
<b>Measure</b>	<b>Service Area</b>	<b>Target</b>	<b>Target Achieved?</b>
No. of jobs created through procurement activity	Town Clerk	50 pa	✘
% spend via SMEs	Town Clerk	45%	✘
% spend via local suppliers	Town Clerk	55%	✓
Waste tonnages % recycled	Streetscene	50%	✘
Employment infrastructure – office / industrial / warehousing jobs granted planning permission	Regeneration	300 pa	✓
Managed workspace unit factories – % occupancy rate	Property & Assets	70%	✓
Employment intervention – No. of people entering employment supported by the Employment and Skills strand of the Greenport Growth Programme	Regeneration	300	✘
Employment enablement – No. of jobs created / safeguarded through the conversion of New/Established Inward Investment projects	Regeneration	350	✓

<b>City Plan Priority 2: Make Hull a world-class visitor destination</b>			
<b>Measure</b>	<b>Service Area</b>	<b>Target</b>	<b>Target Achieved?</b>
Visitor numbers to the council's cultural facilities (Heritage, Leisure, City Hall and New Theatre)	Regeneration (HC&L)	1,334	✓
Cleanliness of the city – actual inspection	Streetscene	6%	✓
No. of highway reactive repairs outstanding (backlog)	Streetscene	< 4000	✘

<b>City Plan Priority 3: Community and Opportunity</b>			
<b>Measure</b>	<b>Service Area</b>	<b>Target</b>	<b>Target Achieved?</b>
HRA services – % rent collected	Neighbourhoods & Housing	97.50%	✘
Speed of processing new benefit claims	Customer Services (Civica)	NC <28 days	✓
Speed of processing change in circumstances	Customer Services (Civica)	CiC <18 days	✓
Homelessness – acceptances (standardised to per 100,000 population)	Neighbourhoods and Housing	0.9	✓
Domestic violence - repeat referrals as a percentage of referrals received	City Safe	1.5% reduction	✘
Priority families achieving significant and sustained progress against our published outcome plan	City Safe	996	✓
To increase the number of in person visits to Libraries	Regeneration (HC&L)	870,000 (10% tolerance)	✓
To increase the number of on-line visits to Libraries	Regeneration (HC&L)	139,700 (10% tolerance)	✘
Referrals to children's social care	Safeguarding	800 per 10,000	✓
The % of 2 year olds accessing free nursery provision	Learning & Skills	77%	✓
The % of good or better schools	Learning &	77%	✓

<b>City Plan Priority 3: Community and Opportunity</b>			
<b>Measure</b>	<b>Service Area</b>	<b>Target</b>	<b>Target Achieved?</b>
	Skills		
Expected level of development in the early years foundation stage profile	Learning & Skills	60%	✓
Numbers of vulnerable households assisted to improve housing circumstances	Neighbourhoods & Housing	3700 pa	✗
Stability of placements of looked after children	Safeguarding	11.90%	✓
Children adopted from care as a % of all looked after children	Safeguarding	Increase	✓
Reduction in acute emergency avoidable admissions into hospital	Adults Social Care	4119 (3.5% reduction)	✗
Permanent admissions to residential and nursing care homes, per 100,000 population (ASCOF 2A Part 1 age 18-64)	Adults Social Care	Part 1 (18-64) 14.1	✗
Permanent admissions to residential and nursing care homes, per 100,000 population (ASCOF 2A Part 2 ages 65+)	Adults Social Care	Part 2 (65+) 791.70	✗
Proportion of older people (65 and over) who were still at home 91 days after discharge from hospital into re-ablement / rehabilitation services (ASCOF 2B - ages 65+)	Adults Social Care	BCF target 92%	✗

<b>Improving the Council &amp; Enabling Delivery</b>			
<b>Measure</b>	<b>Service Area</b>	<b>Target</b>	<b>Target Achieved?</b>
Total no. of learners attending statutory, mandatory, current need and development need learning (Priority 1,2,3,4) courses	Human Resources	25000 pa	✓
Number of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDORs) across the council each year	Human Resources	Reduction	✗
Overall total of near miss incidents recorded each year	Human Resources	Increase in reporting	✓
Satisfaction with the service received at the Customer Service Centre	Customer Services	95%	✓
Satisfaction with the service received at the Call Centre	Customer Services	95%	✗
Operational estate inc schools – % reduction in space occupied by the council	Property & Assets	10%	✓
Commercial estate – % vacancy of units	Property & Assets	10%	✓
Facilities Management - Number of complaints received	Property & Assets	20	✓
Percentage staff attendance	Human Resources	96%	✗
Percentage of employees paid correctly	HHSSC	98%	✓
Number of major incidents/failures over a standard working week resulting in denial of service	ICT	1	✓

## 5. **Financial Outlook for Council**

Since 2010 the Council has suffered significant reductions in Government Funding as the Government has sought to reduce the level of public spending. The Local Government Settlement of February 2016 provided indicative funding levels up to 2019/20 which will mean that the Council will need to reduce its cost base by another £30m over this period. This follows in addition to the £100m of cost reductions achieved to date. Given the increasing level of service demands in the City, balancing the Council's budget in the medium term represents a very significant challenge for both elected Members and Officers.

The Council's Medium Term Financial Strategy (MTFS) 2017/18 – 2019/20, as approved at Council on 23 February 2017, set out the overall shape of the Council's budget based on the available information relating to future funding levels. This showed a balanced position in 2017/18 and small budget gaps of £3.6m in the following 2 years. However, these projections assume that £41m of savings are delivered during this timeframe. Whilst the successful achievement of such cost reductions represents a significant challenge, the savings proposals have been subject to a robust review process and have been supported by Officers and Members.

With regard to the 2016/17 Outturn, as noted in the Table below, at an overall Council level a significant overspend of £6.4m against budget was incurred which was in line with projections from early in the financial year. General Reserves have been protected by utilising one-off resources primarily arising from a change in the Council's debt repayment policy (Minimum Revenue Provision /MRP). In addition, as part of setting the 2017/18 Budget, in the service areas suffering the most significant overspends in 2016/17 budgets have been "re-based" to bring them into line with current cost levels in order to provide a sound basis from which to move forward and achieve the planned savings in the coming years.

Revenue Outturn	<u>Budget</u> £'000	<u>Actual</u> £'000	<u>Variations</u> £'000
Net position - Services	204,786	216,321	11,535
Net position - Corporate Accounts including Receipts from Council Tax, Business Rates, Revenue Grant	(204,786)	(209,916)	(5,130)
Total	<u>-</u>	<u>6,405</u>	<u>6,405</u>

The level of general reserves at 31 March 2017 are £7.968m but, as set out in the Council's February 2017 budget report, the MTFP projects this to increase by £13m over the next 4 years, funded from MRP savings, to bring balances into line with a revised risk assessment informed by the latest MTFP projections.

## 6. **Capital Programme**

Whilst the Council has been forced to reduce its revenue cost base, it has at the same time embarked on an ambitious programme of capital investment, in line with City Plan priorities, focussed on developing the City Centre and driving economic regeneration. In total the Visitor Destination Programme is anticipated to amount to £195m of which the Council is committed to funding £106m primarily from Prudential Borrowing and Capital Receipts. The most significant projects being:

- City Centre Public Realm - £27m
- Hull New Theatre - £16m
- Hull Venue - £36m
- Riverside Berth/Cruise Terminal - £44m
- Museums Investment - £27m

Expenditure by the Council in 2016/17 was £151m with expenditure aimed at underpinning the Council's objectives and providing for investment in long term assets which will be used to deliver Council services. The largest spending areas for 2016/17 were:

- Investment in Schools (£9m)
- Works to Housing Stock (£40m)

- Private Housing (£7m)
- Transport Projects (£6m)
- Visitor Destination Programme (£56m)
- Local Growth Fund (£18m)

## **7. Housing**

The Government's demand for Council's to reduce rents coupled with other policy changes with regard to welfare, benefits, and housing supply represents a fundamental national policy shift with regard to the role of social rented housing.

The overall budget environment is exceptionally challenging given the plethora and complexity of Government changes we face, with up to £15m per annum in savings potentially required by 2020/21.

Given the fundamental uncertainty around a number of these changes – not least those that will be implemented through subsequent Regulations that are not yet in the public domain – the main objective of the 2017/18 budget was to place the HRA in the best possible position, in order to respond to the direction of travel, making early savings towards the savings target where possible.

At the conclusion of these unprecedented changes it appears likely that the Council we will operate a smaller housing stock, maintained to a lower standard, with a more transient (and poorer) tenancy base.

## **8. Statement of Accounts**

The following pages detail the Statement of Accounts for Kingston upon Hull City Council for the financial year ended 31 March 2017. It shows the financial position of the Council and the cost of the services it provided in the year. A list of the accounts together with a brief explanation of the purposes of each account is shown below:-

### **(i) Movement in Reserves**

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

### **(ii) Comprehensive Income and Expenditure Statement**

This account summarises the resources that have been generated or consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of non-current assets consumed and the real projected value of retirement benefits earned by employees in the year.

### **(iii) The Balance Sheet**

This statement sets out the financial position of the Council at 31 March 2017. It shows a summary of non-current assets held, the current assets employed, the balances and reserves available to the Council and the Council's long term indebtedness.

### **(iv) Cash flow Statement**

This statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **(v) The Housing Revenue Account Income and Expenditure Statement**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The

increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

(vi) **The Collection Fund**

All the money collected from council taxpayers and non-domestic ratepayers is paid into this account. The precept, being the money required by the City Council, the Police Authority and the Fire Authority to meet net spending on services provided, is paid out of the account. In 2013/14 the Local Government Finance regime was revised with the introduction of the Retained Business Rates Scheme. The main aim of the scheme is to give Local Authorities greater incentives to grow businesses in the area, as the scheme allows Councils to retain a proportion of the total Business Rates collected. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

**9. Housing Revenue Account (HRA)**

The Council is required to keep a separate account in respect of Council Housing. The HRA will show major elements of expenditure (maintenance, management and capital financing) and income (rents and charges). The balance at 31 March 2017 on the Housing Revenue Account is £38.080m though most of this is earmarked for future costs arising from the Modern Homes Programme.

**10. Balance Sheet**

The Council's Balance Sheet demonstrates a sound financial platform for the Council to respond to the financial challenges ahead. The significant movements in the year are detailed below:

	<b>2016/17</b> <b>£'000</b>	<b>2015/16</b> <b>£'000</b>	<b>Explanation</b>
Property, plant and equipment	1,226,585	1,202,667	Property, plant and equipment has increased in value due to the completion of capital projects including Hull New Theatre, initial stages of a new entertainments venue, newly refurbished public realm and a new extra care housing facility at Hall Road.
Short term investments	2,501	82,128	Decrease in investment balances is due to investments of 3 months or more to maturity being replaced by 'cash equivalent' investments which are less than 3 months to maturity.
Cash and cash equivalents	102,312	38,702	Increase in cash equivalent balances is due to Investments of 3 months or more to maturity being replaced by 'cash equivalent' investments which are less than 3 months to maturity.
Short term borrowing	(106,580)	(39,223)	Short term borrowing has increased due to additional funding required for the capital programme.
Long term borrowing	(492,581)	(526,582)	Long term borrowing has reduced due to some long term borrowing being replaced by short term borrowing.
Other long term liabilities	(517,052)	(517,415)	The pension liability has remained relatively stable due to a significant decrease in the net discount rate, which increases the liability, being offset by a much greater than expected asset return.

**11. Group Accounts**

The Council's 2016/17 Accounts are very similar in presentation to last years with no significant change in accounting regulations impacting this year.

**12. Humber Bridge Debt**

In March 2012 the Government agreed to write down £150m of the Humber Bridge debt to enable car tolls to be reduced from £3 to £1.50 and thereby boosting the local economy on the condition that there was a radical reform of the Bridge Board and that the four Humber area authorities took responsibility for any operating deficit that the Bridge Board may incur after fully utilising all of its reserves. Any deficit would be shared equally between all authorities. The Bridge Board's current financial plans give no concern that any call will be made on the authorities in the foreseeable future. The Council will continue to monitor the financial plans and outturn of the Bridge Board.

David Bell, C.P.F.A.  
Director of Finance and Transformation (Section 151 Officer)

## STATEMENT OF RESPONSIBILITIES

### 1. *The Council's Responsibilities*

The City Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Kingston upon Hull City Council, that officer is the Director of Finance and Transformation (Section 151 Officer).
- To manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

### 2. *The Responsibilities of the Director of Finance and Transformation (Section 151 Officer)*

2.1. The Director of Finance and Transformation (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practice.

2.2. In preparing this Statement of Accounts, the Director of Finance and Transformation (Section 151 Officer) has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records that were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the position of Hull City Council as at 31 March 2017 and the income and expenditure for the year ended 31 March 2017.

David Bell, C.P.F.A.  
Director of Finance and Transformation (Section 151 Officer)

## Approval of the Accounts

I certify that the Statement of Accounts has been approved by the Council's Audit Committee at its meeting on 25 September 2017 in accordance with the Accounts and Audit (England) Regulations 2015.

Hon. Ald. C. S. Fenwick  
Chair of Audit Committee



**MOVEMENT IN RESERVES STATEMENT**

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves.

<b>2016/17</b>	<b>Note</b>	<b>General Fund Balance</b>	<b>Earmarked GF Reserves</b>	<b>Earmarked HRA Reserves</b>	<b>Housing Revenue Account</b>	<b>Major Repairs Reserve</b>	<b>Capital Receipt Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Authority Reserves</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 31 March 2016		7,968	45,780	24,334	3,000	14,252	13,822	13,405	<b>122,561</b>	68,112	<b>190,673</b>
Surplus/(deficit) on provision of Services (accounting basis)		(96,786)	-	-	47,657	-	-	-	<b>(49,129)</b>	-	<b>(49,129)</b>
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	31,798	<b>31,798</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>(96,786)</b>	<b>-</b>	<b>-</b>	<b>47,657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49,129)</b>	31,798	<b>(17,331)</b>
Adjustments between accounting basis and funding basis under regulations	9	86,679	-	-	(46,575)	(4,588)	8,991	4,874	<b>49,381</b>	(49,381)	-
Net increase / (decrease) before transfers to Earmarked Reserves		(10,107)	-	-	1,082	(4,588)	8,991	4,874	<b>252</b>	(17,583)	<b>(17,331)</b>
Transfers to / (from) Earmarked Reserves	10	10,107	(10,107)	1,082	(1,082)	-	-	-	-	-	-
Increase / (Decrease) in Year		-	(10,107)	1,082	-	(4,588)	8,991	4,874	<b>252</b>	(17,583)	<b>(17,331)</b>
<b>Balance at 31 March 2017</b>		<b>7,968</b>	<b>35,673</b>	<b>25,416</b>	<b>3,000</b>	<b>9,664</b>	<b>22,813</b>	<b>18,279</b>	<b>122,813</b>	<b>50,529</b>	<b>173,342</b>

Kingston upon Hull City Council Statement of Accounts 2016/17

2015/16	Note	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipt Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015		7,968	61,845	35,683	3,000	10,862	9,580	11,858	140,796	(145,284)	(4,488)
Surplus/(deficit) on provision of Services (accounting basis)		(66,627)	-	-	31,136	-	-	-	(35,491)	-	(35,491)
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	230,652	230,652
Total Comprehensive Expenditure and Income		(66,627)	-	-	31,136	-	-	-	(35,491)	230,652	195,161
Adjustments between accounting basis and funding basis under regulations	9	50,562	-	-	(42,485)	3,390	4,242	1,547	17,256	(17,256)	-
Net increase / (decrease) before transfers to Earmarked Reserves		(16,065)	-	-	(11,349)	3,390	4,242	1,547	(18,235)	213,396	195,161
Transfers to / (from) Earmarked Reserves	10	16,065	(16,065)	(11,349)	11,349	-	-	-	-	-	-
Increase / (Decrease) in Year		-	(16,065)	(11,349)	-	3,390	4,242	1,547	(18,235)	213,396	195,161
<b>Balance at 31 March 2016</b>		<b>7,968</b>	<b>45,780</b>	<b>24,334</b>	<b>3,000</b>	<b>14,252</b>	<b>13,822</b>	<b>13,405</b>	<b>122,561</b>	<b>68,112</b>	<b>190,673</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This account summarises the resources that have been generated or consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of non-current assets actually consumed and the real projected value of retirement benefits earned by employees in the year. 2015/16 has been restated to reflect the revised guidance in the Code of Practice on Local Authority Accounting.

2015/16 Restated			2016/17			
Gross Expenditure	Income	Net Expenditure	Note	Gross Expenditure	Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
145,886	(63,116)	82,770		136,955	(64,044)	72,911
57,746	(49,195)	8,551		49,463	(41,821)	7,642
243,279	(162,775)	80,504		243,067	(155,653)	87,414
80,333	(26,906)	53,427		91,500	(23,850)	67,650
116,674	(123,941)	(7,267)		97,118	(96,379)	739
56,448	(99,378)	(42,930)		49,709	(97,316)	(47,607)
8,669	(2,437)	6,232		5,724	(306)	5,418
<b>709,035</b>	<b>(527,748)</b>	<b>181,287</b>		<b>673,536</b>	<b>(479,369)</b>	<b>194,167</b>
			<b>Cost of Services</b>			
		47,939	11 Other Operating Expenditure			66,390
		43,630	12 Financing and Investment Income and Expenditure			43,124
		-	(Surplus) / deficit of Discontinued Operations			-
		(237,365)	13 Taxation and Non-Specific Grant Income			(254,552)
		<b>35,491</b>	<b>(Surplus) / Deficit on Provision of Services</b>			<b>49,129</b>
		(86,828)	(Surplus) / deficit on revaluation of non-current assets			(31,470)
		11,675	Impairment losses on non-current assets charged to the revaluation reserve			6,664
		-	Surplus / deficit on other comprehensive Income and Expenditure items			-
		(155,499)	47 Actuarial gains / losses on pension assets / liabilities			(6,992)
		(230,652)	<b>Other Comprehensive Income and Expenditure</b>			<b>(31,798)</b>
		<b>(195,161)</b>	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>17,331</b>

## THE BALANCE SHEET

The Balance Sheet summarises the financial position of the Council, including the Housing Revenue Account and the Collection Fund. It shows the value of the Council's assets and liabilities at the end of the financial year. It excludes Trust Funds and Pension Fund balances.

<u>31 March 2016</u> £'000		<u>Note</u>	<u>31 March 2017</u> £'000
1,202,667	Property, Plant and Equipment	14	1,226,585
4,191	Heritage Assets	15	4,157
71,604	Investment Property	16	71,039
2,140	Intangible Assets	17	3,559
10	Long Term Investments	18	10
4,813	Long Term Debtors	18	4,828
7	Assets held for sale	23	-
<b>1,285,432</b>	<b>Long Term Assets</b>		<b>1,310,178</b>
82,128	Short Term Investments	18	2,501
541	Inventories	19	505
49,402	Short Term Debtors	21	64,495
38,702	Cash and Cash Equivalents	18/22	102,312
2,369	Assets held for sale	23	-
<b>173,142</b>	<b>Current Assets</b>		<b>169,813</b>
-	Bank Overdraft		-
(39,223)	Short Term Borrowing	18	(106,580)
(54,294)	Short Term Creditors	24	(52,622)
(2,166)	Provision for accumulated absences	27g	(2,429)
(535)	Capital Grants Receipts in Advance	39	(552)
(3,301)	PFI Finance Lease - Liability	18/43	(3,751)
<b>(99,519)</b>	<b>Current Liabilities</b>		<b>(165,934)</b>
(851)	Long Term Creditors	18	(842)
(10,133)	Provisions	25	(6,554)
(526,582)	Long Term Borrowing	18	(492,581)
(517,415)	Other Long Term Liabilities	47	(517,052)
(346)	Capital Grants Receipts in Advance	39	(305)
(113,055)	PFI Finance Lease - Liability	18/43	(123,381)
<b>(1,168,382)</b>	<b>Long Term Liabilities</b>		<b>(1,140,715)</b>
<b>190,673</b>	<b>NET ASSETS</b>		<b>173,342</b>
122,561	Usable Reserves	26	122,813
68,112	Unusable Reserves	27	50,529
<b>190,673</b>	<b>TOTAL RESERVES</b>		<b>173,342</b>

**CASH FLOW STATEMENT**

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

<u>2015/16</u> £'000		<u>Note</u>	<u>2016/17</u> £'000
(35,491)	Net surplus or (deficit) on the provision of services		(49,129)
91,340	Adjustment to surplus or deficit on the provision of services for non-cash movements	28	114,531
(96,193)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	28	(143,779)
(40,344)	<b>Net Cash flows from Operating Activities</b>		(78,377)
(74,211)	Net cash flows from Investing Activities	29	61,835
119,311	Net cash flows from Financing Activities	30	80,152
4,756	Net increase or (decrease) in cash and cash equivalents		63,610
33,946	Cash and cash equivalents at the beginning of the reporting period		38,702
<b>38,702</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	22	<b>102,312</b>
<b>38,702</b>			<b>102,312</b>

## NOTES TO THE MAIN FINANCIAL STATEMENTS

### 1. **Accounting Policies**

#### *i. General Principles*

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, supported by the International Financial Reporting Standards (IFRS).

The Accounting Policies outlined are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these financial statements. The accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible fixed assets.

The majority of figures in this document have been rounded to the nearest £1,000. This means that there may be very minor inconsistencies between tables and notes, due to rounding adjustments.

#### *ii. Accruals of Income and Expenditure*

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular;

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when 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.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### *iii. Acquisitions and Discontinued Operations*

##### **Acquired Operations**

Acquired operations are the operations that the Council has acquired during the accounting period or the transfer of services acquired as a consequence of legislation. The Council did not acquire any operations during the financial reporting period.

##### **Discontinued Operations**

To qualify as discontinued operations activities must cease completely and, where applicable, these are presented separately on the face of the Comprehensive Income and Expenditure Statement. No operations were discontinued during the financial reporting period.

**iv. Cash & Cash Equivalents**

Cash includes all bank credit balances and overdrafts held by the Council as part of its normal cash management, including all deposit accounts accessible without notice.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents include investments with a fixed maturity of less than three months from the date of acquisition and available for sale assets such as cash placed in money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

**v. Exceptional Items**

Where items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

**vi. Prior-period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

**vii. Charges to Revenue 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 assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible assets attributable to the service

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance in the Statement of Movement in Reserves, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

**viii. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### **ix. Employee Benefits**

#### **Benefits Payable during Employment**

Liabilities for employees' entitlements to 'shorter term employee benefits' i.e. wages, salaries, annual leave and other employee benefits which are expected to be paid or settled within 12 months of the balance sheet date, are accrued at the wage and salary rates applicable in the accounting year to the period in which the employee renders the services that increases their entitlement. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the absence occurs. The Council does not award long-term employee benefits i.e. those which are not expected to be paid or settled within 12 months of the balance sheet date.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

#### **Benefits Payable after Employment**

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The NHS Pension Scheme, administered by NHS Pensions.
- The Local Government Pensions Scheme, administered by the East Riding of Yorkshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot be identified to the Council. The schemes are therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the



Balance Sheet and the service revenue accounts are charged with the employer's contributions payable to teachers' and NHS pensions in the year.

### **The Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the East Riding Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. The value of the liabilities is heavily dependent on the assumptions underpinning the calculations. Assumptions used in calculating the liabilities are as follows:
  - Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a basket of high quality corporate bonds [Iboxx Sterling Corporate AA over 15 years Index]
  - The inflation and pension increase rate is assumed to be equivalent to breakeven inflation
  - Salary growth is assumed to continue in line with real salary increases as reflected in the most recent formal funding valuation
  - The expected return on assets is derived from a proprietary asset model, which has parameters that are calibrated to market conditions on a monthly basis
  - Pensioner mortality is based on the 92-series of mortality tables of the Continuous Mortality Investigation Bureau (CMIB) of experience of life insurance company pensioners, adjusted to tailor them to Local Government Pension Scheme mortality patterns
  - Commutation assumptions are that Local Government Pension Scheme members exchange 30% of their pension for additional cash at retirement, which is based on data gathered since this option became available
  - Other demographic assumptions, e.g. withdrawal assumption, ill-health early retirements, are derived from specific past experience of Local Government Pension Scheme funds.
- The assets of the East Riding Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value
- The change in the net pensions liability is analysed into the following components:
  - Service cost comprising:
    - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability (asset), i.e. Net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments
- Re-measurements comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the East Riding Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund in the year or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers and NHS staff) 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.

#### **x. *Events after the Balance Sheet Date***

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts are adjusted to reflect this. Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts are authorised for issue.

#### **xi. *Financial Instruments***

##### **Financial Liabilities**

Financial liabilities apart from borrowings are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The

effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it is recognised. For all of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves statement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments

#### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

If the Council makes a loan to an organisation or an individual at less than market rates, this is known as a soft loan. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) 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 to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, 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 in the Movement in Reserves Statement. However, for soft loans where the Council decides that this treatment will not have a material impact on the financial statements, i.e. only a low value of such advances have been made and/or there has not been significant discounting of interest rates, the treatment may not be applied. In which case, soft loans will be accounted for in the same manner as other loans and receivables.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognising of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

#### Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. (See xxix Fair Value Measurement)

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognising of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

#### De-recognition of Financial Assets

The Council is required to disclose information relating to where an authority transfers all or a part of a financial asset if, and only if, it either:

- transfers the contractual rights to receive the cash flows of that financial asset, or
- retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement,

The Council did not transfer any financial assets or part of financial assets to other bodies during the reporting period.

#### **xii. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts of foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**xiii. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The Grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution must be consumed by the recipient as specified.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (ie revenue grants and contributions which are attributable to a specific service) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants which are not attributable to specific services) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**xiv. Heritage Assets**

The Council's Heritage assets portfolio is comprised of assets held in the Council's museums, galleries and historic buildings and equipment held principally for their contribution to knowledge or culture, including monuments and statues. Heritage assets are assets with historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to specific heritage assets as described below. The accounting policies in relation to heritage assets which include elements of intangible heritage asset are included in the details below.

- **Museum exhibits**

The collection of museum exhibits includes paintings, vehicles, furniture, silver, and objects relating to the archaeology and history of Hull and the local area. No reliable market value exists for such items. Therefore, the assets are carried at historical cost (less any accumulated depreciation, amortisation and impairment losses). The assets are deemed to have indeterminate lives and a high residual value. Therefore, the Council does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisitions and donations are rare, but the Council continues to collect. Where they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museum's curators in accordance with the Council's policy on valuation of assets.

- **Art Collection**

The art collection includes paintings reported in the Balance Sheet at historical cost. Items in the collection are not valued by an external valuer. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers

and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

- **Monuments and statues**

Monuments and statues are reported in the Balance Sheet at historical cost. The assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Historic buildings and equipment held principally for their contribution to knowledge and culture**

Historic buildings and equipment are reported in the Balance Sheet at historical cost. Historic buildings are deemed to have determinate lives and low residual values; hence the Council charges depreciation in accordance with the Council's accounting policies on property, plant and equipment.

### **Heritage Assets – General**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment see Accounting Policy note xxi. There is a strong presumption against disposal of heritage assets. Disposal is controlled by the Acquisitions and Disposal Policy, which outlines national museum guidelines, and conforms to national accreditation standards. The sale of objects that have been through the disposal policy process can only be undertaken with approval from the Arts Council, and any revenue generated from such a sale must go back into the care of the museum collections. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see Accounting Policy notes xxv and xxi).

### **xv. Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits will flow from the intangible asset.

The Council does not have any intangible assets that meet the strict criteria for internally generated intangible assets to be recognised.

Intangible assets are measured initially at cost. A de minimis level for recognition has been set at £10,000. Assets are only re-valued where the fair value of the assets can be determined by reference to an active market. In practice, no intangible assets held by the Council meet this criterion and they are therefore carried at amortised cost.

The balance of the intangible asset is amortised over its useful life to the relevant service in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal of an intangible asset is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Gains and losses are reversed out of the General Fund Balance in the Movement in Reserves Statement, and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xvi. Interests in Companies and Other Entities**

If the Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures, it is required to prepare group accounts. The Council has material interests in companies, specifically Kingstown Works Ltd and Hull Culture and Leisure Ltd, and has therefore completed Group Accounts.

In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets, i.e. at cost, less any provision for losses.

**xvii. Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long Term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

**xviii. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. (See xxix Fair Value Measurement). A de minimis level for recognition has been set at £10,000.

Properties are not depreciated but are re-valued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account (for any sale proceeds greater than £10,000) and the Capital Receipts Reserve.

**xix. Joint Arrangements**

Joint Arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangement can be classed as

- A Joint Venture
- A Joint Operation

**Joint Venture**

A Joint Venture is an arrangement under which two or more parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

**Joint Operation**

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council does not recognise on its balance sheet any assets or liabilities in regards to joint arrangements.

**xx. Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council.

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **The Council acting as a Lessee**

#### ***Finance Leases:***

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs to the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- Finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

#### ***Operating Leases***

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service in the Comprehensive Income and Expenditure Statement on a straight-line basis over the term of the lease.

### **The Council acting as a Lessor**

#### ***Finance Leases:***

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. Where the Council acts as a lessor of an asset under a finance lease, a long term debtor is established with the amount receivable equal to the net investment in the lease. The lease payment receivable is treated as a capital receipt for the repayment of principal, reducing the debtor outstanding and the finance income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, calculated to produce a constant periodic rate of return on the net investment.

Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor (together with any premiums received), and
- Finance charge (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement of Reserves Statement. When future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.



The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves.

### ***Operating Leases***

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### ***xxi. Property, Plant and Equipment***

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

**Recognition:** expenditure on the acquisition, creation or enhancement of non-current assets is capitalised on an accruals basis, provided that it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

**Measurement:** assets are initially measured at cost subject to a de minimis level of £10,000, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it was located

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure assets, community assets and assets under construction – depreciated historical cost
- dwellings – determined using the basis of existing use value for social housing (EUV-SH)
- council offices – current value, determined as the amount that would be paid for the asset in existing use (existing use value – EUV)
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective (see xxix Fair Value Measurement)
- all other assets – current value, determined as the amount that would be paid for the asset in existing use (existing use value – EUV)

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where there are non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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.

Borrowing costs incurred whilst an asset is under construction are not capitalised.

**Impairment:** assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are recognised, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed, the reverse is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation:** depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets), assets that are not yet available for use (i.e. assets under construction) and assets held for sale.

Depreciation is charged for a full year, based on the final asset balances reflected as at the end of the previous financial year.

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet as advised by a suitably qualified officer
- infrastructure – reducing balance over 20 years

Where confirmation is provided at the end of the reporting period (i.e. 31 March 2016) that schools have converted to academy status within the first month in the following year, depreciation is

accelerated to account for the shorter economic life of the asset while under control of the Local Authority.

**Component Accounting:** material assets are recognised as a series of components for depreciation purposes when the component is of significant cost compared to the total cost of the item and has a materially different useful life to the main asset. The number of components is limited to five components per property. Enhancement expenditure requires the component to be de-recognised where replaced or refurbished, and the new component reflected in the carrying amount, even where parts of an asset have not previously been recognised as a separate component. Non-current assets (excluding Council housing stock) with a property value of £2 million or more is considered to be material.

Council housing stock is grouped together into beacons. A beacon is a collection of properties of the same type i.e. flat, bungalow, two bedroom house, etc. Component accounting will apply to each beacon in full.

Gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals and Non-current 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. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on provision of services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the requirements to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at 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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet (whether property, plant and equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the General Fund Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund in the Movement of Reserves Statement.

## **xxii. Private Finance Initiatives**

Private Finance Initiative (PFI) arrangements are accounted for in accordance with International Financial Reporting Interpretations Committee 12 (IFRIC 12) Service Concession Arrangements. This involves a private sector entity (the operator) constructing or enhancing infrastructure used in the provision of a public service, and operating and maintaining that infrastructure for a specified

period of time. The Council's PFI schemes (Victoria Dock School and Orchard Park Neighbourhood Integrated Service Centre) have been accounted for in accordance with IFRIC 12, with the property, plant and equipment constructed and enhanced as part of the arrangement recognised on the Council's Balance Sheet because the contractual service arrangement conveys the right to control the use of the infrastructure. The property, plant and equipment recognised under this arrangement are accounted for under the accounting policies applied to all other property, plant and equipment of that type.

A corresponding liability (equal to the initial fair value of assets created/enhanced under the arrangement) is recognised for the requirement to pay the PFI limited companies for the construction work they undertook. The unitary payments made to the contractors are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge of an agreed percentage on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out

Where PFI schools are transferred to academy status during the year, the school building is disposed of as at 31 March with the corresponding liability remaining on balance sheet.

### ***xxiii. Provisions, Contingent Liabilities and Contingent Assets***

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

#### ***Contingent Liabilities***

A contingent liability arises where an event has taken place that gives the Council a possible obligation, the existence of which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### ***Contingent Assets***

A contingent asset arises where an event has taken place that gives the Council a possible asset, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### ***xxiv. Reserves***

The Council sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services, in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### ***xxv. Revenue Expenditure Funded from Capital under Statute***

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

### ***xxvi. VAT***

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

### ***xxvii. Carbon Reduction Commitment Allowances***

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

### ***xxviii. Fair Value Measurement***

The Council has categories of assets and liabilities which are measured at fair value at the end of each reporting period. These include non-financial assets such as surplus assets, investment properties and assets held for sale plus some financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 assets 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.

Fair value measurements are categorised in their entirety based on the lowest level input that is significant to the entire measurement. The level into which a fair value measurement is categorised in its entirety is determined with reference to a hierarchy that reflects the significance of the observable market inputs in calculating those fair values. The three levels of the fair value are:

- Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

- Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 are valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).

- Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is significant if it is shown to contribute more than 10% to the valuation of an asset or liability. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

## **2. Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

There are a number of minor amendments to the International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

## **3. Critical Judgements in applying Accounting Policies**

In preparing these financial statements, significant judgements and estimates have been used. The main areas where this has arisen are in the valuation of intangible and tangible non-current assets; including estimated economic lives, component accounting and their depreciation (notes 14, 15, 16, 17 and 43), debtors (note 21), creditors (note 24) and provisions (note 25). In addition, new contracts and property arrangements are reviewed each year to assess whether a finance lease arrangement exists (see note 42). Details are given in the respective notes to the accounts.

The Council completed an exercise to establish whether the production of summarised Group Accounts is required. (See Accounting Policy xvi – Interest in Companies and Other Entities and note 40 – Related Parties). Balances and transactions for companies controlled or influenced by the Council were assessed and judged to be material therefore Group Accounts have been completed. Group Accounts include Hull City Council, Hull Culture and Leisure Limited and Kingstown Works Limited.

## **4. Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, 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 assets falls.  It is estimated that the annual depreciation charge for buildings (excluding Council dwellings) would increase by £0.4m for every year that useful lives had to be reduced.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected return on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £158m. Further sensitive changes are reported in note 47 Defined Benefit Pension Schemes under 'Basis for Estimating Assets and Liabilities'
Accounts Receivable Bad Debt Arrears	At 31 March 2017, the Council had a balance of accounts receivable debtors of £15.75m. A review of significant balances suggested that an impairment of doubtful debts of 9% (£1.43m) was appropriate. However, in the current economic climate it is not certain that such an allowance will be sufficient.	If collection rates were to deteriorate by 20% doubtful debts would require an additional £0.213m to be set aside as an allowance.
Collection Fund Arrears	At 31 March 2017, the Council had a balance of Council Tax and NNDR debtors of £21.2m. A review of significant balances suggested that an impairment of doubtful debts of 61% (£12.9m of which £9.7m is the Council's share) was appropriate. However, it is not certain that such an allowance will be sufficient in future years.	If collection rates were to deteriorate by 20%, doubtful debts would require an additional £2.58m to set aside as an allowance.
Housing Revenue Account Arrears	At 31 March 2017, the Council had a balance of rent debtors of £3.39m. A review of significant balances suggested that an impairment of doubtful debts of 36% (£1.3m) was appropriate. However, it is not certain that such an allowance will be sufficient in future years.	If collection rates were to deteriorate by 20%, doubtful debts would require an additional £0.091m to set aside as an allowance.

**5. Exceptional and Material Items of Income and Expense**

Items of income and expense included in the Comprehensive Income and Expenditure Statement, which are considered exceptional and material but are not disclosed elsewhere, are detailed in the table below:

<b>Section</b>	<b>(Income) / Expense £'000</b>	<b>Nature of Transaction</b>
Cost of Services	7,094	Termination benefits paid to employees made redundant during 2016/17

**6. Events after the Balance Sheet Date****Adjusting Post-Balance Sheet Events**

Events after the reporting period have been considered and there are no adjusting events arising.

**Non adjusting Post-Balance Sheet Events**

Hull City Council made a pre-payment of employer contributions to the East Riding Pension Fund of £64m on 3 April 2017 which will generate significant revenue savings. The pre-payment covers the period 1 April 2017 to 31 March 2020.

Hull City Council maintained schools continue to convert to academy status and therefore require associated land and buildings to be removed from the balance sheet. Four schools have been confirmed as being transferred to academy status in 2017/18 with a net book value of £30.8m.



**7. Expenditure and Funding Analysis**

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

2015/16			2016/17			
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
69,694	13,076	82,770	Public Health and Adults	69,052	3,859	72,911
15,522	(6,971)	8,551	Regeneration	13,067	(5,425)	7,642
66,257	14,248	80,505	City Services and Resources	63,842	23,572	87,414
46,329	7,097	53,426	Children's Services	48,235	19,415	67,650
4,495	(11,762)	(7,267)	School Services	1,084	(345)	739
11,349	(54,279)	(42,930)	Local Authority Housing (HRA)	(1,082)	(46,525)	(47,607)
17,384	(11,152)	6,232	Non Distributed Costs	17,416	(11,998)	5,418
<b>231,030</b>	<b>(49,743)</b>	<b>181,287</b>	<b>Cost of Services</b>	<b>211,614</b>	<b>(17,447)</b>	<b>194,167</b>
(203,616)	57,820	(145,796)	Other Income and Expenditure	(202,589)	57,551	(145,038)
<b>27,414</b>	<b>8,077</b>	<b>35,491</b>	<b>Surplus / Deficit</b>	<b>9,025</b>	<b>40,104</b>	<b>49,129</b>
108,496			Opening General Fund and HRA Balance	81,082		
(27,414)			Less/plus Surplus or (Deficit) on General Fund and HRA Balance in Year	(9,025)		
<b>81,082</b>			<b>Closing General Fund and HRA Balance at 31 March</b>	<b>72,057</b>		

The adjustments between the funding and accounting basis can be further analysed between:

- Adjustments for Capital purposes
- The net change in relation to Pensions adjustments
- Other differences

**Adjustments for Capital Purposes**

- Net Cost of Services – this column adds in depreciation and impairment and revaluation gains and losses in the services line.
- Other Income and Expenditure – adjusts for capital disposals, adjustments to taxation and non-specific grant income.

**Net Change for Pension Adjustments**

- Net Cost of Services – this represents the removal of the employer pension contributions made by the Council as allowed by statute and replacement with current service costs and past service costs.

- Other Income and Expenditure – the net interest on the defined benefit liability is charged to the CIES.

#### **Other differences**

- Net Cost of Services – this includes adjustments made to and from Reserves plus accrued compensated absences earned but not taken in the year.
- Other Income and Expenditure – this includes adjustments made to and from Reserves plus other adjustments to Revenue such as Council Tax and PFI interest costs.

#### **A. Note to the Expenditure and Funding Analysis**

##### **Adjustments between Funding and Accounting Basis 2016/17**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Public Health and Adults	1,573	88	2,198	3,859
Regeneration	(6,318)	101	792	(5,425)
City Services and Resources	23,993	401	(822)	23,572
Children's Services	17,699	524	1,192	19,415
School Services	(2,777)	284	2,148	(345)
Local Authority Housing (HRA)	(3,672)	184	(43,037)	(46,525)
Non distributed costs	-	(9,695)	(2,303)	(11,998)
<b>Net Cost of Services</b>	<b>30,498</b>	<b>(8,113)</b>	<b>(39,832)</b>	<b>(17,447)</b>
Other income and expenditure from the Expenditure and Funding Analysis	15,601	17,907	24,043	57,551
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>46,099</b>	<b>9,794</b>	<b>(15,789)</b>	<b>40,104</b>

##### **2015/16**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Public Health and Adults	9,882	18	3,176	13,076
Regeneration	(12,745)	34	5,740	(6,971)
City Services and Resources	15,963	144	(1,859)	14,248
Children's Services	3,335	272	3,490	7,097
School Services	(18,185)	116	6,307	(11,762)
Local Authority Housing (HRA)	14,917	61	(69,257)	(54,279)
Non distributed costs	-	(10,902)	(250)	(11,152)
<b>Net Cost of Services</b>	<b>13,167</b>	<b>(10,257)</b>	<b>(52,653)</b>	<b>(49,743)</b>
Other income and expenditure from the Expenditure and Funding Analysis	45,803	20,975	(8,958)	57,820
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>58,970</b>	<b>10,718</b>	<b>(61,611)</b>	<b>8,077</b>

**8. Expenditure and Income Analysed by Nature**

The Council's expenditure and income is analysed as follows:

<u>2015/16</u> £'000	Expenditure / Income	<u>2016/17</u> £'000
	<b>Expenditure</b>	
219,813	Employee benefits expenses	205,772
455,442	Other services expenses	431,087
34,399	Depreciation, amortisation, impairment	38,354
49,374	Interest payments	47,362
385	Precepts and levies	393
1,751	Payments to Housing Capital Receipts Pool	1,937
45,803	Loss on the disposal of assets	64,059
<u>806,967</u>	<b>Total Expenditure</b>	<u>788,964</u>
	<b>Income</b>	
(177,593)	Fees, charges and other service income	(191,919)
(1,530)	Interest and investment income	(2,066)
(114,384)	Income from council tax, non-domestic rates, district rate income	(116,037)
(477,969)	Grants and contributions	(429,813)
<u>(771,476)</u>	<b>Total Income</b>	<u>(739,835)</u>
<u>35,491</u>	<b>Surplus or Deficit on the Provision of Services</b>	<u>49,129</u>

**9. Adjustments between Accounting Basis and Funding Basis under Regulations**

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

2016/17

	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grant Unapplied Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>								
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>								
Charges for depreciation and impairment of non-current assets	30,216	-	-	8,138	-	-	-	(38,354)
Revaluation losses on Property, Plant and Equipment	8,940	-	-	1,237	-	-	-	(10,177)
Movements in the fair value of investment properties	1,676	-	-	-	-	-	-	(1,676)
Amortisation of intangible assets	548	-	-	-	-	-	-	(548)
Capital grants and contributions applied	(56,536)	-	-	(10,229)	-	-	-	66,765
Income in relation to donated assets	-	-	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	39,732	-	-	-	-	-	-	(39,732)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	71,309	-	-	5,521	-	-	-	(76,830)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>								
Statutory provision for the financing of capital investment	(3,693)	-	-	(19,484)	-	-	-	23,177
Capital expenditure charged against the General fund and HRA balances	(260)	-	-	-	-	-	-	260
HRA depreciation on Non-Dwellings adjustment	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving Capital Grants Unapplied Account</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (where no condition exists)	(14,157)	-	-	-	-	-	14,157	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	(9,283)	9,283
<b>Transfers in respect of Community Infrastructure Levy Receipts</b>								
<b>Adjustments primarily involving Capital Receipts Reserve</b>								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,431)	-	-	(8,340)	-	12,771	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	-	-	(1,843)	-	1,843
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	-	-	-	-	-	-	-	-
Contribution from the capital receipts reserve to finance the amount payable to the Government capital receipts pool	1,937	-	-	-	-	(1,937)	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	-	-	-	-	-	-	-	-
<i>Totals carried forward</i>	75,281	-	-	(23,157)	-	8,991	4,874	(65,989)

2016/17

	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grant Unapplied Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<i>Totals brought forward</i>	75,281	-	-	(23,157)	-	8,991	4,874	(65,989)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Major Repairs Reserve</b>								
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	(24,339)	24,339	-	-	-
Use of Major Repairs Reserve to finance new capital expenditure	-	-	-	-	(28,927)	-	-	28,927
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(72)	-	-	-	-	-	-	72
<b>Adjustments primarily involving the Pension Reserve</b>								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	38,193	-	-	2,593	-	-	-	(40,786)
Employers pensions contributions and direct payments to pensioners payable in the year	(32,484)	-	-	(1,672)	-	-	-	34,156
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>								
Amount by which Council Tax income and non-domestic rating credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and non-domestic rate income calculated for the year in accordance with statutory requirements	5,498	-	-	-	-	-	-	(5,498)
<b>Adjustments primarily involving the Unequal Backpay Adjustment Account</b>								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the costs of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Accumulated Absences Account</b>								
Amount by which officers remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	263	-	-	-	-	-	-	(263)
Employee benefits recognised	-	-	-	-	-	-	-	-
<b>Total Adjustments</b>	<b>86,679</b>	<b>-</b>	<b>-</b>	<b>(46,575)</b>	<b>(4,588)</b>	<b>8,991</b>	<b>4,874</b>	<b>(49,381)</b>

2015/16

	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grant Unapplied Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>								
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>								
Charges for depreciation and impairment of non-current assets	33,639	-	-	8,207	-	-	-	(41,846)
Revaluation losses on Property, Plant and Equipment	(18,211)	-	-	10,162	-	-	-	8,049
Movements in the fair value of investment properties	(1,653)	-	-	-	-	-	-	1,653
Amortisation of intangible assets	714	-	-	-	-	-	-	(714)
Capital grants and contributions applied	(32,294)	-	-	(1,437)	-	-	-	33,731
Income in relation to donated assets	-	-	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	29,070	-	-	-	-	-	-	(29,070)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	52,575	-	-	3,966	-	-	-	(56,541)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>								
Statutory provision for the financing of capital investment	(9,267)	-	-	(19,559)	-	-	-	28,826
Capital expenditure charged against the General fund and HRA balances	(620)	-	-	(15,007)	-	-	-	15,627
HRA depreciation on Non-Dwellings adjustment	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving Capital Grants Unapplied Account</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (where no condition exists)	(9,360)	-	-	-	-	-	9,360	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-	(7,813)	7,813
<b>Transfers in respect of Community Infrastructure Levy Receipts</b>								
<b>Adjustments primarily involving Capital Receipts Reserve</b>								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,757)	-	-	(5,981)	-	10,738	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-	-	-	(4,744)	-	4,744
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	-	-	-	-	-	-	-	-
Contribution from the capital receipts reserve to finance the amount payable to the Government capital receipts pool	1,751	-	-	-	-	(1,751)	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	-	-	-	-	-	-	-	-
<i>Totals carried forward</i>	41,587	-	-	(19,649)	-	4,243	1,547	(27,728)

2015/16

	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grant Unapplied Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<i>Totals brought forward</i>	41,587	-	-	(19,649)	-	4,243	1,547	(27,728)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>								
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Major Repairs Reserve</b>								
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	(24,081)	24,081	-	-	-
Use of Major Repairs Reserve to finance new capital expenditure	-	-	-	-	(20,691)	-	-	20,691
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(73)	-	-	-	-	-	-	73
<b>Adjustments primarily involving the Pension Reserve</b>								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	42,458	-	-	2,968	-	-	-	(45,426)
Employers pensions contributions and direct payments to pensioners payable in the year	(32,986)	-	-	(1,723)	-	-	-	34,709
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>								
Amount by which Council Tax income and non-domestic rating credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and non-domestic rate income calculated for the year in accordance with statutory requirements	(55)	-	-	-	-	-	-	55
<b>Adjustments primarily involving the Unequal Backpay Adjustment Account</b>								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the costs of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	-
<b>Adjustments primarily involving the Accumulated Absences Account</b>								
Amount by which officers remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(370)	-	-	-	-	-	-	370
Employee benefits recognised								-
<b>Total Adjustments</b>	<b>50,561</b>	<b>-</b>	<b>-</b>	<b>(42,485)</b>	<b>3,390</b>	<b>4,243</b>	<b>1,547</b>	<b>(17,256)</b>

**10. Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2015/16.

	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Earmarked Reserves</b>							
<b>General Fund:</b>							
Business Rate Reserve	700	-	100	800	-	3,800	4,600
Council Tax Support Reserve	710	-	100	810	(600)	-	210
Extra Care PFI Reserve	650	(500)	-	150	-	-	150
Insurance Reserve	7,000	(2,004)	-	4,996	-	621	5,617
Litigation Reserve	2,195	(64)	-	2,131	-	-	2,131
Flood Defence	2,610	(1,580)	96	1,126	(71)	23	1,078
City of Culture Legacy	-	-	-	-	-	820	820
<b>Miscellaneous:</b>							
Regeneration Reserve	102	(62)	-	40	-	-	40
SIG Reserve	113	(113)	-	-	-	-	-
BSF PFI Reserve	37	-	-	37	-	-	37
VAT on VA Schools	65	(65)	-	-	-	-	-
Adult Health Reserve	25	(25)	-	-	-	-	-
Local Plan	-	-	70	70	(70)	-	-
Savings Contingency	-	-	306	306	(306)	73	73
Other	1,127	(647)	35	515	(317)	315	513
<b>Capital Funding:</b>							
Capital Financing Reserve	3,906	(200)	3,123	6,829	(1,909)	989	5,909
City Plan Support	3,454	-	-	3,454	-	-	3,454
<b>Schools Reserves:</b>							
Schools Financial Reserve	8,256	(1,815)	-	6,441	(6,414)	5,378	5,405
Schools' Reorganisation Reserve	2,680	(2,680)	-	-	-	-	-
<b>Total Earmarked Reserves</b>	<b>33,630</b>	<b>(9,755)</b>	<b>3,830</b>	<b>27,705</b>	<b>(9,687)</b>	<b>12,019</b>	<b>30,037</b>
<b>Carry Forwards to Support 2017/18 Budget:</b>							
<b>General Fund:</b>							
City Plan Contingency	5,973	(5,973)	3,759	3,759	(3,760)	561	560
Reorganisation Reserve	13,271	(15,427)	15,236	13,080	(13,213)	2,354	2,221
Corporate Contingency	-	-	-	-	-	390	390
Local Assistance Scheme	1,494	(1,494)	-	-	-	-	-
NNDR	1,490	(1,490)	-	-	-	-	-
Pensions	1,000	(1,000)	-	-	-	-	-
General Fund Budget Support	982	(982)	-	-	-	-	-
Public Health	1,127	(1,127)	218	218	(218)	-	-
Underspend 2014/15	811	(811)	-	-	-	-	-
Leaders Contingency	-	-	52	52	-	117	169
Revenue Grants (no conditions)	2,067	(1,101)	-	966	(966)	-	-
City of Culture	-	-	-	-	-	425	425
Dividend	-	-	-	-	-	1,000	1,000
Service Carry Forwards	-	-	-	-	-	871	871
<b>Total Carry Forwards</b>	<b>28,215</b>	<b>(29,405)</b>	<b>19,265</b>	<b>18,075</b>	<b>(18,157)</b>	<b>5,718</b>	<b>5,636</b>
<b>Total General Fund Earmarked Reserves and Carry Forward Balances</b>	<b>61,845</b>	<b>(39,160)</b>	<b>23,095</b>	<b>45,780</b>	<b>(27,844)</b>	<b>17,737</b>	<b>35,673</b>
<b>HRA (see HRA note 12)</b>	<b>49,545</b>	<b>3,390</b>	<b>(11,349)</b>	<b>41,586</b>	<b>(4,588)</b>	<b>1,082</b>	<b>38,080</b>



**Business Rates Reserve**

This reserve is to meet potential future liabilities arising from revaluations, appeals and loss on collection.

**Council Tax Reserve**

This reserve is to meet potential future liabilities arising from revaluations, appeals and loss on collection.

**Extra Care PFI Reserve**

This reserve has been established to meet potential costs which may arise on finalisation of the scheme and associated contracts.

**Insurance Reserve**

This reserve contains an estimate of anticipated insurance claims which the Council may have to meet. Some risks are 'self-insured' whilst others are covered through the payment of premiums to external insurance companies with the Council having to meet any excess. The Council also holds an insurance provision which covers claims received for which there is some certainty that they will be paid.

**Litigation Reserve**

This reserve has been established to meet potential claims arising from litigation against the Council.

**Flood Reserve**

This reserve is to offset costs of future flooding events.

**City of Culture Legacy**

This reserve is to support the future City of Culture Legacy programme.

**Miscellaneous Reserves**

These minor reserves exist to meet various expected costs.

**Capital Financing / City Plan Support Reserves**

These reserves will be required in future years to finance the Council's planned capital investment strategy.

**Schools' Financial Reserves**

The Authority's Scheme for Financing Schools, which is based on the legislative provisions of the School Standards and Framework Act 1998, provides for any balances or deficits on schools' budgets to be carried forward from one financial year to the next. This reserve represents the cumulative totals for all Hull schools with delegated budgets.

**Schools' Reorganisation**

This reserve exists to support the costs of school reorganisations.

**Carry Forwards to support 2017/18 Budget**

The carry forwards of underspends from 2016/17 to the new financial year are to meet anticipated expenditure commitments. This also includes additional grant carry forwards which are required to be identified separately.

**11. Other Operating Income and Expenditure**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
	- Precepts of local precepting authorities	-
385	Levies	393
1,751	Payments to the Government Housing Capital Receipts Pool	1,937
45,803	(Gains) / losses on the disposal of non-current assets	64,060
<b>47,939</b>		<b>66,390</b>

The majority of the loss on disposal of non-current assets relates to the transfer out of 6 Council controlled schools to academy status and disposal of surplus assets.

**12. Financing and Investment Income and Expenditure**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
28,399	Interest payable and similar charges	29,455
20,975	Pension interest cost and expected return on pension assets	17,907
(695)	Interest receivable and similar income	(601)
122	(Surplus)/Deficit from Trading Operations	(863)
(2,683)	Net income/expenditure from investment properties	(2,985)
(1,653)	Change in fair value of investment properties	1,676
(835)	Other investment income	(1,465)
<b>43,630</b>		<b>43,124</b>

**13. Taxation and Non Specific Grant Income**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
(66,945)	Council Tax income	(71,798)
(47,439)	Non-Domestic Rates	(44,239)
(102,244)	Non-ringfenced Government Grants	(90,056)
(20,737)	Capital Grants and Contributions	(48,459)
<b>(237,365)</b>		<b>(254,552)</b>

**14. Property, Plant and Equipment****Movements in 2016/17**

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets under Construction</b>	<b>Total Property, Plant and Equipment</b>	<b>PFI Assets included in Property, Plant and Equipment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or valuation</b>									
At 1 April 2016	431,345	662,618	59,534	179,403	2,926	36,349	2,293	1,374,468	41,545
Additions	39,569	38,237	2,465	27,181	-	3,418	9,588	120,458	14,491
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	22,386	-	-	57	353	-	22,796	2,016
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,932)	(10,339)	(52)	(13)	(74)	(569)	-	(18,979)	(55)
Derecognition - Disposals	(5,521)	(73,345)	-	-	-	-	-	(78,866)	(26,075)
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Other movements in cost or valuation	-	144	-	-	(11)	5	-	138	-
At 31 March 2017	457,461	639,701	61,947	206,571	2,898	39,556	11,881	1,420,015	31,922
<b>Accumulated Depreciation and Impairments</b>									
At 1 April 2016	(16,791)	(50,668)	(42,869)	(58,994)	-	(2,479)	-	(171,801)	(1,477)
Depreciation charge	(6,695)	(15,614)	(6,019)	(6,106)	-	(4)	-	(34,438)	(836)
Depreciation written out to the Revaluation Reserve	-	2,852	-	-	-	-	-	2,852	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,695	2,556	-	-	-	4	-	9,255	33
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(889)	-	-	-	-	-	(889)	-
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,443)	(404)	-	-	-	(2,316)	-	(4,163)	-
Derecognition - Disposals	-	5,754	-	-	-	-	-	5,754	1,543
Derecognition - Other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
At 31 March 2017	(18,234)	(56,413)	(48,888)	(65,100)	-	(4,795)	-	(193,430)	(737)
<b>Net Book Value</b>									
at 31 March 2017	439,227	583,288	13,059	141,471	2,898	34,761	11,881	1,226,585	31,185
at 31 March 2016	414,554	611,950	16,665	120,409	2,926	33,870	2,293	1,202,667	40,068

## Movements in 2015/16

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>									
At 1 April 2015	414,134	642,805	55,052	164,475	2,915	58,617	1,136	1,339,134	28,427
Additions	37,720	11,450	5,546	14,928	-	3,399	2,295	75,338	1,570
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	56,790	-	-	14	10,971	-	67,775	190
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,793)	5,157	(296)	-	-	540	-	(11,392)	11,040
Derecognition - Disposals	(3,716)	(58,131)	(768)	-	(3)	(35,256)	-	(97,874)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	555	-	555	-
Other movements in cost or valuation	-	4,547	-	-	-	(2,477)	(1,138)	932	318
At 31 March 2016	431,345	662,618	59,534	179,403	2,926	36,349	2,293	1,374,468	41,545
<b>Accumulated Depreciation and Impairments</b>									
At 1 April 2015	(15,214)	(62,396)	(38,030)	(53,384)	-	(33,161)	(8)	(202,193)	(1,304)
Depreciation charge	(6,630)	(18,777)	(5,607)	(5,610)	-	(38)	-	(36,662)	(869)
Depreciation written out to the Revaluation Reserve	-	9,097	-	-	-	163	-	9,260	696
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,630	13,346	-	-	-	16	-	19,992	-
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(1,876)	-	-	-	-	-	(1,876)	-
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,577)	(1,391)	-	-	-	(2,479)	-	(5,447)	-
Derecognition - Disposals	-	11,358	768	-	-	32,996	-	45,122	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	(29)	-	-	-	24	8	3	-
At 31 March 2016	(16,791)	(50,668)	(42,869)	(58,994)	-	(2,479)	-	(171,801)	(1,477)

**Surplus Assets**

The Council's surplus assets are valued at fair value. When measuring fair value of a non-financial asset, the council 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.

Fair value is based on 'Significant Observable Inputs – Level 2'. (See Accounting Policy xxviii Fair Value Measurement)

Assets categorised as 'Surplus Assets' are measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation

set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts (Norfolk Property Services) work closely with finance officers reporting directly to the Assistant City Treasurer (Corporate Finance) on a regular basis regarding all valuation issues.

### **Depreciation**

Economic useful lives of property, plant and equipment are regularly reviewed and, where appropriate, revised to reflect changing circumstances and changing economic conditions.

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

- Council Dwellings – 5-40 years
- Other Land and Buildings – 1-120 years (general buildings up to 60 years, building substructures up to 120 years)
- Vehicles, Plant, Furniture & Equipment – 2-50 years (vehicles up to 10 years and a small number of equipment assets from 3-50 years)
- Infrastructure – 20 years

### **Capital Commitments**

At 31 March 2017, the Council has plans in place for a number of capital schemes relating to the construction or enhancement of Property, Plant and Equipment budgeted to cost £259m over the next three years. This was subsequently revised in the 2016/17 Capital Outturn Report approved by the Cabinet Committee in June 2017 and now stands at £277m. Similar commitments at 31 March 2016 were £299m. The major commitments are:

- Investment in Schools - £25m
- Investment in Council Housing Stock - £117m
- Hull World Class Visitor Destination Programme - £49m

### **Changes in Estimates**

#### Depreciation

Depreciation is charged for a full year, based on the final asset balances reflected as at the end of the previous financial year.

#### Accelerated Depreciation

Where confirmation is provided at the end of the reporting period (i.e. 31 March 2017) that schools have converted to academy status within the first month in the following year, depreciation is accelerated to account for the shorter economic life of the asset while under control of the Local Authority.

### **Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations were carried out by NPS Humber Ltd. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list price adjusted for the condition of the asset.

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant, Furniture and Equipment</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Carried at historical cost	-	-	13,059	-	-	13,059
Valued at fair value as at:						
31 March 2017	439,227	136,772	-	239	31,770	608,008
31 March 2016	-	371,279	-	1,095	2,540	374,914
31 March 2015	-	16,307	-	956	451	17,714
31 March 2014	-	38,245	-	599	-	38,844
31 March 2013	-	20,685	-	9	-	20,694
<b>Total Cost or Valuation</b>	<b>439,227</b>	<b>583,288</b>	<b>13,059</b>	<b>2,898</b>	<b>34,761</b>	<b>1,073,233</b>

### **Trust, Voluntary Aided, Voluntary Controlled and Academy Schools**

#### **Trust Schools**

The local authority funds and manages the Trust School admissions policy and forms part of the Council's capital spending plan. Therefore, non-current assets (land and buildings) have been recognised in the Council's balance sheet for 2016/17.

#### **Voluntary Aided Schools**

Voluntary aided schools are endowed by a trust, often religious in character. The Schools Standards Framework Act determines that the trustees own the school buildings and the governing bodies are responsible for the provision of premises and all capital work to school buildings. However, the Council is statutorily responsible for the land. Consequently, values for the buildings have not been recognised in the Council's balance sheet, but values for the playing fields have been included as non-current assets.

#### **Voluntary Controlled**

Voluntary controlled schools are owned by a charity but the local authority runs the schools and employs the staff. The Council is normally the freeholder of the non-current assets and accordingly the school premises have been recognised as property, plant and equipment in the balance sheet.

#### **Academies**

During the year, eight schools had transferred to academy status. Therefore, at 31 March there are sixty five in total. The schools are owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet. Schools transferring to academy status are disposed of at the end of the financial year and charged a full years depreciation.

**15. Heritage Assets**

	<b>Historical Buildings</b>	<b>Historical Vessels</b>	<b>Statues &amp; Monuments</b>	<b>City Hall Organ</b>	<b>Art Collections</b>	<b>Civic Regalia</b>	<b>Total Assets</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or valuation</b>							
At 1 April 2015	1,930	59	192	1,069	350	529	4,129
Transfers	102	-	-	-	-	-	102
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Revaluations	(59)	52	-	-	-	-	(7)
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-	-	-
Depreciation	(27)	(6)	-	-	-	-	(33)
<b>At 31 March 2016</b>	<b>1,946</b>	<b>105</b>	<b>192</b>	<b>1,069</b>	<b>350</b>	<b>529</b>	<b>4,191</b>
<b>Cost or valuation</b>							
At 1 April 2016	1,946	105	192	1,069	350	529	4,191
Transfers	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-	-	-
Depreciation	(27)	(7)	-	-	-	-	(34)
<b>At 31 March 2017</b>	<b>1,919</b>	<b>98</b>	<b>192</b>	<b>1,069</b>	<b>350</b>	<b>529</b>	<b>4,157</b>

All heritage assets shown in the above table are tangible assets. There are no intangible assets.

**Historical Buildings**

The only historical building identified as meeting the required definitions of a Heritage Asset is the Wilberforce House Museum, as it is principally held for the purposes of knowledge and culture.

**Historical Vessels**

The Council has two historical vessels; Spurn Lightship and the Arctic Corsair. These are valued at current value within the asset portfolio.

**Statues and Monuments**

The Council has a number of statues and monuments located across the city. These assets are held at historic cost.

**City Hall Organ**

Given the value and nature of this asset, its individual disclosure in the above note was deemed to be appropriate. This asset is valued at historical cost.

**Art Collections**

The art collections are summarised as those held within the Council's corporate buildings and are held at historical cost.

**Civic Regalia**

The collection incorporates items of silver and insignia relating to the corporate and local history of Hull, and is valued at historic cost.

See note 52 for further details on heritage assets.

**16. Investment Properties**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

<u>2015/16</u> £'000		<u>2016/17</u> £'000
(4,040)	Rental income from investment property	(5,352)
1,357	Operating expenses arising from investment property	2,367
<u>(2,683)</u>	Net (gain) / loss	<u>(2,985)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to remittance of income and the proceeds of disposal. The Council has an obligation to repair and maintain properties in its investment portfolio.

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

<u>2015/16</u> £'000		<u>2016/17</u> £'000
73,197	Balance at start of year	71,604
	Additions:	
-	Acquisitions	-
156	Enhancements	1,692
(2,722)	Disposals	(491)
2,150	Net gains/losses from fair value adjustments	(1,625)
	Transfers:	
-	to/from Assets held for Sale	-
(1,038)	to/from Property, Plant and Equipment	(133)
(139)	Other Changes	(8)
<u>71,604</u>	Balance at end of year	<u>71,039</u>



## Fair Value Hierarchy

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

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2017
	£'000	£'000	£'000	£'000
<i>Recurring fair value measurements using:</i>				
Residential properties	-	510	-	510
Office Units	-	6,054	-	6,054
Commercial Units	-	64,475	-	64,475
<b>Total</b>	-	<b>71,039</b>	-	<b>71,039</b>

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2016
	£'000	£'000	£'000	£'000
<i>Recurring fair value measurements using:</i>				
Residential properties	-	514	-	514
Office Units	-	6,102	-	6,102
Commercial Units	-	64,988	-	64,988
<b>Total</b>	-	<b>71,604</b>	-	<b>71,604</b>

## Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

## Valuation Techniques used to determine Level 2 Fair Values for Investment Properties

### Significant Observable Inputs – Level 2

Investment properties' fair value is calculated using the term & reversion approach. The term income reflects the current rent passing under the existing lease agreements. The reversionary income represents the market rent (the full rental value) derived from observable market transactions as at the date of valuation as defined in the RICS Valuation Professional Standards January 2014 (VOPS 4.1.3.1).

## Highest and Best Use of Investment Properties

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

## Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

## Valuation Process for Investment Properties

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Assistant City Treasurer (Corporate Finance) on a regular basis regarding all valuation matters.

**17. Intangible Assets**

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to the major software suite, Oracle IT software licence is 5 years.

The carrying amount of intangible assets is amortised on a straight line basis. The majority of amortisation of £0.548m charged to revenue in 2016/17 was charged to the IT administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

<b>2015/16</b>			<b>2016/17</b>			
<b>Internally Generated Assets</b>	<b>Other Assets</b>	<b>Total</b>		<b>Internally Generated Assets</b>	<b>Other Assets</b>	<b>Total</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
			Balance at start of year:			
-	7,352	7,352	Gross carrying amounts	-	7,781	7,781
-	(4,959)	(4,959)	Accumulated amortisation	-	(5,641)	(5,641)
-	2,393	2,393	Net carrying amount at start of year	-	2,140	2,140
			Additions:			
-	-	-	Internal development	-	-	-
-	920	920	Purchases	-	2,514	2,514
-	-	-	Acquired through business combinations	-	-	-
-	-	-	Assets reclassified as held for sale	-	-	-
-	-	-	Other disposals	-	-	-
-	-	-	Revaluations increases or decreases	-	-	-
-	-	-	Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-	-
-	-	-	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-	-
-	-	-	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	-	-	-
-	(714)	(714)	Amortisation for the period	-	(548)	(548)
-	(459)	(459)	Other changes	-	(549)	(549)
-	<b>2,140</b>	<b>2,140</b>	Net carrying amount at end of year	-	<b>3,557</b>	<b>3,557</b>
			Comprising:			
-	7,781	7,781	Gross carrying amounts	-	9,747	9,747
-	(5,641)	(5,641)	Accumulated amortisation	-	(6,188)	(6,188)
-	<b>2,140</b>	<b>2,140</b>		-	<b>3,559</b>	<b>3,559</b>

No individual capitalised items of software are individually material to the financial statements.

**18. Financial Instruments****Categories of Financial Instruments**

The following categories of financial instruments are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000
<b>Investments</b>				
Investments (principal amount)	10	10	2,500	82,000
Investments (accrued interest)	-	-	1	128
Cash and cash equivalents (principal amount)	-	-	102,292	38,682
Cash and cash equivalents (accrued interest)	-	-	20	20
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
<b>Total Investments</b>	<b>10</b>	<b>10</b>	<b>104,813</b>	<b>120,830</b>
<b>Debtors</b>				
Loans and receivables	4,828	4,813	26,954	28,175
Financial assets carried at contract amounts	-	-	-	-
<b>Total Debtors</b>	<b>4,828</b>	<b>4,813</b>	<b>26,954</b>	<b>28,175</b>
<b>Financial Guarantees</b>	-	-	-	-
<b>Soft Loans</b>	-	-	-	-
<b>Borrowings</b>				
Financial liabilities (principal amount)	492,581	526,582	103,265	35,426
Financial liabilities (accrued interest)	-	-	3,315	3,797
Financial liabilities at amortised cost	492,581	526,582	106,580	39,223
Financial liabilities at fair value through profit and loss	-	-	-	-
<b>Total Borrowings</b>	<b>492,581</b>	<b>526,582</b>	<b>106,580</b>	<b>39,223</b>
<b>Other Long Term Liabilities</b>				
Finance lease liabilities	-	-	-	-
PFI	123,381	113,055	3,751	3,301
<b>Total Other Long Term Liabilities</b>	<b>123,381</b>	<b>113,055</b>	<b>3,751</b>	<b>3,301</b>
<b>Creditors</b>				
Financial liabilities at amortised costs	842	851	47,004	48,960
Financial liabilities carried at contract amount	-	-	-	-
<b>Total Creditors</b>	<b>842</b>	<b>851</b>	<b>47,004</b>	<b>48,960</b>

Loans and receivables and creditor elements only include contracted debt/liabilities and therefore exclude statutory debt/liabilities such as Council Tax / NNDR.

**Reclassifications**

There has been no reclassification of financial assets during 2016/17.

**Soft Loans**

The Council holds no material soft loans.

**Employee Car Loans**

The total of Employee Car Loans held at 31 March 2017 was £0.191m, of which an immaterial amount of £0.001m relates to interest free loans.

**Income, Expense, Gains and Losses**

2015/16					2016/17					
Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total		Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
(28,248)	-	-	-	(28,248)	Interest expense	(29,355)	-	-	-	(29,355)
-	-	-	-	-	Losses on derecognition	-	-	-	-	-
-	-	-	-	-	Reductions in fair value	-	-	-	-	-
-	-	-	-	-	Impairment losses	-	-	-	-	-
(151)	-	-	-	(151)	Fee expense	(100)	-	-	-	(100)
<b>(28,399)</b>	-	-	-	<b>(28,399)</b>	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(29,455)</b>	-	-	-	<b>(29,455)</b>
-	1,530	-	-	1,530	Interest income	-	2,066	-	-	2,066
-	-	-	-	-	Interest income accrued on impaired financial assets	-	-	-	-	-
-	-	-	-	-	Increases in fair value	-	-	-	-	-
-	-	-	-	-	Gains on derecognition	-	-	-	-	-
-	-	-	-	-	Fee income	-	-	-	-	-
<b>-</b>	<b>1,530</b>	-	-	<b>1,530</b>	<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>2,066</b>	-	-	<b>2,066</b>
-	-	-	-	-	Gains on revaluation	-	-	-	-	-
-	-	-	-	-	Losses on revaluation	-	-	-	-	-
-	-	-	-	-	Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-
-	-	-	-	-	<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	-	-	-	-	-
<b>(28,399)</b>	<b>1,530</b>	-	-	<b>(26,869)</b>	<b>Net gain/(loss) for the year</b>	<b>(29,455)</b>	<b>2,066</b>	-	-	<b>(27,389)</b>

## **Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. When measuring the fair value of a financial instrument, the council 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. Disclosure of fair value is not required where the carrying amount is thought to be a reasonable approximation of fair value, such as when the interest rate remains the same for the life of the instrument. This applies to all of the Council's other financial instruments.

The Council's Treasury Management Advisors, Capita Asset Services, provide the required fair value calculations of the Council's financial assets and liabilities.

## **Valuation Techniques – Methodology and Assumptions**

The 2016/17 Code of Practice sets out the fair value valuation hierarchy that authorities are required to follow to increase consistency and comparability in fair value measurements and related disclosures.

The valuation basis adopted uses Level 2 Inputs – ie. inputs other than quoted prices that are observable for the financial asset/liability.

Except for financial assets and financial liabilities carried in the Balance Sheet at fair value, all other financial assets and financial liabilities are carried in the Balance Sheet at amortised cost. Fair value can be assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the instruments. This is a widely accepted valuation technique commonly used in the private sector.

Capita Asset Services have applied the following valuation bases:

### Valuation of fixed term deposits (maturity investments)

Valuation is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit.

### Valuation of loans receivable

For loans receivable prevailing benchmark market rates have been used to provide fair value.

### Valuation of PWLB Loans

For loans from the PWLB, Capita Asset Services have provided fair value estimates using the new market loan discount rates.

### Valuation of non-PWLB Loans

For non-PWLB loans, Capita Asset Services have provided fair value estimates using the new market loan discount rates.

No early repayment or impairment is recognised.

When an instrument has a maturity of less than 12 months or it is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Inclusion of accrued interest - the purpose of fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, Capita Asset Services has also included accrued interest in the fair value calculation. This figure will be calculated up to and including the valuation date.

Discount rates used in NPV calculation - the rates quoted in this valuation were obtained by Capita Asset Services from the market on 31 March 2017 using bid prices where applicable.

Assumptions - it is noted that the following assumptions do not have a material effect on the fair value of the instrument:

- Interest is calculated using the most common market convention, Actual/365, a day-count formula.
- Interest is not paid/received on the start date of an instrument, but is paid/received on the maturity date

The carrying amounts and fair values calculated are as follows:

#### Financial Instruments as at 31 March 2017

	Carrying amount	N/A	Fair Value			Total
	£'000		£'000	Level 1	Level 2	
<b>Financial assets measured at fair value</b>						
Short term investments	2,501	-	-	2,503	-	2,503
Long term investments	10	10	-	-	-	10
	<b>2,511</b>	<b>10</b>	<b>-</b>	<b>2,503</b>	<b>-</b>	<b>2,513</b>
<b>Financial assets not measured at fair value</b>						
Cash and cash equivalents	102,312	-	-	102,313	-	102,313
Short term debtors	26,954	26,954	-	-	-	26,954
Long term debtors	4,828	4,828	-	-	-	4,828
	<b>134,094</b>	<b>31,782</b>	<b>-</b>	<b>102,313</b>	<b>-</b>	<b>134,095</b>
<b>Financial liabilities measured at fair value</b>						
PWLB debt	427,194	-	-	500,536	-	500,536
Non-PWLB debt	171,904	-	-	216,795	-	216,795
Other short term borrowing	63	63	-	-	-	63
	<b>599,161</b>	<b>63</b>	<b>-</b>	<b>717,331</b>	<b>-</b>	<b>717,394</b>
<b>Financial liabilities not measured at fair value</b>						
Short term creditors	47,004	47,004	-	-	-	47,004
PFI	127,132	127,132	-	-	-	127,132
Long term creditors	842	842	-	-	-	842
	<b>174,978</b>	<b>174,978</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>174,978</b>

The fair value of liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions as at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of assets is on par with the carrying amount as the Council's portfolio of investments is of a short term nature and the interest rate receivable is comparable to rates available for similar loans at the Balance Sheet date.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

The carrying amounts and fair values calculated are as follows:

#### Financial Instruments as at 31 March 2016

	Carrying amount	N/A	Level 1	Fair Value			Total
	£'000	£'000	£'000	Level 2 £'000	Level 3 £'000	£'000	£'000
<b>Financial assets measured at fair value</b>							
Short term investments	82,128	-	-	82,208	-	-	82,208
Long term investments	10	10	-	-	-	-	10
	<b>82,138</b>	<b>10</b>	<b>-</b>	<b>82,208</b>	<b>-</b>	<b>-</b>	<b>82,218</b>
<b>Financial assets not measured at fair value</b>							
Cash and cash equivalents	38,702	-	-	38,703	-	-	38,703
Short term debtors	28,175	28,175	-	-	-	-	28,175
Long term debtors	4,813	4,813	-	-	-	-	4,813
	<b>71,690</b>	<b>32,988</b>	<b>-</b>	<b>38,703</b>	<b>-</b>	<b>-</b>	<b>71,691</b>
<b>Financial liabilities measured at fair value</b>							
PWLB debt	445,822	-	-	492,980	-	-	492,980
Non-PWLB debt	119,921	-	-	151,421	-	-	151,421
Other short term borrowing	62	62	-	-	-	-	62
	<b>565,805</b>	<b>62</b>	<b>-</b>	<b>644,401</b>	<b>-</b>	<b>-</b>	<b>644,463</b>
<b>Financial liabilities not measured at fair value</b>							
Short term creditors	48,960	48,960	-	-	-	-	48,960
PFI	116,356	116,356	-	-	-	-	116,356
Long term creditors	851	851	-	-	-	-	851
	<b>166,167</b>	<b>166,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>166,167</b>

#### 19. Inventories

Inventories are valued at the lower of cost and realisable value.

<u>2015/16</u>			<u>2016/17</u>	
£'000			£'000	
649	<b>Balance outstanding at start of year</b>		541	
4,192	Purchases		4,403	
(4,221)	Recognised as an expense in the year		(4,429)	
(79)	Written off balances		(10)	
-	Reversals of write-offs in previous years		-	
<b>541</b>	<b>Balance outstanding at year-end</b>		<b>505</b>	

**20. Construction Contracts**

The Council does not provide construction services to other external bodies.

**21. Short Term Debtors**

<u>31 March 2016</u>		<u>31 March 2017</u>
£'000		£'000
12,634	Central government bodies	25,185
112	Other local authorities	1,116
284	NHS bodies	1,650
-	Public corporations and trading funds	-
53,084	Other entities and individuals	54,647
(16,712)	Less: Provision for irrecoverable debts	(18,103)
<u>49,402</u>		<u>64,495</u>

Where income which relates to the reporting year is expected to be received after the financial year end, an estimate is made of the amount to be accrued.

**Provision for Irrecoverable Debts**

<u>31 March 2016</u>		<u>31 March 2017</u>
£'000		£'000
(1,307)	Accounts Receivable	(1,428)
(1,126)	Housing Revenue Account	(1,305)
(5,842)	Housing Benefit Overpayments	(5,312)
(343)	Commercial Rents	(343)
(8,094)	Collection Fund	(9,715)
<u>(16,712)</u>		<u>(18,103)</u>

**22. Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the following elements:

<u>31 March 2016</u>		<u>31 March 2017</u>
£'000		£'000
166	Cash held by the Authority	111
(1,776)	Bank current accounts	984
40,312	Short-term deposits with banks/building societies	101,217
<u>38,702</u>	<b>Total Cash and Cash Equivalents</b>	<u>102,312</u>



**23. Assets Held for Sale**

A number of Council assets have been transferred from Property, Plant and Equipment and have been categorised as held for sale where the asset is available for immediate sale, there is a commitment to sell the asset, the asset has been actively marketed and a sale is expected within one year.

	Current		Non Current	
	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000
<b>Balance outstanding at start of year</b>	2,369	3,133	7	98
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Revaluation losses	-	-	-	-
Revaluation gains	-	-	-	-
Impairment losses	-	-	-	-
Assets declassified as held for sale:				
Property, Plant and Equipment	-	(555)	(7)	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Assets sold	(2,369)	(209)	-	(91)
Transfers from non-current to current	-	-	-	-
Other movements	-	-	-	-
<b>Balance outstanding at year-end</b>	<b>-</b>	<b>2,369</b>	<b>-</b>	<b>7</b>

The Council's assets which are held for sale are valued at the lower of fair value (less the cost to sell), and the carrying amount. When measuring the fair value of a non-financial asset, the council 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.

Fair value is based on 'Significant Observable Inputs – Level 2'. (See Accounting Policy xxviii Fair Value Measurement)

Assets categorised as 'Surplus Assets' are measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts (Norfolk Property Services) work closely with finance officers reporting directly to the Assistant City Treasurer (Corporate Finance) on a regular basis regarding all valuation issues.

**24. Creditors**

An analysis of the Council's creditors for amounts falling due within one year is shown below.

31 March 2016		31 March 2017	
£'000		£'000	
6,480	Central government bodies	6,180	
10,054	Other local authorities	7,785	
1,022	NHS bodies	585	
-	Public corporations and trading funds	-	
36,738	Other entities and individuals	38,072	
<b>54,294</b>		<b>52,622</b>	

Where expenditure has been incurred but not invoiced, an estimate is made of the amount to be accrued.

## 25. Provisions

	Balance at 1 April 2016	Additional provisions made in 2016/17	Amounts used in 2016/17	Unused amounts reversed in 2016/17	Unwinding of discounting in 2016/17	Balance at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance Provision	2,727	-	(1,499)	-	-	1,228
Litigation Claims	1,335	-	(417)	-	-	918
Collection Fund Appeals	6,071	-	(1,663)	-	-	4,408
<b>Total Provisions per Balance Sheet</b>	<b>10,133</b>	<b>-</b>	<b>(3,579)</b>	<b>-</b>	<b>-</b>	<b>6,554</b>

### *Insurance Provision*

The Council holds insurance provisions to cover the amount of claims lodged against it which have been assessed as being likely to be successful. The claims are for employer's liability and public liability and while catastrophic cover is externally insured, self insurance is used for the majority of these claims. The insurance provisions are created from internal premiums charged to service revenue accounts. Claims are met directly from these provisions. The provisions cover future liabilities where there is some certainty it will arise but for which the exact amount and timing is not known. There are additional monies which are to cover the same risks but where no claim has yet been received by either the Council or its insurer. This does not meet the definition of a provision and is held as a reserve.

### *Litigation Claims*

The Council is currently dealing with litigation claims where it is now anticipated that costs will be incurred.

### *Collection Fund Appeals*

The Council has made a provision for NNDR Appeals based upon its best estimates of the actual liability as at the year-end in known appeals.

## 26. Usable Reserves

<u>2015/16</u>			<u>2016/17</u>	
£'000			£'000	
7,968	General Fund Balance		7,968	
45,780	Earmarked General Fund Reserves		35,673	
3,000	Housing Revenue Account		3,000	
24,334	Earmarked Housing Revenue Account reserves		25,416	
14,252	Major Repairs Reserve		9,664	
13,822	Capital Receipt Reserves		22,813	
13,405	Capital Grants Unapplied		18,279	
<b>122,561</b>			<b>122,813</b>	

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, supported by the detailed movements in note 9 – Adjustments between Accounting Basis and Funding Basis under Regulations.

**27. Unusable Reserves**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
253,671	Revaluation Reserve	260,586
334,603	Capital Adjustment Account	315,387
(1,304)	Financial Instruments Adjustment Account	(1,232)
(432)	PFI Reserve	(387)
(517,301)	Pension Reserve	(516,939)
1,041	Collection Fund Adjustment Account	(4,457)
(2,166)	Accumulated Absences Account	(2,429)
<b>68,112</b>	<b>Total Unusable Reserves</b>	<b>50,529</b>

**(a) Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

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

<u>2015/16</u> £'000		<u>2016/17</u> £'000
201,313	<b>Balance at 1 April</b>	253,671
86,788	Upward revaluation of assets	31,425
(11,675)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,664)
276,426	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	278,432
(5,006)	Difference between fair value depreciation and historical cost depreciation	(5,251)
(17,749)	Accumulated gains on assets sold or scrapped	(12,595)
-	Other movements	-
(22,755)	Amount written off to the Capital Adjustment Account	(17,846)
<b>253,671</b>	<b>Balance at 31 March</b>	<b>260,586</b>

**(b) 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 Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with 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 Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

<b>2015/16</b>		<b>2016/17</b>	
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
<b>318,887</b>	Balance at 1 April		<b>334,603</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(41,846)	Charges for depreciation and impairment of non-current assets	(38,354)	
8,049	Revaluation losses on Property, Plant and Equipment	(10,177)	
(714)	Amortisation of Intangible Assets	(548)	
(29,070)	Revenue expenditure funded from capital under statute	(39,732)	
(56,541)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(76,830)	
<b>(120,122)</b>			<b>(165,641)</b>
-	Adjusting amounts re prior year HRA Non Dwelling Depreciation		-
<b>22,755</b>	Adjusting amounts written out of the Revaluation Reserve		<b>17,846</b>
<b>(97,367)</b>	Net written out amount of the cost of non-current assets consumed in the year		<b>(147,795)</b>
	Capital financing applied in the year:		
4,744	Use of the Capital Receipts Reserve to finance new capital expenditure	1,843	
20,691	Use of the Major Repairs Reserve to finance new capital expenditure	28,927	
33,731	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	66,765	
7,811	Application of grants to capital financing from the Capital Grants Unapplied Account	9,283	
28,826	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	23,177	
15,627	Capital expenditure charged against the General Fund and HRA balances	260	
<b>111,430</b>			<b>130,255</b>
1,653	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(1,676)
-	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-
<b>334,603</b>	<b>Balance at 31 March</b>		<b>315,387</b>

**(c) Financial Instrument Adjustment Account**

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement 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. As a result, the balance on the Account at 31 March 2017 will be charged to the General Fund over the next 33 years.

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	£'000
(1,376)	Balance at 1 April		(1,304)
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	
72	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	72	
72	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		72
<u>(1,304)</u>	<b>Balance at 31 March</b>		<u>(1,232)</u>

**(d) PFI Reserve**

The PFI Reserve was introduced on 1 April 2008 as a result of accounting changes required under IFRIC 12 PFI and Service Concessionary Arrangements. The Account holds the accumulated PFI grant credits received through the General Fund from inception of the Victoria Dock PFI contract. This balance will unwind over the remaining life of the asset.

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	
(475)	Balance at 1 April		(432)
43	Movement in reserve		45
<u>(432)</u>	<b>Balance at 31 March</b>		<u>(387)</u>

**(e) 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. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, charging assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers' contributions to pension funds or eventually pays pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
(662,083)	Balance at 1 April	(517,301)
155,499	Actuarial gains or losses on pensions assets and liabilities	6,992 Note 47
(45,426)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(40,786)
34,709	Employer's pensions contributions and direct payments to pensioners payable in the year	34,156
<b>(517,301)</b>	<b>Balance at 31 March</b>	<b>(516,939)</b>

**(f) Collection Fund Adjustment Account**

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

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
986	Balance at 1 April	1,041
55	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(5,498)
<b>1,041</b>	<b>Balance at 31 March</b>	<b>(4,457)</b>

**(g) Accumulated Absences Account**

The Accumulated Absences Account absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	£'000
(2,536)	Balance at 1 April		(2,166)
370	Settlement or cancellation of accrual made at the end of the preceding year	(263)	
-	Amounts accrued at the end of the current year	-	
370	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(263)
<b>(2,166)</b>	<b>Balance at 31 March</b>		<b>(2,429)</b>

**28. Cash Flow Statement – Operating Activities**

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	
50,043	Depreciation and Impairment		41,548
32,576	Disposals and downward valuations		78,968
714	Amortisation		548
-	Increase/(decrease) in impairment for bad debts		-
(3,891)	Increase/(decrease) in Creditors		(1,112)
170	(Increase)/decrease in Debtors		(8,817)
108	(Increase)/decrease in Stock		38
10,717	Movement in pension liability		6,630
-	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised		-
903	Other non-cash items charged to the net surplus or deficit on the provision of services		(3,272)
<b>91,340</b>			<b>114,531</b>

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	
-	Proceeds from short-term and long-term investments		-
(4,243)	Proceeds from the sale of PP&E, investment property and intangible assets		(12,771)
(91,950)	Any other items for which the cash effects are investing or financing cash flows		(131,008)
<b>(96,193)</b>			<b>(143,779)</b>

The cash flows for operating activities include the following items:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
695	Interest received	601
(28,399)	Interest paid	(29,455)
835	Dividends received	1,465
<u>(26,869)</u>		<u>(27,389)</u>

### 29. Cash Flow Statement – Investing Activities

<u>2015/16</u> £'000		<u>2016/17</u> £'000
(66,834)	Purchase of property, plant and equipment, investment property and intangible assets	(105,208)
(72,116)	Purchase of short-term and long-term investments	(41,704)
708	Other payments for investing activities	(15)
4,243	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,771
15,029	Proceeds from short-term and long-term investments	121,331
44,759	Other receipts from investing activities	74,660
<u>(74,211)</u>	<b>Net cash flows from investing activities</b>	<u>61,835</u>

### 30. Cash Flow Statement – Financing Activities

<u>2015/16</u> £'000		<u>2016/17</u> £'000
140,000	Cash receipts of short and long-term borrowing	69,161
48,475	Other receipts/(payments) from financing activities	50,087
(3,531)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,693)
(65,633)	Repayments of short and long-term borrowing	(35,364)
-	Other payments for financing activities	(39)
<u>119,311</u>	<b>Net cash flows from financing activities</b>	<u>80,152</u>

### 31. Acquired and discontinued operations

The Council did not acquire any operations during the financial year 2016/17. Furthermore, no operations were discontinued during the 2016/17 financial reporting period.

### 32. Agency Services

The Council carries out certain work on an agency basis, which is reimbursed. The principal areas of work are:-

- As a highways agent for the Department of Transport
- Library Services to the Prison Service

A summary of expenditure incurred in respect of the activity, which is not included in the income and expenditure Account, is as follows:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
332	Highways agent for the Department of Transport	326
-	Library services to the Prison Service	-
<u>332</u>	<b>Total amount reimbursable</b>	<u>326</u>



**33. Road Charging Schemes under the Transport Act 2000**

Under the provisions of the Transport Act 2000, details of any scheme of road user charging or workplace parking levy should be notified. During 2016/17, no such activities were entered into by the Council.

**34. Pooled Budgets**

Section 75 National Health Service Act 2006 enables establishment of joint working arrangements between NHS bodies and local authorities and pooling of funds to deliver specific local health issues. The Council has a pooled budget arrangement known as 'Better Care Fund'.

**Better Care Fund**

The Better Care Fund was announced in June 2013 to drive the transformation of local services to ensure that people receive better and more integrated care and support. The fund will consist of £3.8 billion of Government Funding to be deployed locally on health and social care through pooled budget arrangements between Local Authorities and Clinical Commissioning Groups. The Council has entered into a pooled budget agreement with Hull CCG to deliver Better Care and community equipment services. The Council's contribution to the fund is £5.5m which includes £1.9m for capital equipment. The Council operates the Better Care Fund on a joint operational basis with Hull CCG. The Council only accounts for its share of the funds assets, liabilities, expenditure and income.

Hull City Council	5,548
Hull CCG	21,777
	<hr/>
	27,325
Plus capital under spend brought forward from 2015/16	216
	<hr/>
	27,541
	<hr/>
<b>Agreed allocation of funds in 2016/17:</b>	
Hull City Council	10,352
Hull CCG	16,973
	<hr/>
	27,325
Plus capital under spend brought forward from 2015/16	216
	<hr/>
	27,541
	<hr/>
<b>Expenditure incurred in 2016/17</b>	
Hull City Council	(10,082)
Hull CCG	(17,148)
	<hr/>
	(27,230)
Use of capital under spend brought forward from 2015/16	(216)
	<hr/>
	(27,446)
	<hr/>
<b>Total Better Care Funding Remaining</b>	<b>95</b>
	<hr/>

**35. Members' Allowances**

The Council paid the following amounts to members of the Council during the year.

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
1,025	Allowances	1,027
1	Expenses	1
<hr/>		<hr/>
1,026	Total	1,028
		<hr/>

**36. Officers' Remuneration**

The number of senior officers and employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

**Including Termination Benefits**

	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>
	Non Teaching (Number of posts)		Teaching (Number of posts)	
£150,000 - £154,999	2	-	-	-
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	1	-	-
£125,000 - £129,999	-	-	-	-
£120,000 - £124,999	-	-	-	-
£115,000 - £119,999	3	4	-	-
£110,000 - £114,999	-	-	-	-
£105,000 - £109,999	-	-	-	-
£100,000 - £104,999	1	2	-	-
£95,000 - £99,999	-	-	-	-
£90,000 - £94,999	14	11	1	-
£85,000 - £89,999	1	-	-	2
£80,000 - £84,999	2	1	-	1
£75,000 - £79,999	4	-	-	-
£70,000 - £74,999	4	3	6	3
£65,000 - £69,999	9	6	7	5
£60,000 - £64,999	17	14	4	8
£55,000 - £59,999	26	38	7	13
£50,000 - £54,999	29	22	14	13
	<u>112</u>	<u>102</u>	<u>39</u>	<u>45</u>

**Excluding Termination Benefits**

	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>
	Non Teaching (Number of posts)		Teaching (Number of posts)	
£150,000 - £154,999	1	-	-	-
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	1	-	-
£125,000 - £129,999	-	-	-	-
£120,000 - £124,999	-	-	-	-
£115,000 - £119,999	3	4	-	-
£110,000 - £114,999	-	-	-	-
£105,000 - £109,999	-	-	-	-
£100,000 - £104,999	1	2	-	-
£95,000 - £99,999	-	-	-	-
£90,000 - £94,999	12	11	1	-
£85,000 - £89,999	-	-	-	2
£80,000 - £84,999	-	1	-	1
£75,000 - £79,999	-	-	-	-
£70,000 - £74,999	1	1	6	3
£65,000 - £69,999	5	3	7	5
£60,000 - £64,999	15	11	4	8
£55,000 - £59,999	26	32	7	13
£50,000 - £54,999	19	17	13	13
	<u>83</u>	<u>83</u>	<u>38</u>	<u>45</u>

The tables above include all individual senior officers and post holders listed below.

**Senior Officers' emoluments – Salary is £150,000 or more per year:**

2016/17

Post Holder Information	Note	Salary (Including fees and Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excl pension contributions 2016/17	Pension Contributions	Total Remuneration incl pension contributions 2016/17
Chief Executive M Jukes		151,500	-	570	-	-	152,070	22,422	174,492
							-		-
		<b>151,500</b>	<b>-</b>	<b>570</b>	<b>-</b>	<b>-</b>	<b>152,070</b>	<b>22,422</b>	<b>174,492</b>

2015/16

Post Holder Information	Note	Salary (Including fees and Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excl pension contributions 2015/16	Pension Contributions	Total Remuneration incl pension contributions 2015/16
Chief Executive M Jukes	1	129,543	-	1,095	-	-	130,638	19,172	149,810
Chief Executive D Stephenson	2	72,777	-	922	-	-	73,699	-	73,699
		<b>202,320</b>	<b>-</b>	<b>2,017</b>	<b>-</b>	<b>-</b>	<b>204,337</b>	<b>19,172</b>	<b>223,509</b>

**Note 1:** The postholder of Chief Executive took his post on 1 December 2015. Prior to this the postholder was employed as the Chief Operating Officer. The annualised salary for the Chief Executive post from 1 February 2015 was £151,500. The annualised salary for the Chief Operating Officer was £115,000. The Chief Operating Officer position was retired from 30 November 2015.

**Note 2:** The former postholder for Chief Executive left the Authority on 31 October 2015. The former postholder was working on a part time basis. The annualised salary of the Chief Executive post up to 31 October 2015 was £160,000

**Senior Officers' Emoluments – Salary is between £50,000 and £150,000 per year:**

2016/17									
Post Holder Information	Note	Salary (Including fees and Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excl pension contributions	Pension Contributions	Total Remuneration incl pension contributions
Chief Executive		151,500	-	570	-	-	152,070	22,422	174,492
Director of Resources & City Treasurer	1	60,282	-	45	90,000	-	150,327	8,922	159,249
Deputy Chief Executive		119,000	-	33	-	-	119,033	17,612	136,645
Director of Regeneration		115,000	-	422	-	-	115,422	17,020	132,442
Director of Public Health		115,000	-	12	-	-	115,012	16,445	131,457
Chief Executive Humber LEP		100,000	-	2,141	-	-	102,141	14,800	116,941
City Adults Social Care Manager		90,920	-	678	-	-	91,598	13,456	105,054
City Health & Wellbeing Manager		90,920	-	212	-	-	91,132	13,456	104,588
Town Clerk		90,933	-	103	-	-	91,036	13,458	104,494
City Manager - Major Projects & Infrastructure		90,920	-	80	-	-	91,000	12,509	103,509
City Customer Services & Transformational Manager		90,920	-	10	-	-	90,930	13,456	104,386
City HR Manager		90,920	-	-	-	-	90,920	13,456	104,376
City Streetscene Manager		90,920	-	-	-	-	90,920		90,920
City Children Safeguarding Manager		90,920	-	-	-	-	90,920	13,456	104,376
City Safe & Early Intervention Manager		90,920	-	-	-	-	90,920	13,456	104,376
City Property & Assets Manager		90,920	-	-	-	-	90,920	13,456	104,376
Corporate Director Children & Family Services	2	63,992	-	124	-	-	64,116	9,471	73,587
City Neighbourhoods & Housing Manager - Postholder 1	3	8,712	-	-	-	-	8,712	1,289	10,001
City Neighbourhoods & Housing Manager - Postholder 2	3	64,035	-	-	-	-	64,035	9,477	73,512
		1,706,734	-	4,430	90,000	-	1,801,164	237,617	2,038,781

**Note 1:** The postholder for Director of Resources & City Treasurer left the post on 9 October 2016. The annualised salary for this post in 2016/17 is £115,000. Between 1 November 2016 and 31 March 2017, the post was filled on an interim basis and was paid £76,000.

**Note 2:** The postholder for Corporate Director Childrens & Family Services left the post on 22 October 2016. From 1 November 2016 this position has been covered by a consultant and was paid £95,680.

**Note 3:** The postholder to City Neighbourhoods & Housing Manager left the post on 6 May 2016. A new postholder took this position from 18 July 2016. The annualised salary for this post is £90,920

**Note 4:** The postholder for the City Manager Learning & Skills was filled on an interim basis, from 1 April 2016 to 31 March 2017 and was paid £142,048.

Kingston upon Hull City Council Statement of Accounts 2016/17

2015/16

Post Holder Information	Note	Salary (Including fees and Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excl pension contributions	Pension Contributions	Total Remuneration incl pension contributions
Deputy Chief Executive	1	116,671	-	31	-	-	116,702	17,267	133,969
Director of Resources & City Treasurer		115,000	-	370	-	-	115,370	17,020	132,390
Corporate Director Children & Family Services		115,000	-	210	-	-	115,210	17,020	132,230
Director of Public Health		115,000	-	8	-	-	115,008	16,445	131,453
Chief Executive Humber LEP	2	100,000	-	3,645	-	-	103,645	14,800	118,445
Director of Regeneration	3	100,428	-	379	-	-	100,807	14,863	115,670
City Adults Social Care Manager		90,020	-	829	-	-	90,849	13,323	104,172
City Customer Services Manager		90,020	-	57	-	-	90,077	13,323	103,400
City Children Safeguarding Manager		90,020	-	-	-	-	90,020	13,323	103,343
City Neighbourhoods & Housing Manager		90,020	-	-	-	-	90,020	13,323	103,343
City Safe & Early Intervention Manager		90,020	-	-	-	-	90,020	13,323	103,343
City Manager - Major Projects & Infrastructure		90,020	-	-	-	-	90,020	13,244	103,264
City Streetscene Manager		90,020	-	-	-	-	90,020	-	90,020
City HR Manager		90,020	-	-	-	-	90,020	13,323	103,343
City Property & Assets Manager		90,020	-	-	-	-	90,020	13,323	103,343
Town Clerk		90,020	-	-	-	-	90,020	13,323	103,343
City Health & Wellbeing Manager	4	82,518	-	143	-	-	82,661	12,213	94,874
City Learning & Skills Manager	5	37,508	-	-	-	-	37,508	5,551	43,059
		1,682,325	-	5,672	-	-	1,687,997	235,007	1,923,004

**Note 1:** The Deputy Chief Executive was a new position from 1 December 2015. Prior to this the postholder was employed as Corporate Director Strategic Commissioning. The annualised salary for Deputy Chief Executive is £119,000. The annualised salary for the Corporate Director Strategic Commissioning was £115,000. The Corporate Director Strategic Commissioning position was retired from 30 November 2015.

**Note 2:** The Chief Executive Humber LEP post is jointly funded by East Riding of Yorkshire Council, North Lincolnshire Council, North East Lincolnshire Council and Hull City Council.

**Note 3:** The Director of Regeneration was a new position from 1 December 2015. Prior to this the postholder was employed as City Regeneration & Policy Manager. The annualised salary for Director of Regeneration is £115,000. The annualised salary for the City Regeneration & Policy Manager was £90,020. The City Regeneration & Policy Manager position has been vacant since 30 November 2015.

**Note 4:** The postholder for City Health & Wellbeing Manager was vacant until 1 May 2015. The annualised salary for this post for 2015/16 was £90,020

**Note 5:** The postholder for City Learning & Skills Manager left this post on 31 August 2015. The annualised salary for this post was £90,020. This position is currently being covered by a consultant.

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:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
£1 - £20,000	5	24	155	117	160	141	1,465,923	1,235,657
£20,001 - £40,000	-	6	75	29	75	35	1,770,947	891,781
£40,001 - £60,000	-	-	30	1	30	1	1,426,134	41,822
£60,001 - £80,000	-	-	20	3	20	3	1,409,981	200,500
£80,001 - £100,000	-	-	3	1	3	1	256,661	81,343
£100,001 - £120,000	-	-	-	-	-	-	-	-
£120,001 - £140,000	-	-	2	-	2	-	258,727	-
£140,001 - £160,000	-	-	-	-	-	-	-	-
£160,001 - £180,000	-	-	-	-	-	-	-	-
over £180,000	-	-	-	-	-	-	-	-
Total included in bandings	5	30	285	151	290	181	6,588,373	2,451,103
Add: Amounts provided for in CIES not included in bandings							505,309	475,988
Total cost included in CIES							7,093,682	2,927,091

The above cost of exit packages includes pension strain costs and compensation payments also relating to schools staff.

### 37. External Audit Costs

In 2016/17 the following costs were incurred in relation to external audit and inspection fees:

2015/16 £'000		2016/17 £'000
174	Fees payable to auditors appointed under the Local Audit and Accountability Act 2014 with regard to external audit services carried out by the appointed auditor for the year	174
20	Fees payable to auditors appointed under the Local Audit and Accountability Act 2014 for the certification of grant claims and returns for the year	21
5	Fees payable to auditors appointed under the Local Audit and Accountability Act 2014 in respect of other services provided during the year	5
199		200

**38. Dedicated Schools Grant**

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

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

	<u>Central Expenditure</u> £'000	<u>Individual Schools Budget</u> £'000	<u>Total</u> £'000
Final DSG for 2016/17 before Academy recoupment			202,950
Academy figure recouped for 2016/17			(115,380)
Total DSG after Academy recoupment for 2016/17			<u>87,570</u>
Brought forward from 2015/16			(339)
Carry forward to 2016/17 agreed in advance			-
Agreed initial budgeted distribution in 2016/17	36,778	50,453	87,231
In year adjustments	(3,934)	3,860	(74)
Final budget distribution for 2016/17	<u>32,844</u>	<u>54,313</u>	<u>87,157</u>
Less Actual Central Expenditure	(33,182)	-	(33,182)
Less Actual ISB deployed by schools	-	(54,313)	(54,313)
Plus Local Authority contribution for 2016/17	-	-	-
<b>Carry forward to 2017/18</b>	<u>(338)</u>	<u>-</u>	<u>(338)</u>

**39. Grant Income**

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
	<b>Credited to Taxation and Non Specific Grant Income</b>	
62,728	Revenue Support Grant	50,725
31,121	Business Rates	31,381
2,981	New Homes Bonus Scheme	3,964
5,414	Other	3,986
<u>102,244</u>	Total	<u>90,056</u>

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
	<b>Credited to Services</b>	
128,563	Housing Benefit Rents	118,934
7,375	Skills Funding Agency, adult education and sixth form	7,168
101,655	Dedicated Schools Grant	87,570
7,419	Pupil Premium Grant	5,678
113	Adoption Reform Grant	-
23,679	Public Health	25,815
8,582	Better Care Fund	7,584
11,311	Partnership for Schools	11,311
1,266	16 to 19 Funding	1,323
13,332	Other Grants	15,107
<b>303,295</b>		<b>280,490</b>

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

<b>31 March 2016</b>	<b>Current Liabilities</b>	<b>31 March 2017</b>
<b>£'000</b>		<b>£'000</b>
	<b>Grants Receipts in Advance (Capital Grants)</b>	
350	Devolved Formula Capital - Partnership for Schools	268
-	Other Grants	-
185	Other Contributions	284
<b>535</b>	<b>Total</b>	<b>552</b>
	<b>Grants Receipts in Advance (Revenue Grants)</b>	
1,265	Housing Benefit Rent	1,215
50	Other Grants	187
<b>1,315</b>	<b>Total</b>	<b>1,402</b>
	<b>Long-term Liabilities</b>	
	<b>Grants Receipts in Advance (Capital Grants)</b>	
61	Devolved Formula Capital - Partnership for Schools	26
-	Other Grants	-
285	Other Contributions	279
<b>346</b>	<b>Total</b>	<b>305</b>

The Council does not have a donated assets account.

#### **40. Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The aggregation option for individual transactions has been taken on the basis that the Council has satisfied itself that all the transactions entered into have been concluded in accordance with its proper procedures for preventing undue influence.



**Central Government**

Central Government has statutory oversight of 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 (eg Council Tax bills, housing benefits). Grant Income is detailed at note 39.

**Members**

Members of the Council have direct control over the Council's financial operating policies. The total of members' allowances paid in 2016/17 is shown in note 35.

In 2016/17, 59 elected members declared an interest in related parties (59 in 2015/16). The relevant members did not take part in any discussion or decision relating to the transactions. A full list of member's interests is available from the Guildhall, Alfred Gelder Street, Hull, HU1 2AA. It is also available to view on the Council's website, [www.hullcc.gov.uk](http://www.hullcc.gov.uk).

**Officers**

The Council officers' interests are listed below:

**Humber LEP Limited**

Matt Jukes was a Director during 2016/17.

**Hull UK City of Culture 2017 Limited**

Matt Jukes was a Trustee during 2016/17.

**Hull Esteem Consortium LEP Ltd**

Trish Dalby was a Director during 2016/17.

**NPS Humber Limited**

Mark Jones was a Director during 2016/17.

**Hull & Goole Port Health Authority**

Ian Anderson, the Council's Town Clerk, was the Clerk to the Authority during 2016/17.

Brendan Arnold, the Council's Director of Finance, Infrastructure and Transformation who left the Council on 9 October 2016, was Treasurer to the Authority during 2016/17.

Don McLure, the Council's Interim Director of Finance and Transformation, was Treasurer to the Authority from 1 November 2016 to 31 March 2017.

Information in respect of material transactions with member and officer related parties not disclosed in this Statement of Accounts, is presented below:

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
11,293	Hull Esteem Consortium LEP Ltd	45,962
43,354	Kingstown Works Ltd	39,404
11,129	NPS Humber Ltd	10,359
10,225	Humberside Police	10,969
12,608	Humberside Fire Authority	5,668
8,115	Hull Culture & Leisure Ltd	14,448
721	Humber NHS Foundation Trust	560
1,504	Hull UK City of Culture 2017 Ltd	1,551
83	Pickering & Ferens Homes	1,995
3,513	Other	7,896
<u>102,545</u>		<u>138,812</u>

Of those that returned the declaration form, no other Council members, Chief Officers, nor their close relations or members of the same household have undertaken any declarable related party transactions with the Council.

### ***Other Public Bodies***

Pension Fund – see notes 46 and 47 for details of pension fund transactions during the 2016/17 financial year for the Teachers Pension Scheme, the NHS Pension Scheme and the Local Government Pension Scheme.

### ***Entities Controlled or Significantly Influenced by the Council***

#### **NPS Humber Limited**

NPS Humber Limited is a company jointly owned by the Council (40%) and NPS Property Consultants Ltd (60%). The purpose of the company is to provide property management services, specifically services to the Council as determined under a Service Agreement and Specification. The company began trading on 8 November 2008.

The draft financial statements for the year ending 31 March 2016 show a net profit before tax of £0.363m (£0.098m in 2014/15) and net assets of £1.113m (£0.827m in 2014/15).

The company was owed £0.983m by the Council at 31 March 2016 for work carried out during 2015/16 and owed the Council £0.199m for goods and services received during 2015/16.

Copies of the accounts are available from NPS Property Consultants Ltd, Lancaster House, 16 Central Avenue, St Andrews Business Park, Norwich NR7 0HR.

#### **Humber LEP Limited**

The Humber LEP Limited is a wholly-owned company, formed to act as the legal entity for Hull's Local Enterprise Partnership.

The company was incorporated on 13 March 2012 as a company limited by guarantee. The Council is operating as the Accountable Body. Expenditure of £1.176m and income of £1.176m have been recorded in the accounts for the period ended 31 March 2017.

#### **Freedom Festival Limited**

The Freedom Festival Limited is a wholly-owned company, formed to manage the Freedom Festival.

The company was incorporated on 15 May 2013 as a company limited by guarantee. The company has traded during the period ended 31 March 2017 with transactions totalling £0.200m.

#### **Hull UK City of Culture 2017 Limited**

Hull UK City of Culture 2017 Limited is an independent company, limited by guarantee, set up to manage and deliver the UK City of Culture 2017 programme in partnership with Kingston upon Hull City Council.

During 2016/17 the Council provided funding in the sum of £1.500m to the company for running costs. The Council also provided a range of support services to the Company at no cost to the Company.

## **41. *Capital Expenditure and Financing***

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

<u>2015/16</u> £'000		<u>2016/17</u> £'000
705,243	<i>Opening Capital Financing Requirement</i>	699,740
	<b>Capital investment</b>	
75,813	Property, Plant and Equipment	121,041
156	Investment Properties	1,692
888	Intangible Assets	2,514
29,070	Revenue expenditure funded from Capital under Statute	39,732
	<b>Sources of finance</b>	
(4,744)	Capital receipts	(1,843)
(41,542)	Government grants and other contributions	(76,048)
	Sums set aside from revenue:	
(36,318)	Direct revenue financing	(29,187)
(28,826)	MRP/loans fund principal and voluntary set aside	(23,177)
<u>699,740</u>	<i>Closing Capital Financing Requirement</i>	<u>734,464</u>
	<b>Explanation of movements in year</b>	
-	Increase in underlying need to borrowing (supported by Government financial assistance)	-
(5,503)	Increase in underlying need to borrowing (unsupported by Government financial assistance)	20,255
-	Assets acquired under finance leases	-
-	Assets acquired under PFI/PPP contracts	14,469
<u>(5,503)</u>	<i>Increase/(decrease) in Capital Financing Requirement</i>	<u>34,724</u>

#### 42. Leases

The Council examines its contracts database and property portfolio on an annual basis, to assess whether new leases are classified as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement (that transfers substantially all the risks and rewards incidental to ownership) or classified as an operating lease. The Council found no new finance leases in the financial reporting period and therefore considers all new leases as operating leases.

##### ***The Council as Lessee***

##### **Finance Leases**

The Council has no material assets leased in under finance leases.

##### **Operating Leases**

The Council leases in a number of properties under operating leases to deliver services to the public with average remaining lives of 7 years. The Council has no leased in machinery or vehicles as at 31 March 2017.

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

<u>31 March 2016</u> £'000		<u>31 March 2017</u> £'000
306	Not later than one year	551
614	Later than one year and not later than five years	670
1,667	Later than five years	1,667
<u>2,587</u>		<u>2,888</u>

Expenditure charged to cost of services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

<u>31 March 2016</u> £'000		<u>31 March 2017</u> £'000
551	Minimum lease payments	551
-	Contingent rents	-
<u>(118)</u>	(sublease payments receivable)	<u>(148)</u>
<b><u>433</u></b>	<b>Minimum lease payments</b>	<b><u>403</u></b>

### ***The Council as Lessor***

#### **Finance Leases**

The Council has no assets leased out under finance leases.

#### **Operating Leases**

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

- For the provision of community services, such as sports facilities, charitable organisations and community centres.
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years, up to 75 years, are:

<u>31 March 2016</u> £'000		<u>31 March 2017</u> £'000
4,272	Not later than one year	4,317
10,844	Later than one year and not later than five years	10,342
<u>97,825</u>	Later than five years	<u>97,026</u>
<b><u>112,941</u></b>		<b><u>111,685</u></b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, no contingent rents were receivable by the Council (2015/16 - £nil).

**43. Private Finance Arrangements and Similar Contracts**

Under IFRIC 12 – Service Concession Arrangements, property used within a PFI arrangement should be recognised as an asset or assets of the local authority.

**BSF Schools**General

The Council has entered into a 25 year contract with the Hull Esteem Group to design, build, finance and operate five new schools in Hull:

- Winifred Holtby / Tweendykes School – The school building includes two schools; Winifred Holtby (secondary school) and Tweendykes (special needs school). The schools opened in September 2011. Therefore, the asset and corresponding long term liability were brought onto the balance sheet during 2011/12. The Winifred Holtby / Tweendykes arrangement is included as one PFI scheme.
- Two secondary schools (Andrew Marvell Business and Enterprise College and Kingswood College of Arts) and a special needs school (Oakfield) were opened in January 2013. Asset values and corresponding long term liabilities were brought onto balance sheet during 2012/13.
- Winifred Holtby, Tweendykes and Kingswood College of Arts converted to academy status in 2013/14. Andrew Marvell Business and Enterprise College transferred to academy status in 2016/17. Assets were removed from the balance sheet in 2013/14 and 2016/17 respectively, but the liability remains on the balance sheet.
- No new schools have been built during this financial year under a PFI arrangement.

Significant Contractual Information*Significant terms of the arrangement*

Market testing exercises must be completed every five years by an independent third party on behalf of the Hull Esteem Group. Should the service costs change by 5% or more, the unitary charge must be adjusted accordingly. Market testing will assess grounds maintenance, pest control, cleaning and waste management.

Should the Hull Esteem Group opt to refinance its debts and has obtained the Council's consent, the Council is entitled to a 50% share of any gains.

*Rights to use specified assets*

The Council has full rights to use the schools for the provision of educational services. Each school is made available for use in the following priority order: i) provision of education services, ii) community use, iii) and third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use.

*Rights to receive specified assets at the end of the concession period*

The schools are under the operational control of the Hull Esteem Group during the contract period, with the legal title of the land remaining with the Council throughout the contract. At the end of the contract period, the buildings will revert to the Council for nil consideration.

*Renewal and termination options*

The contract does not include an option to extend or renew beyond the contractual expiry date. The significant risks that the Council is exposed to under a PFI contract are changes in inflation and changes in demand for the services. There is provision within the agreement for the termination of the contracts, under certain conditions, by either the Council or by the contractor on Council default, or termination by the Council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

*Other rights and obligations*

It is anticipated that any staff employed by Hull Esteem Group or its subcontractors running the schools will have the legal right to transfer over to the Council at the end of the contract.

**Other PFI Contractual Arrangements**Victoria Dock School

The Council entered a 25 year contract in July 1998 with the Sewell Group to provide a primary school on Victoria Dock. The asset and corresponding long term liability were brought onto the Balance Sheet in 2009/10, with effect from the commencement of the contract.

Orchard Park Neighbourhood Integrated Service Centre

The Council entered a 25 year contract in December 2009 with the Sewell Group to provide a health centre on the Orchard Park Estate. The facility is jointly occupied with the local health body. The asset and corresponding long term liability were brought onto the Balance Sheet in 2009/10, with effect from the commencement of the contract.

Extra Care Housing

The Council entered into the first stage of a 25 year contract in March 2017 with the Riverside Group to operate Extra Care Housing facilities at Hall Road in the City of Hull. 65 apartments have been made available with a further 251 units forecast to become available in July 2017.

**Payments**

The Council makes agreed unitary payments each year to the seven PFI schemes mentioned above for services provided. Where services are not provided or fall short of agreed standards, the Council can reduce the unitary payment by the value of the lost services. Unitary payments are calculated for future years based on an estimated inflation rate of 2.5% per annum. Payments remaining for the schemes are as follows:

	<b>Payment for Services</b>	<b>Repayment of Liability</b>	<b>Lifetime Replacement Costs</b>	<b>Interest</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Payable in 2017/18	4,399	3,751	681	8,279	17,110
Payable within two to five years	18,678	16,559	4,660	30,874	70,771
Payable within six to ten years	24,707	24,441	10,097	32,465	91,710
Payable within eleven to fifteen years	27,849	32,020	13,085	24,311	97,265
Payable within sixteen to twenty years	29,488	42,782	11,357	11,712	95,339
Payable within twenty-one to twenty-five years	4,127	7,579	2,695	76	14,477
	<b>109,248</b>	<b>127,132</b>	<b>42,575</b>	<b>107,717</b>	<b>386,672</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed.

The liability outstanding to pay the contractor for capital expenditure incurred is as follows:

<b>2015/16</b>		<b>2016/17</b>	
<b>£'000</b>		<b>£'000</b>	
119,816	Balance outstanding at start of year	116,356	
(3,460)	Payments during the year	(3,693)	
-	Capital expenditure incurred in the year	14,469	
-	Other movements	-	
<b>116,356</b>	<b>Balance outstanding at year end</b>	<b>127,132</b>	

**44. Impairment Losses**

NPS Humber Ltd led a review of assets subject to impairment due to consumption of economic benefit. A number of assets were identified for review but no impairment was required except for Gateway assets and Council Dwellings.

Assets purchased by Gateway for demolition have been impaired by the building element of the property value. When a site is fully assembled, the site will be revalued accordingly.

Council Dwellings earmarked for demolition have been impaired by the building element of the property value.

The significant assets which were subject to an impairment review and subsequently reduced in value are as follows:

Name of Asset	<u>Impaired by</u> £'000	Reason for Impairment
Gateway properties	2,316	39 Properties purchased for demolition / redevelopment
Council dwellings	1,443	165 Stock reduction demolitions
Capital spend not adding value	1,293	
Total Impairment	<u>5,052</u>	

#### **45. Capitalisation of Borrowing Costs**

The Council has not capitalised any borrowing costs during the financial year 2016/17 and any previous financial years.

#### **46. Pension Schemes Accounted for as Defined Contribution Schemes**

##### ***Teachers' Pension Scheme***

Teachers employed by the Council are members of the Teachers' Pension Scheme. Administered by the Department for Education, it provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2016/17 the Council paid £4.479m in respect of teachers' pension costs, based on a contribution rate of 14.10%. The figures for 2015/16 were £4.955m and 14.10%. In addition, the Council is responsible for the pension payments relating to added years' benefits previously awarded.

The scheme is a defined benefit scheme, but it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees, therefore for the purposes of the Statement of Accounts it is accounted for on the same basis as a defined contribution scheme.

##### ***NHS Staff Pension Scheme***

During 2013/14, NHS staff transferred to the Council. These staff maintained their membership in the NHS Pension Scheme. The Scheme provides staff 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 an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £0.050m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14% of pensionable pay. In 2015/16, the Council paid £0.057m, representing 14% of pensionable pay. There were no contributions remaining payable at the year end.

**47. Defined Benefit Pension Schemes****Local Government Pension Scheme**

As part of the Council's terms and conditions of employment, retirement benefits are offered to its non-teaching employees through the East Riding of Yorkshire Council's pension scheme (the Local Government Pension Scheme) which provides members with defined benefits related to pay and service. This is a funded final salary scheme to which both the Council and its employees pay contributions calculated at a level intended to balance the pension liabilities with investment assets. The contribution rate is determined by the County Fund's Actuary based on triennial valuations, and under Pension Fund Regulations the contribution rates are set to meet 100% of the overall liabilities of the fund.

The latest triennial valuation was as at the 31 March 2016 and the Actuary has subsequently indicated a minimum contribution rate of 26.1% of payroll of contributing members from 1 April 2017. This rate will apply until 2019-20. The current minimum contribution rate is 27.1%.

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Net Cost of Services:</i>	
	<i>Service cost comprising:</i>	
31,558	- current service cost	24,111
435	- past service costs	1,905
(7,542)	- (gains)/losses from settlements	(3,137)
	<i>Financing and Investment Income and Expenditure</i>	
20,975	- Net interest expense	17,907
<u>45,426</u>		<u>40,786</u>
	<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	
	<b>Remeasurement of the net defined benefit liability comprising:</b>	
(20,773)	- Return on plan assets (excluding the amount included in the net interest expense)	147,429
-	- Actuarial gains and losses arising on changes in demographic assumptions	28,742
151,453	- Actuarial gains and losses arising on changes in financial assumptions	(248,775)
24,819	- Other	79,596
<u>155,499</u>	<i>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	<u>6,992</u>
	<i>Movement in Reserves Statement:</i>	
(45,426)	- reversal of net charges made for retirement benefits in accordance with IAS19	(40,786)
	<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>	
30,546	- employers' contributions payable to scheme	30,056
4,163	- retirement benefits payable to pensioners	4,100
<u>34,709</u>		<u>34,156</u>



**Assets and Liabilities in Relation to Post-Employment Benefits:**

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
	<b>Reconciliation of fair value of the scheme (plan) assets</b>	
1,009,836	Opening balance at 1 April	1,016,333
32,224	Interest income	35,355
	<b>Remeasurement gain / (loss)</b>	
(20,773)	Return on plan assets (excluding amounts included in the net interest expense)	147,429
-	Other	-
34,709	Employer Contributions	34,156
6,309	Contributions by scheme participants	5,864
-	Entity combinations	-
(43,919)	Benefits paid	(47,912)
(2,053)	Settlements	(3,436)
1,016,333	Closing balance at 31 March	1,187,789
	<b>Reconciliation of present value of scheme liabilities (defined benefit obligation)</b>	
(1,671,918)	Opening balance at 1 April	(1,533,633)
(31,558)	Current Service Cost	(24,111)
(53,199)	Interest Cost	(53,262)
(6,309)	Contributions by scheme participants	(5,864)
	<b>Remeasurement gain / (loss)</b>	
-	Actuarial gains/losses arising from changes in demographic assumptions	28,741
151,453	Actuarial gains/losses arising from changes in financial assumptions	(248,775)
24,819	Other	79,596
(435)	Past service costs	(1,905)
-	Entity combinations	-
43,919	Benefits paid	47,912
9,595	Settlements	6,573
(1,533,633)	Closing balance at 31 March	(1,704,728)

**Pension Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit scheme is as follows:

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
1,016,333	Fair value of employer assets	1,187,789
(1,470,880)	Present value of funded liabilities	(1,638,644)
(62,754)	Present value of unfunded liabilities	(66,084)
(517,301)		(516,939) *

As at 31 March 2017, the Council's deficit balance (£516.939m) includes a deficit balance of one school which transferred to academy at the end of the financial year. The total estimated deficit balance relating to the school is £1.819m which equates to 0.35% of the total Council deficit.

\* The Balance Sheet entry for Other Long Term Liabilities of £517.052m at 31 March 2017 also includes £0.113m of outstanding mortgages (2015/16 total of £517.415m includes £0.114m).

Period ended 31 March 2016				Period ended 31 March 2017				
Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets		Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets
£'000	£'000	£'000			£'000	£'000	£'000	
				<b>Equity Securities:</b>				
101,731	-	101,731	10%	Consumer	116,520	-	116,520	10%
28,664	-	28,664	3%	Manufacturing	64,663	-	64,663	5%
63,693	-	63,693	6%	Energy and Utilities	66,935	-	66,935	6%
124,981	-	124,981	12%	Financial Institutions	73,728	-	73,728	6%
65,797	-	65,797	6%	Health and Care	69,410	-	69,410	6%
59,425	-	59,425	6%	Information Technology	45,489	-	45,489	4%
-	-	-	0%	Other	414	-	414	0%
				<b>Debt Securities:</b>				
17,404	-	17,404	2%	Corporate Bonds (investment grade)	18,398	-	18,398	2%
9,582	10,398	19,980	2%	Corporate Bonds (non-investment grade)	12,180	22,768	34,948	3%
29,912	-	29,912	3%	UK Government	35,212	-	35,212	3%
33,986	-	33,986	3%	Other	36,542	-	36,542	3%
				<b>Private Equity:</b>				
22,018	29,238	51,256	5%	All	25,719	29,801	55,520	5%
				<b>Real Estate:</b>				
24,832	95,017	119,849	12%	UK Property	29,859	109,098	138,957	12%
-	-	-	0%	Overseas Property	-	-	-	0%
				<b>Investment Funds and Unit Trusts:</b>				
179,191	-	179,191	18%	Equities	276,032	-	276,032	22%
-	-	-	0%	Bonds	-	-	-	0%
-	-	-	0%	Hedge Funds	-	-	-	0%
-	-	-	0%	Commodities	-	-	-	0%
10,109	21,327	31,436	3%	Infrastructure	11,223	31,907	43,130	4%
21,759	38,752	60,511	6%	Other	21,888	55,302	77,190	6%
				<b>Derivatives:</b>				
-	-	-	0%	Inflation	-	-	-	0%
-	-	-	0%	Interest rate	-	-	-	0%
-	-	-	0%	Foreign Exchange	-	-	-	0%
-	-	-	0%	Other	-	-	-	0%
				<b>Cash and Cash Equivalents:</b>				
28,518	-	28,518	3%	All	34,703	-	34,703	3%
<b>821,602</b>	<b>194,732</b>	<b>1,016,334</b>	<b>100%</b>	<b>Totals</b>	<b>938,915</b>	<b>248,876</b>	<b>1,187,791</b>	<b>100%</b>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31 March 2013.

Significant assumptions used by the actuary have been:

<u>31 March 2016</u>		<u>31 March 2017</u>
	Mortality assumptions (years)	
	- Longevity at 65 for current pensioners	
21.9	- Men	21.7
24.1	- Women	24.2
	- Longevity at 65 for future pensioners	
24.2	- Men	23.7
26.7	- Women	26.4
2.2%	Rate of inflation	2.4%
3.7%	Rate of increase in salaries	2.6%
2.2%	Rate of increase in pensions	2.4%
3.5%	Rate for discounting scheme liabilities	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below based on reasonably possible changes occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2012/13.

	<b>Approximate % Increase to Employer Liability</b>	<b>Approximate Monetary Amount (£'000)</b>
0.5% decrease in Real Discount Rate	9%	158,323
0.5% increase in the Salary Increase Rate	1%	22,045
0.5% increase in the Pension Increase Rate	8%	134,187

### **Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contribution at a constant rate. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public services.

The Council anticipates paying £24.568m during 2017/18 in expected contributions to the scheme.

The weighted average duration of the defined benefit obligation for scheme members is 17.6 years.

**48. Contingent Liabilities*****Potential Grant Clawback Arising from the Council Role as Accountable Body***

The Council is acting as the accountable body in respect of a number of grant funded regeneration projects. Such regeneration projects included the Gateway Programme and Preston Road New Deal for Communities. In the event of any related grant clawback, the Council is therefore liable to fund any excess expenditure incurred. In addition, there are grants received directly by the Council for which there is the potential for grant clawback if grant conditions are not met.

In recent years no clawback has been payable and it is not possible to accurately quantify any future potential payments.

***The Deep***

In the late 1990's the Council supported the development of The Deep and provided direct support to EMIH Ltd by way of seconding staff and cash flow loans. Whilst no loan remains outstanding, the Council has potential liabilities arising from guarantees it provided at the time of The Deep's construction. In the capacity of accountable body the Council guaranteed grants from the European Regional Development Fund (ERDF) of £7.7m, Yorkshire Forward of £3.4m and Central Government funding provided through the Single Regeneration Budget (SRB) of £3.8m. Grants were provided on the basis that the economic life of the project would be 20 years and therefore if the facility does not remain open for this period the associated £14.9m capital grant may have to be repaid by the Council.

Given the successful operation of The Deep to date (17 years) and future trading projections, it is not anticipated that the Council will have to repay any of the grants. If however circumstances were to change and the viability of The Deep was called into question, the Council would need to consider all possible options and enter detailed negotiations with the relevant funding bodies.

***Municipal Mutual Insurance Company***

Municipal Mutual Insurance Company (MMI), which provided insurance to the Council until 1992, is in liquidation. The solvency of MMI was largely dependant on the decision of the Supreme Court regarding the employer's liability trigger litigation. The judgement of the Supreme Court was handed down on 28 March 2012. The finding of the Court was that the insurer on risk at the time of negligent exposure to asbestos is liable to pay compensation to an employee who contracts mesothelioma as a result of the exposure.

Significant numbers of outstanding claims are in respect of mesothelioma and MMI's financial position will depend on the number of mesothelioma claims it faces and the cost of those claims in the future. The Directors indicated, in the 30 June 2011 Financial Statements, that if as has happened, the Supreme Court decision went against MMI, they would be unable to foresee a position in which future investment income would be adequate to achieve payment of agreed claims in full and that appropriate alternative arrangements, which might involve the triggering of the Scheme of Arrangement, would be made.

Hence, as the Directors considered insolvency unavoidable, the scheme of arrangement was triggered on 1 January 2014 and a 15% levy charged based on the amount paid to the scheme creditors from 30 September 1993. As a result, the Council paid over £2.115m on 14 January 2014 to meet the Council's liability. During 2015/16, following a further review of the company's financial position, the Directors have increased the levy to 25%. The Council has provided for a further payment of £1.441m to fund the additional levy.

The Scheme Administrators have advised that it is possible that a further levy may be required to meet future costs but at the moment none is payable and as such any further liabilities cannot be reliably quantified.

***Re-organisation Costs***

The Council faces significant budget pressures for the 2017/18 financial year, and as a result, staffing numbers are likely to fall and redundancies are possible. The actual costs associated with voluntary redundancies cannot be reliably quantified at this time.

**49. Contingent Assets*****Housing Market Renewal Schemes***

The Council provides grants to Places for People Homes Ltd toward the provision of equity loans to residents displaced as a result of regeneration activities in defined areas of the city. On redemption of individual loan agreements, a proportion of the principal and any capital gain realised may become repayable to the Council, subject to the fulfilment of liabilities in relation to administration fees due to Places for People Homes Ltd. Any subsequent expenditure from this receipt may be subject to approval of the Homes and Communities Agency.

The Council has entered into development agreements with partners to develop sites within Newington St Andrews and the Holderness Road Corridor. In the event of any of the individual sites achieving overall profit an overage may become payable to the Council. Any subsequent expenditure from this receipt may be subject to approval of the Homes and Communities Agency.

It is currently not practical to assess or estimate the potential capital gains or clawback which may become due to the Council if circumstances change which result in cash inflows.

**50. Nature and Extent of Risks Arising from Financial Instruments****Key risks**

The Council's activities expose it to a variety of financial risks. These 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 its 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 movements.

**Overall procedures for managing risk**

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

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- By approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance;

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

The annual treasury management strategy for 2016/17 which incorporates the prudential indicators was approved by Council on 25/02/16 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2016/17 was set at £770m, revised to £811m as part of the mid-year review. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £726m, revised to £759m as part of the mid-year review. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt.

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

### **Credit risk**

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

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

The Council does not apply normal commercial principles to credit risk its customers but follows the following principles in regard to making deposits with banks and building societies. Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings with parameters set by the Council.

The Treasury Management Policy for 2016/17 was approved by Council on 25th February 2016. The following paragraphs are based on the approved Treasury Management Policy.

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance and Transformation will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending

criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by Capita Asset Services, the Council's treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be considered for suspension from use, with all others being reviewed in light of market conditions.

On occasions ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is as follows:

- Banks 1 – a good credit quality – the Council will only use banks which:
  - are UK banks only,
  - and have, as a minimum, the following Fitch credit ratings:
- Banks 1 – a good credit quality – the Council will only use banks which hold a minimum rating of:
  - Short term – F1
  - Long term – A-
- Banks 2 – part nationalised UK bank – Royal Bank of Scotland. This bank can be included if they continue to be part nationalised or they meet the rating in Banks 1 above.
- Banks 3 – The Council's own banker (Natwest Bank) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation – The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies – The Council will use all societies which meet the ratings for banks as outlined above.
- Money Market Funds – AAA rating.
- UK Government (DMADF)
- Local authorities.

Due care will be taken to consider the group exposure of the Council's investments. In addition limits in place above will apply to a group of companies.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover specified and non-specified investments):

- Only UK Banks
- Banks and building societies with a minimum rating of F1+ /AA- to have a limit of £15m (part nationalised banks £20m), with an investment period of up to 1 year
- Banks and building societies with a minimum rating of F1/A to have a limit of £7.5m (part nationalised banks £10m), with an investment period of up to 1 year
- Banks and building societies with a minimum rating of F1/A- to have a limit of £5m (part nationalised banks £7.5m), with an investment period of up to 1 year
- Council's own banker (if not meeting the above criteria) to have a limit of £2.5m, with an investment limit of 1 day
- UK Government (DMADF) to have an unlimited limit, with an investment period of up to 6 months
- Local Authorities to have a limit of £15m per authority, with an investment period of up to 1 year
- Money Market Funds to have a limit of £15m per fund, with an investment period of up to 1 year (liquid funds).

Given the overriding objective of maintaining the security of the Council's cash it is currently not considered feasible or advantageous to invest in alternative non-bank deposits i.e. government gilts, treasury bonds, given the nature and volatility of these tradeable investments, and given the previous poor performance of external fund managers.

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Credit Default Swap (CDS) is a contract between two counterparties, which basically gives protection, or insurance, in case of credit default. The payments involved in the contract are based on a spread currently traded in the market. The spread of CDS indicates the market perception of the likelihood of a credit event or default occurring. The higher the spread the more likely the market considers an event of default will occur.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi-nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.



All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

If financial institutions are upgraded in rating and therefore meet the Council's criteria as defined, then committee approval will be sought prior to inclusion on the counterparty list.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies 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 irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2017 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and adjusted to reflect current market conditions. The amounts have not been subject to impairment in 2016/17; however, the Council has made provision to reflect the potential non-collection of some of the customer-related debt. The amounts relating to customer debt have been adjusted to reflect the provision made.

	Amount	Historical experience of default	Adjusted for market conditions	Estimated maximum exposure to default	Estimated maximum exposure to default
	31 March 2017	31 March 2017	31 March 2017	31 March 2017	31 March 2016
Deposits rated	A	B	C	A x C	A x C
	£'000	%	%	£'000	£'000
AAA	46,710	-	-	-	9
AA	10	0.01	-	-	-
A	7,185	0.07	0.03	6	28
BBB	(2,100)	0.15	0.08	(4)	6
N/A	53,008	-	0.19	-	-
Customers *	16,784	Local experience	Local experience	Local experience	Local experience
<b>Total</b>	<b>121,597</b>			<b>2</b>	<b>43</b>

\* Note – excludes statutory debtors such as Council Tax / NNDR

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its' counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers. The past due but not impaired amount can be analysed by age as follows:

**Sums past due but not impaired**

<u>31 March 2016</u>		<u>31 March 2017</u>	
£'000		£'000	
14,453	Less than one year	14,511	
882	One to two years	1,197	
538	Two to five years	988	
2	More than five years	88	
<b>15,875</b>	<b>Total</b>	<b>16,784</b>	

Collateral – During the reporting period the Council held no collateral as security.

**Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. 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 maturity analysis of financial assets is as follows:

**Maturity analysis of financial assets, excluding sums due from customers**

<u>31 March 2016</u>		<u>31 March 2017</u>	
£'000		£'000	
120,830	Less than one year	104,813	
-	Between one and two years	-	
-	Between two and three years	-	
-	More than three years	-	
<b>120,830</b>	<b>Total</b>	<b>104,813</b>	

**Refinancing and Maturity Risk**

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

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

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

**Maturity analysis of financial liabilities**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£'000</b>		<b>£'000</b>
73,524	Less than one year	143,331
52,003	Between one and two years	60,960
131,364	Between two and five years	106,512
95,483	Between five and ten years	96,095
104,544	Between ten and fifteen years	109,884
225,243	More than fifteen years	209,511
<b>682,161</b>	<b>Total</b>	<b>726,293</b>

\* Note – The above maturity analysis is adjusted to reflect the callable dates of market debt, as required by the Treasury Management Code of Practice.

**Market Risk*****Interest rate risk***

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Account will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Account will rise.
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. 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 and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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

	<b>31 March 2017</b>
	<b>£'000</b>
Increase in interest payable on variable rate borrowings	61
Increase in interest receivable variable rate investments	(931)
Increase in government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	<u>(870)</u>
Decrease in fair value of fixed rate investment assets	<u>16</u>
Impact on Other Comprehensive Income and Expenditure	<u>16</u>
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	<u>79,954</u>

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in Note 18 – Fair value of assets and liabilities carried at amortised cost.

#### **Price Risk**

The Council does not invest in equity shares or marketable bonds and thus has no exposure to losses arising from movements in the prices of shares.

#### **Foreign Exchange Risk**

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

### **51. Heritage Assets: Five year Summary of Transactions**

Although the Council holds a significant amount of other heritage assets, as described in note 52, it is not possible to obtain a reliable and accurate valuation of these assets. Therefore, only assets actually held on the Balance Sheet which can be reliably valued are included in the table below.

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cost of acquisitions of heritage assets					
Historical Buildings	1,321	2,002	1,930	1,946	1,919
Historical Vessels	61	60	59	105	98
Statues and Monuments	162	192	192	192	192
City Hall Organ	1,069	1,069	1,069	1,069	1,069
Art Collections	350	350	350	350	350
Civic Regalia	529	529	529	529	529
<b>Total cost of purchases</b>	<b>3,492</b>	<b>4,202</b>	<b>4,129</b>	<b>4,191</b>	<b>4,157</b>

There were no donations or disposals of Heritage Assets during 2016/17.

## **52. Heritage Assets: Further information on the Museum's Collections**

### **Hull Museums**

Large parts of the collections at Hull Museums are of national and even global significance. Some are of such importance that they have been granted National Designated status, meaning they are recognised by the Government as being of very high cultural and historic importance when compared with other museum collections across the country. These include the prehistoric objects at Hull & East Riding Museum, slavery, maritime and early vehicle collections. Overall, they are outstanding for a local authority museum service and as such, reflect the status of Hull's Museum service in the UK.

The value of the museum collections is closely linked with the standards of collections management across the service. It is essential that there are enough qualified staff and resources to provide adequate care for the objects in the long-term. Items can quickly deteriorate through poor environment, unsuitable storage conditions, inadequate security or unsuitable display methods. The documentation of the collections is on-going and is slowly improving the information kept about each object. The value of an item is often associated with its provenance (artist/connection to a historical event/previous owner) and we are uncovering these links as we document, meaning objects where previously no provenance had been identified, have increased in value through research.

The values are held at historical cost. The museum service does not have the resources to be able to value the collections in any detail, as this is an enormous undertaking with 173,902 items on the database and still with a large number to document.

### **Hull and East Riding Museum**

The Archaeology Collections of Hull Museums are regarded as one of the foremost in the country. The founder collection is that of the 19th century archaeologist, J. R. Mortimer, encompassing Neolithic, Bronze Age and Anglo-Saxon grave-goods, derived from 360 barrows on the Yorkshire Wolds. The finds are accompanied by Mortimer's detailed site records.

The prehistory of the region is also represented by the world-famous objects including the Roos Carr figures, the group of early Bronze Age boats from North Ferriby and the Iron Age Hasholme Boat. Material from the 'Arras Culture' cemetery, and settlement at Garton/Wetwang, are in constant demand by researchers from around the world.

From the Roman period come the stunning mosaics from Rudston and Brantingham, together with archives from recent large-scale projects such as the roadside settlements at Shiptonthorpe and Hayton. Nationally important collections from the medieval period include the Anglo-Saxon cremation cemetery at Sancton and archives from urban excavations in Hull and Beverley.

There is a large collection of natural history specimens, including mounted birds and animals, insects, shells and geology.

Collection covers:

#### **Archaeology:**

- Palaeolithic, Mesolithic, Neolithic, Bronze Age and Iron Age
- Roman
- Anglo-Saxon
- Medieval and Post-Medieval
- Eastern Mediterranean
- Numismatics

#### **Natural History:**

- Coleoptera
- Lepidoptera
- Birds – mounted and non-mounted
- Birds eggs

- Mammals – mounted and un-mounted
- Mammals – heads (mounted)
- Herbaria
- Conchology
- Fishes – mounted

**Geology:**

- Palaeontology
- Petrology
- Mineralogy
- Hull University Collection – mixed

**Hands on History Museum**

Housed in the Old Grammar School which dates back to 1583, this collection comes under the heading of both social history and archaeology. There is a large general collection of social history items mainly dating from the 20th century, with some 19th century additions. These items are used to tell the story of Hull people and as a visual resource for school groups. The replica furniture from the tomb of Tutankhamun made in 1922 after the discovery of the tomb in Egypt is unique and can be seen displayed on the first floor.

There is a large costume, doll and textile collection stored at the Museum, many of national importance, such as the Madam Clapham items which were made in Hull, and William Wilberforce's clothes. Many are 19th century, some 20th century and a few very early examples.

Collection covers:

- Social History
- Dolls
- Costume and textiles
- Egyptology

**Maritime Museum**

Based in the city's Victorian Dock Offices, Hull's Maritime Museum houses collections relating to both Hull's and the country's maritime history. Its key collection is its internationally significant whaling collection, which includes natural history specimens, a North Atlantic Whale Skeleton, whaling tools, log books and what is believed to be the largest collection of scrimshaw outside the U.S.

Other key collections include: maritime art, including work by artists of national significance such as John Ward, Henry Redmore and Harry Hudson Rodmell, (who painted scenes for famous shipping posters); ship models; items linked to the Wilson Line; collections relating to Hull's Trinity House; items linked to Hull's docks and merchant shipping; items linked to Hull's fishing industry; Inuit material from the 18th and 19th centuries; early navigation equipment; and an extensive photographic collection including the Cartledge collection.

Collection covers:

- Whaling
- Fishing
- Merchant Shipping
- Maritime History
- Maritime Community History
- Maritime Art

**Streetlife Museum**

The Streetlife Museum of Transport tells a unique story of two hundred years of transport history and its social impact. The collection can be traced back to 1923 and the vision of Hull's first curator, Thomas Sheppard. Respected widely, he was instrumental in founding what is considered to be the first publicly-owned transport collection in the country. The early years of the collection

included acquisition of ten veteran cars from the private Motor Museum in Knightsbridge and a selection of horse-drawn carriages from families and businesses in East Yorkshire.

The collection includes a State Coach from 1860 owned by the Duke of Yarborough, an 1820 Britzschka, used on the Grand Tour, an 1895 Wagonette-Brake and a rare three-wheeled Hansom cab, reportedly used by King Edward VII. There are examples from the earliest days of motoring with cars propelled by steam, electricity and petrol. Also included are an 1899 English Daimler, previously owned by George Cadbury, and a very rare 1898 Panhard et Levassor Motor Wagonette; an example of the first car model to be built as a car, rather than a converted horse-drawn carriage. There are extensive collections of public transport, including three trams and three buses.

Collection covers:

- Bicycles
- Horse-drawn carriages
- Motorcycles
- Motor cars
- Public transport
- Railways
- Equine material
- Aviation
- Street furniture

### **Guildhall Collection**

The collection reflects the corporate and local history of Hull, of particular significance is its collection of silver, with key pieces dating from the 17th century through to the modern day.

Collection covers:

- Paintings
- Sculpture
- Prints
- Ceramics
- Glass
- Silver
- Furniture
- Photographs
- Hull Tapestry
- Associated ephemera

### **Historical Buildings**

#### Wilberforce House Museum

During its history, the house has been a private home, a bank and a commercial office for a seed and cake merchant. Bought by Hull Corporation in 1903, the museum reflects the lasting legacy of its most famous resident, William Wilberforce, the slave-trade abolitionist. Wilberforce was born in the house on 24 August 1759.

Highlights of the collection include the personal diary of William Wilberforce, written between the years 1814 – 1823, two hundred letters written by William Wilberforce, Wilberforce's personal library, the Brookes ship model used by Wilberforce during the Parliamentary committees in the late eighteenth century, items relating to the East Yorkshire Regiment, and a large collection of drawings by the important local artist F. S. Smith showing early twentieth century scenes of Hull and the surrounding area.

Collection covers:

- Wilberforce archives, collections and library
- Anti-slavery collections

- Ethnography
- Black, minority, ethnic and community history
- Ceramics
- Fine art
- Hull and East Riding clock collection
- Hull furniture
- Hull silver

### **Historical Vessels**

#### Spurn Lightship

The Spurn Lightship (LV No. 12) is a lightvessel (ie. a ship used as a lighthouse) currently anchored in Hull Marina. The ship was built in 1927 and served for 48 years as a navigation aid in the approaches of the Humber Estuary, where it was stationed 4½ miles east of Spurn Point. The light ship was decommissioned in 1975 and bought and restored by Hull City Council in 1983 before being moved to Hull Marina as a museum in 1987.

Collection covers:

- Objects and archives relating to the Spurn Lightship No. 12
- Personal histories of people relating to the Spurn Lightship
- Display items which enhance the historic context of the ship

#### Arctic Corsair

The Arctic Corsair is the last survivor of Hull's massive 'Sidewinder' trawling fleet. Built in Beverley by Cook, Welton and Gemmell in 1960 for the Boyd Line, in 1973 the Arctic Corsair broke the world record for the landing of Cod and Haddock from the White Sea. The extension of Iceland's fishing limits to 200 miles in 1975 saw the Arctic Corsair involved in the cod wars, during which she was rammed by an Icelandic gun boat. The Arctic Corsair was converted to Pelagic fishing in 1978 before being laid up in Hull's St. Andrews Dock in 1981. In 1985 she was converted back to conventional fishing and made a record breaking return to trawling. However, by 1988 she was again laid up in dock. Her registration was closed and she was renamed the Arctic Cavalier.

After lying idle in Hull for 5 more years the ship was purchased by Hull City Council in 1993 and renamed the Arctic Corsair once more. She is now moored on the River Hull as part of Hull's Museum Quarter.

### **Statues and Monuments**

The Council has a number of statues and monuments located across the city.

#### **City Hall Organ**

The City Hall organ was built by the Hull firm of Foster and Andrews in March 1911.

Further information on assets held within the Museums Collections and how to access these collections can be obtained from the Council's website, [www.hullcc.gov.uk/museumcollections](http://www.hullcc.gov.uk/museumcollections).



**53. Trust Funds**

The Council acts as trustee for legacies left and gifts donated by inhabitants of the City. The summary below shows the extent of these trusts. The assets belong to the trustees, are held in trust and do not belong to the Council. As such, they are not included in the principal statements of the Council.

**Funds for which Kingston Upon Hull City Council acts as sole trustee:**

2016/17	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
<b>The Ferens Art Gallery</b> Set up in 1919 for the exhibition of works of art in perpetuity	225	232	86,633	1
<b>The Ferens Endowment Fund</b> A proportion of its income contributes towards the upkeep of the Ferens Art Gallery building, whilst the balance of the income is used to purchase exhibits.	145	293	7,444	29
<b>Alderman Jackson Appeal</b> A general trust created to promote the well being of the city. It is also the receptacle for monies from other trusts that are wound up as the original purpose for their existence no longer exists.	1	-	252	-
<b>Other</b> The other trusts are mainly for the wellbeing of the inhabitants of the City of Kingston upon Hull.	-	-	80	-
<b>Total as at 31 March 2017</b>	<b>371</b>	<b>525</b>	<b>94,409</b>	<b>30</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
The Ferens Art Gallery	41	133	86,507	1
The Ferens Endowment Fund	151	262	6,497	27
Alderman Jackson Appeal	1	-	240	-
Other	-	-	80	-
<b>Total as at 31 March 2016</b>	<b>193</b>	<b>395</b>	<b>93,324</b>	<b>28</b>

**Other Funds which the Council has an interest:**

2015/16 £'000		2016/17 £'000
	<b>Capital Value of Fund</b>	
549	Frances & Cyril Bibby Bequest	601
13,187	The James Reckitt Library Endowment Fund	15,014
84	William Wilberforce Lecture Trust Fund	81
447	Others	447
<b>14,267</b>	<b>Total</b>	<b>16,143</b>

**HRA INCOME AND EXPENDITURE STATEMENT**

<u>2015/16</u> £'000		Note	<u>2016/17</u> £'000
<b>Expenditure</b>			
20,754	Repairs and Maintenance		20,828
17,986	Supervision and Management		17,681
244	Rents, Rates, Taxes and Other Charges		416
18,177	Depreciation and Impairment of Non-current Assets		9,709
(1,437)	Capital Government Grants and Contributions		(10,228)
72	Debt Management Costs		67
347	Movement in the allowance for bad debts		553
56,143	<b>Total Expenditure</b>		<b>39,026</b>
<b>Income</b>			
(94,468)	Dwelling Rents (Gross)		(92,391)
(1,257)	Non-Dwelling Rents (Gross)		(1,302)
(2,228)	Charges for Services and Facilities		(2,193)
(1,422)	Contributions towards Expenditure		(1,375)
(99,375)	<b>Total Income</b>		<b>(97,261)</b>
<b>(43,232)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>		<b>(58,235)</b>
302	HRA services share of Corporate and Democratic Core		306
<b>(42,930)</b>	<b>Net Cost of HRA Services</b>		<b>(57,929)</b>
<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>			
(2,015)	(Gain) or loss on sale of HRA non-current assets		(2,819)
12,908	Interest payable and similar charges	11	12,201
(284)	Interest and investment income		(216)
1,185	Pensions interest cost and expected return on pensions assets	10	1,105
<b>(31,136)</b>	<b>(Surplus) or deficit for the year on HRA services</b>		<b>(47,658)</b>

**MOVEMENT ON THE HRA STATEMENT**

<u>2015/16</u>		<u>2016/17</u>
<u>£'000</u>		<u>£'000</u>
(3,000)	Balance on the HRA at the end of the previous year	(3,000)
(31,136)	(Surplus) or deficit on the HRA Income and Expenditure Statement	(47,658)
42,485	Adjustment between accounting basis and funding basis under statute	46,576
<u>11,349</u>	Net (increase) or decrease before transfers to (or from) reserves	<u>(1,082)</u>
(11,349)	Transfers to or (from) reserves	1,082
<u>-</u>	(Increase) or decrease in year on the HRA	<u>-</u>
<u><u>(3,000)</u></u>	Balance on the Housing Revenue Account at the end of the year	<u><u>(3,000)</u></u>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. *Housing Stock*

The Council dwelling stock was as follows:-

At 31 March 2016	Analysed by type:-	At 31 March 2017
	Houses and Bungalows	
2,487	1 bedroom	2,478
6,812	2 bedroom	6,714
8,595	3 bedroom	8,420
1,168	4 or more bedrooms	1,149
19,062		18,761
	Flats	
3,364	1 bedroom	3,324
2,089	2 bedroom	2,073
222	3 or more bedrooms	221
5,675		5,618
8	Other	5
24,745		24,384
	Analysed by age:-	
45	Pre 1919	38
5,596	1919-1944	5,464
7,542	1945-1964	7,451
11,562	After 1964	11,431
24,745		24,384

### 2. *Value of HRA Property*

	Operational assets		Non operational assets			Total	
	Dwellings	Land and buildings	Equipment	Investments	Surplus		Infrastructure
	£'000	£'000	£'000	£'000	£'000		£'000
At 1 April 2016	414,554	758	533	3,159	781	144	419,929
Depreciation	(6,695)	(20)	(265)	-	-	(9)	(6,989)
Impairment COEB (demolitions)	(1,443)	-	-	-	-	-	(1,443)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,237)	(104)	-	51	-	-	(1,290)
Disposals	(5,521)	-	-	-	-	-	(5,521)
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	(31)	-	-	-	-	(31)
Additions	39,569	-	131	-	-	-	39,700
Transfers	-	84	-	-	-	-	84
Other	-	-	-	-	-	-	-
At 31 March 2017	439,227	687	399	3,210	781	135	444,439

**3. Vacant Possession Values**

The valuation of Council dwellings reflects their status as social housing and as a consequence, the Council recognises Council dwellings at a value of £439.227m (£414.554m in 2015/16) on the Balance Sheet.

At vacant possession the same dwellings would have a value of £1,408.180m (£1,327.833m in 2015/16), therefore recognising an economic cost to the government of providing Council Housing at less than open market rents of £968.953m (£913.279m in 2015/16).

**4. Depreciation**

Charges for Depreciation to the HRA for 2016/17:

<u>2015/16</u>		<u>2016/17</u>	
£'000		£'000	£'000
	Operational Assets		
6,630	- Dwellings	6,695	
(272)	- Other Land & Buildings	(285)	6,410
<u>-</u>	Non-Operational Assets		<u>-</u>
<u>6,358</u>			<u>6,410</u>

For dwelling depreciation, the Council is using calculated charges based on componentised elements of the housing stock in line with the requirements of the Code of Practice. An adjustment is made in the accounts to adjust the stock depreciation value back to the value of the charge from the Major Repairs Account (MRA). As a contra to depreciation, government grants that are received to fund capital spend are amortised back to revenue over the life of the asset, in 2016/17 this was £10.228m (2015/16 £1.437m). To negate this and remove any impact on rents a reversal of the same amount is posted through the Statement of Movement on the HRA balance.

**5. Impairment**

Impairment of £1.443m (2015/16 £1.577m) has been charged to the HRA for the loss in value to the housing stock for those dwellings earmarked for demolition during the year. Impairment due to general fall in prices of £1.237m (2015/16 £9.672m) has also been suffered in the year. An adjustment is made within the accounts to negate the impact of these changes.

**6. Major Repairs Reserve Analysis**

The Accounts and Audit Regulations 2003 require local authorities to maintain a Major Repairs Reserve. The main credit to the reserve is an amount equal to the depreciation charges for all HRA assets. The Local Government Act 1989 requires any difference between the depreciation credit on the Reserve and the MRA to be transferred back to the HRA. Authorities are able to charge capital expenditure directly to the reserve along with any voluntary set-aside to repay debt.

The table below shows the movement on the Major Repairs Reserve for the year:

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
10,862	Opening Balance as at 1 April	14,252
24,081	Financing of Capital Expenditure for year	24,339
(20,691)	Use of Major Repairs Reserve to finance new capital expenditure	(28,927)
<u>14,252</u>	Balance carried forward at 31 March	<u>9,664</u>

**7. Capital Expenditure Analysis**

<u>2015/16</u>	Expenditure funded by;	<u>2016/17</u>
<u>£'000</u>		<u>£'000</u>
731	Capital Receipts	545
15,000	Revenue Contributions	-
20,691	Major Repairs Reserve	28,927
1,437	Other	10,228
<u>37,859</u>		<u>39,700</u>

**8. Capital Receipts Analysis**

<u>2015/16</u>		<u>2016/17</u>
<u>£'000</u>		<u>£'000</u>
5,880	Sales of Council Houses	8,290
37	Repayments of Right to Buy Discounts	21
19	Land Sales	28
45	Right to buy Mortgage Principal	1
<u>5,981</u>		<u>8,340</u>

The Council is required to pay a proportion of receipts to the Government who use the money to support housing capital expenditure, ensuring that the principle of redistribution of the spending power generated by such receipts is achieved.

<u>2015/16</u>		<u>2016/17</u>
<u>£'000</u>		<u>£'000</u>
4,231	Useable Receipts	6,403
1,751	Pooled	1,937
<u>5,982</u>		<u>8,340</u>

**9. Rent Arrears and Provision for Uncollectable Debts**

The rent arrears of current and former tenants as a proportion of gross dwelling rent income were 3.58% at 31 March 2017 compared to 3.14% at 31 March 2016.

<u>31 March 2016</u>		<u>31 March 2017</u>
<u>£'000</u>		<u>£'000</u>
2,968	Arrears at 31 March	3,303
1,368	Provision for doubtful debts	1,218

**10. Contribution to Pension Reserve**

The requirements of IAS19 are to show the cost of pensions earned in the year in the cost of service lines, an adjustment to or from the pensions reserve is then required to bring the bottom line charge against rents back to the amount of the employer's contribution to the pension fund in the year. The pension liability for the year is £2.593m.

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
1,783	Current service cost	1,488
<u>-</u>	Past Service Cost	<u>-</u>
1,783		1,488
	Pensions Interest Cost and expected return on assets	
3,006	Interest on Liabilities	3,287
<u>(1,821)</u>	Expected return on assets	<u>(2,182)</u>
<u>2,968</u>	Transfer to pensions reserve	<u>2,593</u>

**11. Interest**

As from 1 April 2012, the Housing Revenue Account Subsidy System was replaced with a devolved system of Council Housing Finance called Self Financing. Therefore, as the HRA now has its own loan book, all borrowing costs are charged directly to the HRA. The total interest charge for 2016/17 is £12.201m (£12.908m for 2015/16).

**12. HRA Reserves**

As there is a statutory requirement to account for the HRA separately from the remainder of Hull City Council, the accumulated HRA reserve is also recognised separately:

	<u>Reserves</u>	<u>Movement in</u>	<u>Reserves</u>
	<u>at 31 March 2016</u>	<u>year</u>	<u>at 31 March 2017</u>
	£'000	£'000	£'000
General reserve	3,000	-	3,000
MRA Reserve	14,252	(4,588)	9,664
Modern Homes Programme	24,334	1,082	25,416 (i)
	<u>41,586</u>	<u>(3,506)</u>	<u>38,080</u>

(i) Reserves set-aside to support the capital programme towards meeting the Government's decency target.

13. **Note to the Statement of Movement on the HRA Balance**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>	
-	Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	
1,437	Difference between any other item of Income and Expenditure determined in accordance with the Code of Practice and determined in accordance with statute	10,228
(6,630)	Charges for depreciation on dwellings	(6,695)
-	Charges for depreciation on non dwellings	-
(10,162)	Revaluation losses on property, plant and equipment	(1,237)
-	Movements in the fair value of investment properties	-
(1,577)	Impairment of HRA non-current assets	(1,443)
2,015	Gain or (loss) on sale of HRA non-current assets	2,819
(2,968)	Net charges for retirement benefits in accordance with IAS19	(2,593)
<u>(17,885)</u>		<u>1,079</u>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>	
24,081	Transfer to/(from) Major Repairs Reserve	24,339
-	Transfer to/(from) Housing Repairs Account	-
1,723	Employer's contributions payable to the LGPS Pension Fund	1,672
19,559	Voluntary set aside for debt repayment	19,486
15,007	Capital expenditure funded by the Housing Revenue Account	-
-	HRA depreciation on Non-Dwellings adjustment	-
<u>60,370</u>		<u>45,497</u>
<u>42,485</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	<u>46,576</u>



## COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

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 the Council Tax and Non-Domestic Rates.

In 2013/14 Local Government Finance regime was revised with the introduction of the Retained Business Rates Scheme. The main aim of the scheme is to give Local Authorities greater incentives to grow businesses in the area, as the scheme allows Councils to retain a proportion of the total Business Rates collected. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

The following Statement reflects these changes.

2015/16 Total £'000	2016/17		
	Council Tax £'000	Business Rates £'000	Total £'000
<b>Income</b>			
84,277	88,795	-	88,795
87,250	-	80,627	80,627
2,493	-	2,330	2,330
174,020	88,795	82,957	171,752
<b>Expenditure</b>			
Precepts and demands			
45,561	-	47,774	47,774
108,278	68,808	46,818	115,626
9,860	10,463	-	10,463
5,178	4,494	955	5,449
Business rates			
371	-	372	372
(546)	-	(151)	(151)
Bad and doubtful debts/appeals			
2,320	905	(1,005)	(100)
1,265	505	2,174	2,679
(837)	-	(3,393)	(3,393)
Distribution of previous year's estimated Collection Fund surplus			
1,045	-	34	34
2,562	3,266	33	3,299
238	506	-	506
125	218	1	219
175,420	89,165	93,612	182,777
(1,400)	(370)	(10,656)	(11,026)
(466)	5,876	(7,742)	(1,866)
(1,866)	5,506	(18,398)	(12,892)

*See note 2 below*

## NOTES TO THE COLLECTION FUND ACCOUNT

### 1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Police and Crime Commissioner for Humberside, the Humberside Fire Authority and the Council for the forthcoming year and dividing this by "the council tax base" – the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and for discounts.

The Council Tax base for 2016/17 was 56,965 - (54,756 in 2015/16) calculated as follows:

Total Number of properties in band	119,448
Impact of changes to Council Tax re: discount/exemptions and empty property	(15,242)
Reduction in Tax Base for Reduction Scheme	(22,689)
Total equivalent number of dwellings	<u>81,517</u>

Band	Chargeable Dwellings	Ratio	Band D Equivalents
Disability A	95	5/9	53
A	49,802	6/9	33,201
B	17,847	7/9	13,881
C	8,708	8/9	7,740
D	3,602	9/9	3,602
E	1,143	11/9	1,397
F	266	13/9	384
G	45	15/9	74
H	<u>9</u>	18/9	<u>18</u>
Total	81,517		60,350
Less allowance for non-collection			<u>(3,386)</u>
<b>Tax Base for the calculation of Council Tax</b>			<u>56,964</u>

The basic amount of Council Tax for a Band D property of £1,470.46 (£1,420.02 for 2015/16) is multiplied by the proportion specified for the particular band to give an individual amount due. Therefore, the total precept and demand used to set the Council Tax for 2016/17 was £83.785m (56,965 dwellings multiplied by £1,470.46). This, plus the agreed distribution of the previous year's surplus of £3.990m gives a total distribution from the Collection Fund to preceptors of £87.755m, compared to income from Council Tax payers of £88.795m.

### 2. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. As of 1 April 2005 the Government introduced a new category of multiplier for small businesses. Local businesses now pay rates calculated by multiplying their rateable value by their appropriate rate subject to the effects of transitional arrangements.

For 2016/17 these rates are:

- Non-Domestic rating multiplier 49.7p
- Small Business Non-Domestic rating multiplier 48.4p

From 2013/14, with the introduction of the Retained Business Rates Scheme, instead of paying business rates to the central pool, local authorities now retain a proportion of the collectable rates due. In the case of Hull City Council the local share is 49% (£9m), the remainder is distributed to Central Government (50%) and Humberside Fire Authority (1%).

The total non-domestic rateable value at 31 March 2017 decreased from £228.279m at 31 March 2016 to £226.041m, of which £40.779m relates to small businesses. The 2010 list of revaluations was introduced on the 1 April 2010. Applying the correspondent rating multipliers gives a gross collectable figure at 31 March 2017 of £111.812m.

The collectable amount is different to the actual income from business ratepayers as per the Collection Fund Statement (£82.956m).

This is because the collectable amount is subject to rateable value changes and refunds over the period and also to several mandatory and discretionary reliefs, such as those applied to premises occupied by charities or those that are empty.

## **GROUP ACCOUNTS INTRODUCTION**

The 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom sets out comprehensive requirements for group accounts. These require Local Authorities to consider all their interests in subsidiaries, associates or joint ventures.

The Council has a relationship with other companies and organisations whose assets and liabilities are not included in the Council's single entity accounts (see Note 40 Related Parties). In the cases where the Council's interest does not extend to a relationship that could be classed as a subsidiary, associate or joint venture, those entities have not been included in the Group Accounts. Where Council interests in other companies do extend to such a relationship but consolidation into Group Accounts would not be materially different to the Council's single entity position, those entities have not been included in the Group Accounts.

Two wholly-owned subsidiaries have been included in the Group Accounts:

### **1. Hull Culture and Leisure Limited (HCAL).**

HCAL was incorporated during the 2014/15 financial year and commenced trading on 1 April 2015. The company's objectives are specifically to provide the following:

- i) Provision of facilities for recreation or other leisure time occupation for the public at large in the interests of social welfare with the object of improving their condition of life;
- ii) Provision of or assistance in the provision of facilities in the interest of social welfare or recreation or other leisure time occupation of individuals who have need of such facilities by reason of their youth, age, infirmity or disability, financial hardship or social circumstances with the object of improving their condition of life;
- iii) Advancement of the education of the public in all subject areas including literature, the marine environment and seafaring, history, heritage of the city and region, natural sciences, decorative and fine arts, antiquities, sculpture, painting and handicrafts and other associated arts.

### **2. Kingstown Works Limited (KWL).**

KWL was incorporated during the 2006/07 financial year and commenced trading on 1 April 2007. The original purpose of the company was to undertake building services repairs and improvements. In September 2012 the Council transferred its Fleet and Street Lighting services to KWL.

The core business is the provision of property services to approximately 26,000 homes in the Hull area including the servicing and maintenance of domestic gas appliances in over 22,000 properties. The business also supplies and maintains over 600 vehicles for the Council. In addition, KWL services and repairs 35,000 + street lights in Hull.

**GROUP MOVEMENT IN RESERVES STATEMENT**

This statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

<b>2016/17</b>	<b>Note</b>	<b>General Fund Balance</b>	<b>Earmarked GF Reserves</b>	<b>Earmarked HRA Reserves</b>	<b>Housing Revenue Account</b>	<b>Major Repairs Reserve</b>	<b>Capital Receipt Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Council's Share of Group Reserves</b>	<b>Total Group Reserves</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 31 March 2016		7,968	45,780	24,334	3,000	14,252	13,822	13,405	122,561	68,112	10,918	201,591
Surplus/(deficit) on provision of Services (accounting basis)		(96,786)	-	-	47,657	-	-	-	(49,129)	-	(673)	(49,802)
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	31,798	(11,774)	20,024
<b>Total Comprehensive Expenditure and Income</b>		<b>(96,786)</b>	<b>-</b>	<b>-</b>	<b>47,657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49,129)</b>	<b>31,798</b>	<b>(12,447)</b>	<b>(29,778)</b>
Adjustments between accounting basis and funding basis under regulations		86,679	-	-	(46,575)	(4,588)	8,991	4,874	49,381	(49,381)	-	-
<b>Net increase / (decrease) before transfers to Earmarked Reserves</b>		<b>(10,107)</b>	<b>-</b>	<b>-</b>	<b>1,082</b>	<b>(4,588)</b>	<b>8,991</b>	<b>4,874</b>	<b>252</b>	<b>(17,583)</b>	<b>(12,447)</b>	<b>(29,778)</b>
Transfers to / (from) Earmarked Reserves		10,107	(10,107)	1,082	(1,082)	-	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>		<b>-</b>	<b>(10,107)</b>	<b>1,082</b>	<b>-</b>	<b>(4,588)</b>	<b>8,991</b>	<b>4,874</b>	<b>252</b>	<b>(17,583)</b>	<b>(12,447)</b>	<b>(29,778)</b>
<b>Balance at 31 March 2017</b>		<b>7,968</b>	<b>35,673</b>	<b>25,416</b>	<b>3,000</b>	<b>9,664</b>	<b>22,813</b>	<b>18,279</b>	<b>122,813</b>	<b>50,529</b>	<b>(1,529)</b>	<b>171,813</b>

## Kingston upon Hull City Council Statement of Accounts 2016/17

2015/16	Note	General Fund Balance	Earmarked GF Reserves	Earmarked HRA Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipt Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Council's Share of Group Reserves	Total Group Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015		7,968	61,845	35,683	3,000	10,862	9,580	11,858	140,796	(145,284)	3,620	(868)
Surplus/(deficit) on provision of Services (accounting basis)		(66,627)	-	-	31,136	-	-	-	(35,491)	-	(4,305)	(39,796)
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	230,652	11,603	242,255
<b>Total Comprehensive Expenditure and Income</b>		(66,627)	-	-	31,136	-	-	-	(35,491)	230,652	7,298	202,459
Adjustments between accounting basis and funding basis under regulations		50,562	-	-	(42,485)	3,390	4,242	1,547	17,256	(17,256)	-	-
<b>Net increase / (decrease) before transfers to Earmarked Reserves</b>		(16,065)	-	-	(11,349)	3,390	4,242	1,547	(18,235)	213,396	7,298	202,459
Transfers to / (from) Earmarked Reserves		16,065	(16,065)	(11,349)	11,349	-	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>		-	(16,065)	(11,349)	-	3,390	4,242	1,547	(18,235)	213,396	7,298	202,459
<b>Balance at 31 March 2016</b>		<b>7,968</b>	<b>45,780</b>	<b>24,334</b>	<b>3,000</b>	<b>14,252</b>	<b>13,822</b>	<b>13,405</b>	<b>122,561</b>	<b>68,112</b>	<b>10,918</b>	<b>201,591</b>

**GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This account summarises the resources that have been generated or consumed in providing services and managing the Group during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of non-current assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2015/16				2016/17		
Gross Expenditure	Income	Net Expenditure	Note	Gross Expenditure	Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
145,886	(63,116)	82,770		136,955	(64,044)	72,911
57,746	(49,195)	8,551		49,463	(41,821)	7,642
252,765	(170,840)	81,925		253,634	(165,413)	88,221
80,333	(26,906)	53,427		91,500	(23,850)	67,650
116,674	(123,941)	(7,267)		97,119	(96,379)	740
56,518	(101,366)	(44,848)		50,232	(99,539)	(49,307)
8,669	(2,437)	6,232		5,724	(306)	5,418
-	-	-		-	-	-
<b>718,591</b>	<b>(537,801)</b>	<b>180,790</b>		<b>684,627</b>	<b>(491,352)</b>	<b>193,275</b>
			<b>Cost of Services</b>			
		47,939				66,389
		48,432	2			44,690
		(237,365)				(254,552)
		<b>39,796</b>				<b>49,802</b>
		-				6
		(242,255)				(20,030)
		<b>(202,459)</b>				<b>29,778</b>
			<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			

**GROUP BALANCE SHEET**

The Balance Sheet summarises the financial position of the Group, including the Housing Revenue Account and the Collection Fund. It shows the value of the Group's assets and liabilities at the end of the financial year. It excludes Trust Funds and Pension Fund balances.

<u>31 March 2016</u> £'000		<u>Note</u>	<u>31 March 2017</u> £'000
1,206,550	Property, Plant and Equipment	3	1,230,623
4,191	Heritage Assets		4,157
71,604	Investment Property		71,039
2,140	Intangible Assets		3,559
10	Long Term Investments		10
4,813	Long Term Debtors		4,828
7	Assets held for sale		-
<b>1,289,315</b>	<b>Long Term Assets</b>		<b>1,314,216</b>
82,128	Short Term Investments		3,226
1,226	Inventories		1,137
51,631	Short Term Debtors	4	64,363
44,862	Cash and Cash Equivalents	5	111,547
2,369	Assets held for sale		-
<b>182,216</b>	<b>Current Assets</b>		<b>180,273</b>
-	Bank Overdraft		-
(39,223)	Short Term Borrowing		(106,580)
(53,083)	Short Term Creditors	6	(53,519)
(2,166)	Provision for accumulated absences		(2,429)
(535)	Capital Grants Receipts in Advance		(552)
(3,301)	PFI Finance Lease - Liability		(3,751)
<b>(98,308)</b>	<b>Current Liabilities</b>		<b>(166,831)</b>
(851)	Long Term Creditors		(842)
(10,170)	Provisions		(6,554)
(526,582)	Long Term Borrowing		(492,581)
(520,627)	Long Term Liabilities	11	(532,182)
(346)	Capital Grants Receipts in Advance		(305)
(113,056)	PFI Finance Lease - Liability		(123,381)
<b>(1,171,632)</b>	<b>Long Term Liabilities</b>		<b>(1,155,845)</b>
<b>201,591</b>	<b>NET ASSETS</b>		<b>171,813</b>
133,479	Usable Reserves	7	121,284
68,112	Unusable Reserves		50,529
<b>201,591</b>	<b>TOTAL RESERVES</b>		<b>171,813</b>



**GROUP CASH FLOW STATEMENT**

This statement summarises the inflows and outflows of cash arising from Group transactions with third parties for revenue and capital purposes.

<u>2015/16</u>		<u>Note</u>	<u>2016/17</u>
£'000			£'000
(39,796)	Net surplus or (deficit) on the provision of services		(49,802)
97,182	Adjustment to surplus or deficit on the provision of services for non-cash movements	8	120,017
(96,192)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	8	(143,779)
<u>(38,806)</u>	<b>Net Cash flows from Operating Activities</b>		<u>(73,564)</u>
(75,122)	Net cash flows from Investing Activities	9	60,097
118,177	Net cash flows from Financing Activities	10	80,152
<u>4,249</u>	Net increase or (decrease) in cash and cash equivalents		<u>66,685</u>
40,613	Cash and cash equivalents at the beginning of the reporting period		44,862
<u><b>44,862</b></u>	<b>Cash and cash equivalents at the end of the reporting period</b>		<u><b>111,547</b></u>

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 1 **Accounting Policies**

The group accounting policies are specified within the Council only statement. However there are some slight divergences from these policies within the group as well as issues applicable to the subsidiary companies only. These are detailed below:

#### **i. Deferred Tax**

Deferred tax is recognised in respect of an obligation to pay more tax in the future or a right to pay less tax in the future as at the Balance Sheet date. This represents differences between the company's taxable profits and its results as stated in the financial statement.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to be resolved, based on tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

#### **ii. Pensions**

The treatment of group pension costs is in accordance with the requirements of IAS19 Employee Benefits. The Council recognises the cost of post-employment benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment is reversed out of the General Fund via the Movement in Reserves Statement and is presented within the Council's Unusable Reserves.

The subsidiary companies within the group do not raise Council Tax receipts and therefore the costs of post-employment are not transferred to Unusable Reserves, but are reflected in the Pension Reserve (Subsidiaries). Pension Reserve (Subsidiaries) is included in the Group's Useable Reserves, as this is treated as a real cost to the Subsidiaries Profit and Loss position.

#### **iii. Group Transactions**

The Council both commissions services from and provides support services to the subsidiary companies. All transactions between members of the Group have been treated as arm's length.

#### **iv. Consolidation of Subsidiaries**

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

#### **v. Capital Expenditure**

The de-minimus level for capital expenditure for the subsidiary companies is £10,000.

#### **vi. Accounting Standards**

The accounts for the subsidiary companies have been prepared in accordance with UKGAAP, which is the overall body of regulation applicable to company accounts.

- FRS102 requires an accrual to be made in subsidiary accounts for employee benefits which is also required under IFRS.
- Operating leases held by subsidiaries are also classified as operating leases under IFRS.

**2 Group Financing and Investment Income and Expenditure**

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
28,432	Interest payable and similar charges	29,452
24,928	Pension interest cost and expected return on pension assets	18,023
(714)	Interest receivable and similar income	(613)
122	(Surplus)/Deficit from Trading Operations	(863)
(2,683)	Net income/expenditure from investment properties	(2,985)
(1,653)	Change in fair value of investment properties	1,676
	- Other investment income	-
<u><b>48,432</b></u>		<u><b>44,690</b></u>

### 3 Group Property, Plant and Equipment

#### Movements in 2016/17

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>									
At 1 April 2016	431,345	662,617	69,668	179,402	2,925	36,350	2,295	1,384,602	41,545
Additions	39,569	38,237	3,736	27,181	-	3,418	9,588	121,729	14,491
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	22,386	-	-	57	353	-	22,796	2,016
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,932)	(10,339)	(52)	(13)	(74)	(569)	-	(18,979)	(55)
Derecognition - Disposals	(5,521)	(73,345)	(533)	-	-	-	-	(79,399)	(26,075)
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Other movements in cost or valuation	-	144	-	-	(11)	7	-	140	-
At 31 March 2017	457,461	639,700	72,819	206,570	2,897	39,559	11,883	1,430,889	31,922
<b>Accumulated Depreciation and Impairments</b>									
At 1 April 2016	(16,791)	(50,667)	(49,121)	(58,994)	-	(2,479)	-	(178,052)	(1,477)
Depreciation charge	(6,695)	(15,614)	(7,041)	(6,106)	-	(4)	-	(35,460)	(836)
Depreciation written out to the Revaluation Reserve	-	2,852	-	-	-	-	-	2,852	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,695	2,556	-	-	-	4	-	9,255	33
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(889)	-	-	-	-	-	(889)	-
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,443)	(404)	-	-	-	(2,316)	-	(4,163)	-
Derecognition - Disposals	-	5,750	441	-	-	-	-	6,191	1,543
Derecognition - Other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
At 31 March 2017	(18,234)	(56,416)	(55,721)	(65,100)	-	(4,795)	-	(200,266)	(737)
<b>Net Book Value</b>									
at 31 March 2017	439,227	583,284	17,098	141,470	2,897	34,764	11,883	1,230,623	31,185
at 31 March 2016	414,554	611,950	20,547	120,408	2,925	33,871	2,295	1,206,550	40,068

## Movements in 2015/16

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>									
At 1 April 2015	414,134	642,805	64,330	164,473	2,914	58,618	1,138	1,348,412	28,427
Additions	37,720	11,449	6,595	14,929	-	3,399	2,295	76,387	1,570
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases / (decreases) recognised in the Revaluation Reserve	-	56,790	-	-	14	10,971	-	67,775	190
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,793)	5,157	(296)	-	-	540	-	(11,392)	11,040
Derecognition - Disposals	(3,716)	(58,131)	(961)	-	(3)	(35,256)	-	(98,067)	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	555	-	555	-
Other movements in cost or valuation	-	4,547	-	-	-	(2,477)	(1,138)	932	318
At 31 March 2016	431,345	662,617	69,668	179,402	2,925	36,350	2,295	1,384,602	41,545
<b>Accumulated Depreciation and Impairments</b>									
At 1 April 2015	(15,214)	(62,396)	(43,454)	(53,384)	-	(33,161)	(8)	(207,617)	(1,304)
Depreciation charge	(6,630)	(18,777)	(6,594)	(5,610)	-	(38)	-	(37,649)	-
Depreciation written out to the Revaluation Reserve	-	9,097	-	-	-	163	-	9,260	(869)
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,630	13,346	-	-	-	16	-	19,992	696
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(1,876)	-	-	-	-	-	(1,876)	-
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,577)	(1,391)	-	-	-	(2,479)	-	(5,447)	-
Derecognition - Disposals	-	11,358	927	-	-	32,996	-	45,281	-
Derecognition - Other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	(28)	-	-	-	24	8	4	-
At 31 March 2016	(16,791)	(50,667)	(49,121)	(58,994)	-	(2,479)	-	(178,052)	(1,477)
<b>Net Book Value</b>									
at 31 March 2016	414,554	611,950	20,547	120,408	2,925	33,871	2,295	1,206,550	40,068
at 31 March 2015	398,920	580,409	20,876	111,089	2,914	25,457	1,130	1,140,795	27,441

**4 Group Short Term Debtors**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
12,634	Central government bodies	25,185
112	Other local authorities	1,116
284	NHS bodies	1,650
-	Public corporations and trading funds	-
55,313	Other entities and individuals	54,515
(16,712)	Less: Provision for irrecoverable debts	(18,103)
<u>51,631</u>		<u>64,363</u>

Where income which relates to the reporting year is expected to be received after the financial year end, an estimate is made of the amount to be accrued.

**5 Group Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the following elements:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
6,326	Cash held by the Group	9,346
(1,776)	Bank current accounts	984
40,312	Short-term deposits with banks/building societies	101,217
<u>44,862</u>	<b>Total Cash and Cash Equivalents</b>	<u>111,547</u>

**6 Group Creditors**

An analysis of the Group's creditors for amounts falling due within one year is shown below.

<u>2015/16</u> £'000		<u>2016/17</u> £'000
6,480	Central government bodies	6,180
10,054	Other local authorities	7,785
1,022	NHS bodies	585
-	Public corporations and trading funds	-
35,527	Other entities and individuals	38,969
<u>53,083</u>		<u>53,519</u>

Where expenditure has been incurred but not invoiced, an estimate is made of the amount to be accrued.

**7 Group Usable Reserves**

<u>2015/16</u> £'000		<u>2016/17</u> £'000
7,968	General Fund Balance	7,968
14,130	Profit and Loss Reserve (Subsidiaries)	13,601
(3,212)	Pensions Reserve (Subsidiaries)	(15,130)
45,780	Earmarked General Fund Reserves	35,673
3,000	Housing Revenue Account	3,000
24,334	Earmarked Housing Revenue Account reserves	25,416
14,252	Major Repairs Reserve	9,664
13,822	Capital Receipt Reserves	22,813
13,405	Capital Grants Unapplied	18,279
<b>133,479</b>		<b>121,284</b>

**8 Group Cash Flow Statement – Operating Activities**

Adjustments to net surplus or deficit on the provision of services for non-cash movements:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
51,029	Depreciation and Impairment	42,570
32,576	Disposals and downward valuations	78,968
714	Amortisation	548
37	Increase/(decrease) in impairment for bad debts	(37)
(5,848)	Increase/(decrease) in Creditors	(10,211)
2,230	(Increase)/decrease in Debtors	4,750
101	(Increase)/decrease in Stock	91
11,804	Movement in pension liability	6,911
-	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	-
4,539	Other non-cash items charged to the net surplus or deficit on the provision of services	(3,573)
<b>97,182</b>		<b>120,017</b>

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
-	Proceeds from short-term and long-term investments	-
(4,243)	Proceeds from the sale of PP&E, investment property and intangible assets	(12,771)
(91,949)	Any other items for which the cash effects are investing or financing cash flows	(131,008)
<b>(96,192)</b>		<b>(143,779)</b>

The cash flows for operating activities include the following items:

<u>2015/16</u> £'000		<u>2016/17</u> £'000
715	Interest received	613
(28,639)	Interest paid	(2,564)
-	Dividends received	-

**9 Group Cash Flow Statement – Investing Activities**

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
(67,883)	Purchase of property, plant and equipment, investment property and intangible assets	(106,477)
(72,116)	Purchase of short-term and long-term investments	(42,429)
708	Other payments for investing activities	(15)
4,361	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,027
15,029	Proceeds from short-term and long-term investments	121,331
44,779	Other receipts from investing activities	74,660
<u>(75,122)</u>	<b>Net cash flows from investing activities</b>	<u>60,097</u>

**10 Group Cash Flow Statement – Financing Activities**

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
140,000	Cash receipts of short and long-term borrowing	69,161
48,475	Other receipts/(payments) from financing activities	-
(4,665)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,693)
(65,633)	Repayments of short and long-term borrowing	(35,364)
-	Other payments for financing activities	50,048
<u>118,177</u>	<b>Net cash flows from financing activities</b>	<u>80,152</u>



**11 Group Local Government Pension Scheme**

Kingstown Works Ltd (KWL) and Hull Culture and Leisure Ltd (HCAL) are participating employers in the East Riding Pension Fund. Transactions for KWL and HCAL in regards to their defined benefit pension schemes have been added to those of the Council and reported in the same manner as in the single entity accounts except that the subsidiaries liabilities are reflected in their usable reserves (retained earnings) via the Group Movement in Reserves Statement. The following transactions have been made in the Group Comprehensive Income and Expenditure Statement and the Group Usable Reserves via the Group Movement in Reserves Statement during the year:

<u>2015/16</u>		<u>2016/17</u>
£'000		£'000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Net Cost of Services:</i>	
	<i>Service cost comprising:</i>	
36,627	- current service cost	28,221
483	- past service costs	1,905
(7,542)	- (gains)/losses from settlements	(3,137)
	<i>Financing and Investment Income and Expenditure</i>	
21,506	- Net interest expense	18,023
<u>51,074</u>		<u>45,012</u>
	<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	
	<b>Remeasurement of the net defined benefit liability comprising:</b>	
(21,427)	- Return on plan assets (excluding the amount included in the net interest expense)	152,677
-	- Actuarial gains and losses arising on changes in demographic assumptions	29,873
169,364	- Actuarial gains and losses arising on changes in financial assumptions	(265,210)
24,819	- Other	78,178
<u>172,756</u>	<i>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	<u>(4,482)</u>
	<i>Movement in Reserves Statement:</i>	
(51,074)	- reversal of net charges made for retirement benefits in accordance with IAS19	(45,012)
	<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>	
34,737	- employers' contributions payable to scheme	34,132
4,163	- retirement benefits payable to pensioners	4,100
<u>38,900</u>		<u>38,232</u>

**Group Assets and Liabilities in Relation to Post-Employment Benefits:**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
	<b>Reconciliation of fair value of the scheme (plan) assets</b>	
1,070,282	Opening balance at 1 April	1,111,526
29,470	Hull Culture & Leisure opening balance 1 April	-
35,260	Interest income	38,847
	<b>Remeasurement gain / (loss)</b>	
(22,764)	Return on plan assets (excluding amounts included in the net interest expense)	162,777
-	Other	-
38,900	Employer Contributions	38,232
7,367	Contributions by scheme participants	6,912
-	Entity combinations	-
(44,936)	Benefits paid	(49,261)
(2,053)	Settlements	(3,436)
1,111,526	Closing balance at 31 March	1,305,597
	<b>Reconciliation of present value of scheme liabilities (defined benefit obligation)</b>	
(1,742,345)	Opening balance at 1 April	(1,632,039)
(29,470)	Hull Culture & Leisure opening balance 1 April 2016	-
(36,627)	Current Service Cost	(28,221)
(56,766)	Interest Cost	(56,870)
(7,367)	Contributions by scheme participants	(6,912)
	<b>Remeasurement gain / (loss)</b>	
-	Actuarial gains/losses arising from changes in demographic assumptions	30,245
161,100	Actuarial gains/losses arising from changes in financial assumptions	(278,452)
25,389	Other	80,654
(483)	Past service costs	(1,905)
-	Entity combinations	-
44,936	Benefits paid	49,261
9,594	Settlements	6,573
(1,632,039)	Closing balance at 31 March	(1,837,666)
(561,757)		(532,069)

**Group Pension Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Group's obligation in respect of its defined benefit scheme is as follows:

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
1,111,526	Fair value of employer assets	1,305,597
(1,569,285)	Present value of funded liabilities	(1,771,582)
(62,754)	Present value of unfunded liabilities	(66,084)
(520,513)		(532,069)

\* The Balance Sheet entry for Other Long Term Liabilities of £532.182m at 31 March 2017 also includes £0.113m of outstanding mortgages (2015/16 total of £520.627m includes £0.114m).

**Basis for Estimating Group Assets and Liabilities**

Financial and mortality assumptions are broadly similar to Hull City Council's assumptions. See Note 47 for assumptions.

Sensitivity analysis applied the Group Pension Liability is not materially different to the Council's sensitivity detailed in Note 47.

**12 Group External Auditors Fee**

Mazars LLP has provided audit services to the Council in respect of the audit of the single entity and group financial statements, and other services, as disclosed in Note 37 of the single entity accounts. In addition, Mazars LLP has provided services to the following subsidiary company that form part of the group financial statements.

	£
Audit services to Hull Culture and Leisure Ltd	13,000
Tax compliance services to Hull Culture and Leisure Ltd	3,750
	<u>16,750</u>

In 2015/16, £16,750 was paid to Mazars LLP for audit and tax compliance services.

Smailes Goldie provided audit services to the following subsidiary companies:

	£
Kingstown Works Ltd	19,000

In 2015/16, £19,000 was paid to Smailes Goldie for audit services.

## **GLOSSARY OF TERMS**

### **Accounting Policies**

The principles, bases, conventions, rules and practices applied that specify how an organisation will reflect transactions within its accounts.

### **Accruals**

Adjustments made to ensure that the accounts reflect the actual value of work done or goods and services received within the financial year, rather than cash payments made and received in the period.

### **Amortisation**

The annual charge to revenue to write down the value of an intangible asset or associated grant in the way that depreciation writes down tangible assets.

### **Bad Debts**

Debts owed to the Council which are considered not recoverable. When a debt is bad it should be 'written off'; that is we should recognise that we will not receive the income.

### **Balances**

Revenue balances are the accumulated surplus of income over expenditure on any of the Councils funds.

### **Capital Adjustment Account**

Records the consumption of the historic cost of non-current assets and revenue expenditure funded from capital under statute over the period that the Council benefits from the expenditure.

### **Capital Expenditure**

This is expenditure on the acquisition of non-current assets which have a long term value to the Council (e.g. purchase of land, erection of buildings), or expenditure that adds to the value of these assets and not just maintains their existing value.

### **Capital Financing Charges**

These are the annual charges arising from the financing of capital expenditure and include items such as loan interest and repayments, leasing charges and contributions from revenue.

### **Capital Grants Unapplied Reserve**

A reserve holding grant funds for future use where conditions of expenditure have not been met.

### **Capital Receipts**

These are proceeds, in excess of £10,000, from the sale of capital assets such as land or property. A proportion of these receipts can be used to fund the capital programme.

### **Capital Receipts Reserve**

A reserve holding funds received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

### **Capital Receipts Unapplied**

These are capital receipts, which have yet to be used to repay outstanding external debt or to finance new capital expenditure.

### **Code of Practice on Local Authority Accounting**

The document issued by CIPFA each year which specifies the accounting principles and practices to be followed when preparing the accounting statements.

### **Contingent Liabilities**

This is a condition that exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain events.

### **Comprehensive Income and Expenditure Statement**

The main account of the Council from which the cost of providing services is met, and precepts, grants and other income are credited.

**Deferred Credits**

Receipts recovered from the sale of assets, e.g. mortgages on the sale of Council houses.

**Depreciation**

Depreciation is the theoretical measure of the reduction in value of an asset due to age, wear and tear, or obsolescence.

**Events after the Balance Sheet Date**

Events which occur between the balance sheet date and the issue date of the Statement of Accounts.

**Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Council which need to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts.

**Extraordinary Items**

Material items that are not within the Council's ordinary activities and are not expected to recur.

**Finance Lease**

This is a lease in which substantially transfers all of the risks and rewards of ownership of a non-current asset to the lessee.

**General Fund**

The Local Authority's accumulated revenue account.

**Historic Cost**

The original cost of acquisition, construction or purchase of a non-current asset.

**Housing Revenue Account (HRA)**

The account that includes all revenue expenditure and income that relates to the landlord function of managing and maintaining the Council Housing Stock. It is a statutory requirement to keep this account and it is separate (ring fenced) from the General Fund Services.

**IFRS – International Financial Reporting Standards**

The Accounting Standard under which the Council has compiled its Financial Statements.

**Impairment**

This is the reduction in the value of a non-current asset below its carrying value in the Balance Sheet.

**International Accounting Standard 19 (IAS 19)**

The requirement for local authorities to include the forecast cost of future pensions in the accounts on a notional basis, together with the level of assets in the fund and the level of any estimated surplus or deficit on the pension fund.

**Net Book Value**

This is the value which non-current assets are reflected in the Balance Sheet. This could be historic costs or current value less accumulated depreciation.

**Non-operational Assets**

Non-current assets held by the Council, but not used in the delivery of services or for its strategic objectives. Examples are investment properties, surplus assets pending sale, and assets under construction.

**Operating Leases**

An operating lease is where the risk and reward of ownership of the asset remains with the supplier or tenant and not with the Council.

**Precepts**

The amounts required by the City Council to meet its budget requirement.

**Prior Period Adjustment**

These are material adjustments which are applicable to prior reporting years due to changes in accounting policies or fundamental errors.

**Private Finance Initiative (PFI)**

PFI is a Government initiative in which private sector companies usually design, build and operate a public facility for a set period of time, often 25 years.

**Provisions**

Amounts set aside to meet liabilities or losses which are likely to be incurred or certain to be incurred but where the amounts or dates on which they will arise are uncertain.

**Prudential Code**

The Prudential Code is a professional Code of Practice developed by CIPFA whose objective is to ensure local authorities' capital investment plans are affordable, prudent and sustainable.

**Reserves**

Amounts set aside for purposes falling outside the definition of provisions. For each material reserve fund established there is a scheme governing its purpose, usage and the basis of transactions. Within reserves are the accumulated surpluses of income over expenditure on the HRA and Collection Fund and amounts transferred under the Schools' Standards and Framework Act 1998.

**Revenue Expenditure**

Expenditure on the day to day running cost of providing the Council's services, such as employee costs and the cost of supplies and services.

**Revenue Expenditure funded from Capital under Statute**

Capital expenditure where no tangible asset is created, e.g. improvement and other grants and contributions, and amounts outstanding on transferred services.

**Revenue Support Grant**

This is the grant paid by Central Government to help finance the cost of services provided by local authorities.

**The Annual Governance Statement**

This statement details the Council's internal control systems and arrangements for ensuring their effectiveness in the management of risk.

**Useable Capital Receipts**

The amount of the capital receipt that is available to fund capital expenditure after the statutory pool payments to Central Government has been made.

**Work in Progress**

The cost of work carried out up to the end of the financial year for which accounts have not been rendered.

**STATEMENT OF ACCOUNTS 2016/17  
FEEDBACK FORM**

We actively try and improve the accounts each year and whilst a large amount of information included is prescribed in the Accounting Codes of Practice, the Council tries to keep the document as readable and user friendly as possible.

We would welcome any comments from readers of the Statement of Accounts as to how the Council can improve its layout and readability for future years. If you could complete the following short questionnaire and return to the address below we will try to accommodate any comments received. Alternatively, if you are viewing this document on the internet, there is an on-line form which you can submit.

Any comments received by 30 April 2018 will be incorporated into the 2017/18 Statement where possible, but the Council would welcome any comments after that date which the Council will try to include in future years' documents.

1. Please indicate in what capacity you are viewing this Statement.

Local Council Tax payer   
Local Business   
Other, please specify .....

2. Is the format and layout of the accounts easy to understand and follow?

Yes   
No

If no, why not?

3. Did you find the information you were looking for?

Yes   
No

4. Any other comments you have would be welcome:

Return Address: FAO Accountancy Manager  
Accountancy and Control Section  
Corporate Finance  
City Treasury  
Guildhall Road  
Hull  
HU1 2AB

Or please e-mail any comments to: [financial.planning@hullcc.gov.uk](mailto:financial.planning@hullcc.gov.uk)



This handbook can be made available in other formats (large print, audio and Braille) as appropriate. Please telephone 300 300.