

Governance and Ethics Committee

Wednesday, 25 July 2018 at 13:00

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

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3 Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
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Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Keith Ford (Tel. 0115 977 2590) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

Meeting GOVERNANCE AND ETHICS COMMITTEE

Date Wednesday 13 June 2018 (commencing at 1.00 pm)

membership

Persons absent are marked with 'A'

COUNCILLORS

Bruce Laughton (Chairman)
Andy Sissons (Vice-Chairman)

Nicki Brooks
Richard Butler
Steve Carr
Kate Foale
Errol Henry JP

Rachel Madden
Phil Rostance
Steve Vickers
Keith Walker

OTHER COUNCILLORS IN ATTENDANCE

Councillor Jim Creamer

OFFICERS IN ATTENDANCE

Sue Batty Adult Social Care, Health and Public Protection

Susan Bearman
Glen Bicknell
Paul Cannon
Rob Disney
Heather Dickinson
Keith Ford
Jayne Francis-Ward
Jo Kirkby
Nigel Stevenson
Marjorie Toward
Chris Townlow
Clare Winter

Resources

1. MINUTES

The Minutes of the last meeting held on 2 May 2018, having been previously circulated, were confirmed and signed by the Chairman.

2. APOLOGIES FOR ABSENCE

The following temporary changes of membership, for this meeting only, were reported:-

- Councillor Richard Butler had replaced Councillor Mike Quigley;
- Councillor Steve Vickers had replaced Councillor John Handley.

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

4. GENERAL DATA PROTECTION REGULATIONS (GDPR) – MEMBER DEVELOPMENT SESSION

Heather Dickinson (Head of Legal and Democratic Services), Paul Cannon (Senior Practitioner) and Jayne Francis-Ward (Corporate Director, Resources and Monitoring Officer) introduced this item which would involve Members of the Committee completing the various e-learning GDPR training modules at this and future meetings.

During discussions, Members raised concerns about ICT in relation to their specific roles and mobile working. Members highlighted the following specific issues related to ICT and GDPR for further consideration by ICT officers:-

- the possibility of Members being able to forward messages to personal e-mail accounts and access information using appropriately secure and affordable authentication software (as per the approach taken by other Councils and Magistrates Courts);
- the implications during a pre-election (purdah) period when Members were not allowed to use their Council e-mail addresses.

The first of the e-learning sessions for Members were deferred to the July meeting of the Committee.

RESOLVED: 2018/025

That the issues raised by Members be given further consideration by ICT officers.

5. INFORMATION GOVERNANCE IMPROVEMENT PROGRAMME

Heather Dickinson (Head of Legal and Democratic Services) introduced the report which provided an update on the delivery of the Information Governance Improvement Programme.

During discussions Members raised the following issues:-

- the potential for former Councillors to continue to use constituents' information following elections;
- the need to feedback to Members on the positive impact which the work being undertaken by the Delivery Group was achieving.

RESOLVED: 2018/026

That a follow up report be submitted to the Committee in the next six months.

6. STATEMENT OF ACCOUNTS

Glen Bicknell (Senior Accountant) gave a presentation on the Statement of Accounts which highlighted the various aspects of the Statement, including the narrative report, expenditure and funding analysis, a movement in reserves statement, comprehensive income and expenditure account, the balance sheet, and the notes to the accounts. The requirement for compliance with Accounting Policies was also underlined.

RESOLVED: 2018/027

That the contents of the presentation be noted.

7. LOCAL GOVERNMENT OMBUDSMAN (LGO) DECISIONS – APRIL AND MAY 2018

Jo Kirkby (Team Manager – Complaints and Information Team) introduced the report which detailed the LGO complaint decisions received in April and May 2018.

RESOLVED: 2018/028

That no further, more detailed updates on progress on specific issues were required at this stage.

8. COUNCILLORS' DIVISIONAL FUND (CDF) – REVISED POLICY

Jayne Francis –Ward (Corporate Director of Resources and Monitoring Officer) introduced the report which proposed revisions to the existing CDF policy.

During discussions, Members considered the merits of Members being able to carry forward funds to subsequent financial years. It was agreed that such carry forwards should continue to not be permitted

RESOLVED: 2018/029

That the revised policy for the Councillor's Divisional Fund be recommended to Policy Committee for approval.

9. REVIEW OF OUTSIDE BODIES

Jayne Francis –Ward (Corporate Director of Resources and Monitoring Officer) introduced the report which proposed the establishment of a cross party working group to consider and make recommendations to the Committee.

RESOLVED: 2018/030

- 1) That a cross party working group consisting of the following Members be established to consider a revised process for appointing to and reviewing the Outside Bodies list:-

Councillor Andy Sissons (Chair)
Councillor Nicki Brooks
Councillor Rachel Madden
Councillor Keith Walker. [Page 5 of 256](#)

- 2) That a report be brought back to this Committee containing the recommendations of the cross party working group within the next six months.

10. FINANCIAL REGULATIONS WAIVERS 2017/18

Clare Winter (Group Manager, Procurement) introduced the report which informed Members about requests to waive the Financial Regulations in the period 1 April 2017 – 31 March 2018.

RESOLVED: 2018/031

That the detail contained in the report and the progress in keeping waivers to a minimum be supported.

11. REVISED APPROACH TO INTERNAL AUDIT PLANNING

Rob Disney (Head of Internal Audit) introduced the report which proposed a revised Internal Audit planning approach.

RESOLVED: 2018/032

- 1) That the Internal Audit service convert to a termly, four-monthly audit plan from August 2018.
- 2) That a formal proposal for a Term 2 Plan for 2018/19, for the period August 2018 to November 2018, be presented to the 25 July 2018 Committee meeting.
- 3) That the current period, April 2018- July 2018, be considered a transition period, with the outcome of Internal Audit's work in this period reported to the Committee.

12. INTERNAL AUDIT COLLABORATION

Rob Disney (Head of Internal Audit) introduced the report which proposed a collaborative working arrangement for Internal Audit with Assurance Lincolnshire.

RESOLVED: 2018/033

That the proposal to enter into the Assurance Lincolnshire Partnership be endorsed and recommended to Policy Committee for approval.

13. INTERNAL AUDIT ANNUAL REPORT 2017-18

Rob Disney (Head of Internal Audit) introduced the report which shared the Head of Internal Audit's Annual Report on the work carried out by Internal Audit in 2017/18 and his opinion on the adequacy of the Council's internal control environment.

The Chairman congratulated the audit team on the outcomes of the external assessment.

RESOLVED: 2018/034

That no further actions or follow-up reports were required.

14. ANNUAL FRAUD REPORT 2017/18

Rob Disney (Head of Internal Audit) introduced the report which presented the Annual Fraud Report.

RESOLVED 2018/035

- 1) That the contents of the Annual Fraud Report 2017/18 be noted.
- 2) That no concerns were raised by Members on the adequacy of the Council's current and planned arrangements for tackling fraud and corruption.

15. ANNUAL WHISTLEBLOWING REPORT

Jayne Francis –Ward (Corporate Director of Resources and Monitoring Officer) introduced the report which provided an update on whistleblowing concerns reported during 2017/18.

RESOLVED 2018/036

- 1) That no actions were required in relation to the issues contained within the report.
- 2) That the publication of a Whistleblowing news article in the Council's Team Talk departmental news bulletin be supported.

16. WORK PROGRAMME

RESOLVED: 2018/037

That the work programme be agreed, with no further changes required at this stage.

The meeting closed at 2.45pm.

CHAIRMAN

25 July 2018**Agenda Item: 5****REPORT OF THE CHAIRMAN OF FINANCE AND MAJOR CONTRACTS
MANAGEMENT COMMITTEE****STATEMENT OF ACCOUNTS 2017/18****Purpose of the Report**

1. To inform the Governance and Ethics Committee of the results of the external audit of the Statement of Accounts 2017/18.
2. To present the Audited Statement of Accounts 2017/18 for approval by the Governance and Ethics Committee (Appendix A).
3. To inform the Governance and Ethics Committee of the contents of the auditor's External Audit Report 2017/18 (Appendix B).
4. To present the letter of representation to be issued in relation to the audit for approval by the Governance and Ethics Committee (Appendix C).

Audit Results

5. The statutory audit of the Statement of Accounts 2017/18 was undertaken by KPMG. The audit was completed satisfactorily and, subject to outstanding queries being resolved to their satisfaction, it is anticipated that the audit report to be issued will include an unqualified opinion on the financial statements. The auditor's draft opinion can be seen on page 11 of the Statement of Accounts. The final opinion will be published on the Council's website by 31 July 2018.
6. No material adjustments were identified within the financial statements.
7. The audit did not identify any significant weaknesses in internal control and there were no significant difficulties or matters identified during the audit.
8. The auditor anticipates issuing an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
9. The external auditors are not able to issue the formal 2017/18 Statement of Accounts notice of completion alongside their opinion and Value for Money conclusion due to an outstanding objection to the 2015/16 Statement of Accounts.

10. The statement of accounts is one of the key documents prepared by the Council to demonstrate good governance and value for money. This provides information about the County Council's financial position, performance and cash flows and consequently, shows the results of the stewardship and accountability of elected members and management for the resources entrusted to them, which is of paramount importance in the use of public funds.
11. The results of this year's audit are a continued positive reflection of the Council's performance, particularly in the context of the continuing changes, complexities arising from International Financial Reporting Standards and the challenge of finalising the accounts in a shorter timescale.
12. As required by The Accounts and Audit (England) Regulations 2015, the Council's S151 Officer will recertify the accounts following completion of the audit, the Chairman of the Governance and Ethics Committee will sign the Statement of Approval and the S151 Officer and Chairman of the Governance and Ethics Committee will sign the letter of representation.

Statutory and Policy Implications

13. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

14. That
 - a) The contents of the External Audit Report 2017/18 are commented upon.
 - b) The letter of representation is approved.
 - c) The Statement of Accounts 2017/18 is approved.

Councillor Bruce Laughton
Chairman of Governance and Ethics Committee

For any enquiries about this report please contact:

Nigel Stevenson

Service Director (Finance, Infrastructure and Improvement)

Constitutional Comments (KK 16/07/2018)

15. The proposals in this report are within the remit of the Governance and Ethics Committee.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Annual Governance Report 2017/18

Electoral Division(s) and Member(s) Affected

All

NOTTINGHAMSHIRE COUNTY COUNCIL ANNUAL FINANCIAL REPORT 2017/18

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NARRATIVE REPORT

Introduction

1. The Authority's Statement of Accounts for the year 2017/18 is set out on the following pages. It is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by Chartered Institute of Public Finance and Accountancy (CIPFA). The statements also comply with appropriate guidance notes issued by CIPFA covering International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations of the Standing Interpretations Committee (SIC) and IFRS Interpretations Committee (IFRIC) as they apply to local authorities.
2. The Statement of Accounts aims to provide information so that interested parties can:
 - Understand the overarching financial position of the Authority and the outturn for 2017/18;
 - Have confidence that the public money with which the Authority has been entrusted has been used and accounted for in an appropriate manner; and
 - Be assured that the financial position of the Authority is sound and secure.

The style and format of the accounts complies with CIPFA standards and has been updated from previous years to include additional / revised statements. In order to assist users the content has been reviewed and improved where possible.

3. **Narrative Report**

This Narrative Report provides information on key issues affecting the County Council and its accounts.

4. **Annual Governance Statement**

Alongside the Statement of Accounts the Authority publishes an Annual Governance Statement which sets out the Authority's responsibility for internal control and describes both the purpose of internal control and the internal control environment. The Statement also summarises the Authority's review of the effectiveness of internal control and highlights significant internal control issues and the actions to be taken in order to address these. In May 2018, the 2017/18 Statement was reported to Governance and Ethics Committee and details can be found by following the link [here](#)

5. **Other Statements**

The Statement of Accounts is supported by the Statement of Responsibilities, the Statement of Accounting Policies and the Notes which follow the core financial statements. In addition, the Authority publishes the Pension Fund Accounts and a glossary of financial terms.

6. **Expenditure and Funding Analysis**

The Expenditure and Funding Analysis (EFA) brings together Local Authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund. The Expenditure and Funding Analysis promotes accountability and stewardship by providing a more direct link with the annual decision making process of the authority and its budget.

7. **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The surplus / deficit on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes.

8. **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the EFA and Movement in Reserves Statement.

9. **Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are unusable reserves which the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulation'.

10. **Cash Flow Statement**

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

11. **Pension Fund Accounts**

This Statement shows the income and expenditure relating to the Local Government Pension Scheme (LGPS) administered by Nottinghamshire County Council.

12. **Pension Net Assets Statement**

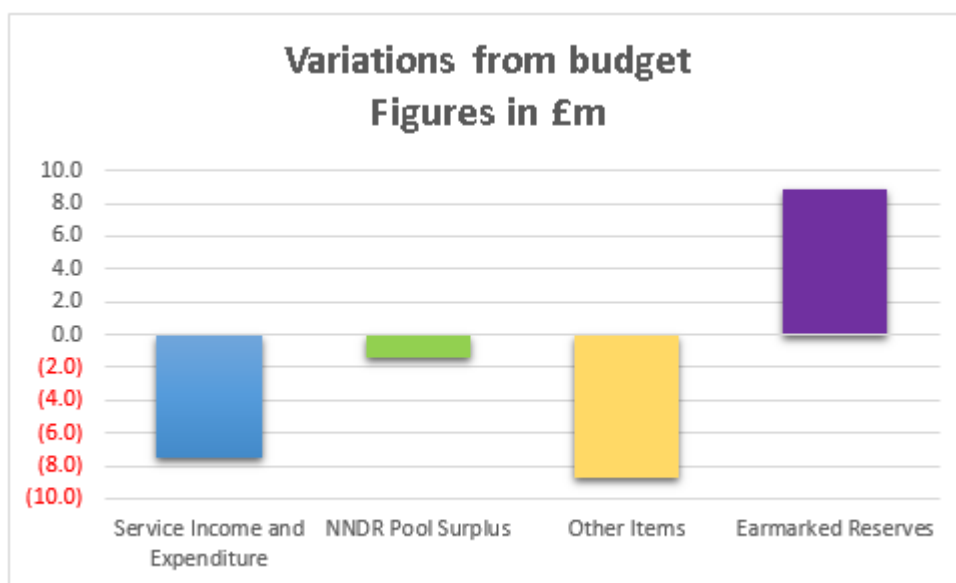
This Statement shows the net current assets and liabilities arising from the operation of the Authority's Pension Scheme (LGPS). This Statement does not take account of liabilities to pay pensions and other benefits after the period end. Such liabilities are shown in the Balance Sheet.

Revenue Expenditure

13. The revised budget estimated that there would be a £5.5 million contribution from General Fund balances. The final accounts show that there was an increase of £3.2 million in General Fund balances.

	Budget £m	Actual £m	Variance from Budget £m
INCOME			
Income raised from taxation:			
Precept Income (Council Tax)	(333.8)	(333.8)	-
Non Domestic Rate Income	(103.0)	(104.4)	(1.4)
Revenue Support Grant	(38.5)	(38.5)	-
	(475.3)	(476.7)	(1.4)
NET EXPENDITURE (inc appropriations)	480.8	473.5	(7.3)
Contribution to/(from) General Fund Balances	(5.5)	3.2	8.7

The main variations to net expenditure were:



14. The Authority's Medium Term Financial Strategy (MTFS) has identified the need for further significant savings. Budget savings of £15.6 million were approved in February 2018 with a further £54.2 million required by 2021/22. All savings are monitored with a status update included in the monthly report to Finance and Major Contracts Management Committee, and also in regular reports to Improvement and Change Sub Committee.

Capital Expenditure and Financing

15. The Authority's capital expenditure in 2017/18 was £92.1 million. The external capital financing costs amounted to £34.6 million, which included interest on PFI schemes.
16. The Authority's borrowings, used to finance the past acquisitions of assets, were £589.3 million at 31 March 2018. This includes long term borrowings, loans to be repaid within

one year, deferred liabilities and finance leases related to PFI schemes. The Authority makes use of financial instruments called Lenders' Option Borrowers' Option (LOBOs) which offer attractive borrowing rates of interest as well as greater flexibility. At 31 March 2018 the amount owed on these type of borrowings was £70.0 million.

17. The Authority has entered into Private Finance Initiative (PFI) partnerships. The major schemes are as follows:

- The provision of schools at East Leake which commenced during 2003/04.
- The provision of schools and leisure facilities in Bassetlaw which commenced during 2007/08.
- Waste recycling and energy recovery facilities. The waste recycling facility became operational in 2007/08.

Further details of all PFI contracts are set out in Note 13 to the Accounts.

Trends

18. People living in Nottinghamshire today are fortunate to be living in a peaceful, prosperous and safe environment. They are wealthier, healthier, better educated and living longer lives than at any previous point in history with significant improvements over the last few decades.

- Nottinghamshire is a large county covering 805 square miles (2,085 sq. km). There are three distinct areas: the relatively affluent suburbs surrounding the City of Nottingham; the towns and villages in the north-west which grew out of the textile and coal industries; and the rural areas to the east and south characterised by prosperous market towns and villages in the Trent Valley.
- Towns and villages in the north and west that were the heartland of heavy industry now offer opportunities for service and manufacturing sector industries, with a major concentration of logistics and distribution companies on the M1 and A1 corridors.
- Rural communities to the east and south, outside of the main market towns, act largely as commuter belt for conurbations including Nottingham, Lincoln, Leicester and London. These also have significant agricultural economies with market towns such as Newark and Retford offering more diverse opportunities.
- The population of Nottinghamshire increased by 5% between the census in 2001 and that in 2011 and currently stands at 810,700. The total population of Nottinghamshire is expected to increase by 75,400 over the next 15 years to 2033 and will then be 886,100. Projections estimate that this is due primarily to an increase in net migration of people from both other areas of the UK and abroad, and an increase in life expectancy.
- The population of Nottinghamshire is slightly older than the national average, with 20% aged 65+ in 2016 compared with 18% in England and this is due to continue over the next 15 years with the number of 65-84 year olds increasing by 30% to reach 189,000 by 2033. As people live longer they are more likely to experience disability and life limiting long-term illnesses.
- The health of the average person in Nottinghamshire has improved greatly over the last fifty years with people now living longer and healthier lives. We are lucky to live in a period when life expectancy at birth has increased to 79.5 years for men and 83 years for women and the average Nottinghamshire resident is expected to live in good health until the age of almost 63 which is more than 75% of their lives.
- It is anticipated that the number of older people in Nottinghamshire who will in the future live alone will increase by 44% by 2030 and our aging and increasingly isolated

population has implications for future planning and delivery of services in order to meet their health and wellbeing needs.

- Whilst the average annual earnings of full-time workers in Nottinghamshire at £33,433 are below the UK level of £35,423, house prices, as quoted in the House Price Index, are much more affordable with the average house price in Nottinghamshire in 2017 being £170,092 compared to £225,047 in UK.
- There have been a number of changes to the way in which Key Stage 4 results are reported this year. New more challenging GCSEs in English language, English literature and mathematics (taught in schools from September 2015) are reported in a new grading scale of 9 to 1, with 9 being the top grade (not A*-G as previously). These three subjects are the first to use the new grading structure. Eventually all GCSEs taken in England will receive numerical grades.
- Final KS4 results for 2017 show that 45.5% of pupils achieved a strong pass in both GCSE English and mathematics (grade 9-5). Nationally 42.9% of state funded schools achieved this measure. Comparisons to previous years cannot be made due to the change in grading structure in 2017. In this measure Nottinghamshire is placed 44th out of 151 local authorities nationally (where 1st is best). Comparisons to statistical neighbours shows the average for this measure to be 42.4% with Nottinghamshire placed 2nd amongst all 11 local authorities. At the standard pass, final results for 2017 show 65.9% of pupils achieved grades 9-4 in both GCSE English and mathematics. This represents no change when compared with A*-C outcomes in 2016. Nottinghamshire is placed 54th out of 151 local authorities for this measure (a fall from 41st in 2016).
- People in Nottinghamshire generally feel safe within their communities with 83% of respondents in the 2017 Residents Survey stating they were satisfied with their local area as a place to live.
- In Nottinghamshire, 72% of households are within 15 minutes travel time of a GP Surgery/health centre by public transport and 84% of households within 30 minutes travelling time.
- The County has already exceeded the national average with 97.5% of households and businesses now having access to constant and seamless superfast internet speeds. The numbers are continuing to grow, with some of the highest take-up of premises switching to superfast broadband in the country at over 50%. We are now moving into our third broadband contract with BT and will concentrate on raising the levels of superfast coverage in Bassetlaw and Newark & Sherwood, two areas needing extra intervention to enable them to be on a level footing with the remaining 5 districts/boroughs in the County. This will help reinforce Nottinghamshire's position as a leading digital economy in the UK.
- Important visitor hubs include Rufford Abbey, the National Civil War Centre in Newark, Sherwood Forest and Holme Pierrepont Country Park. A new visitor centre at Sherwood Forest is due to open this summer and further historical interpretation facilities to recognise the County's place in the history of the Pilgrim Fathers are also likely. It should be noted that not all of these facilities are owned by NCC and some are run in partnership with other organisations.

Risks and Uncertainties

19. The Risk, Safety and Emergency Management Board (RSEMB) has the lead role in creating and maintaining the County Council's capacity to respond to emergencies in the community and for internal resilience to the effects of significant business interruptions. The RSEMB [Page 19 of 256](#) the Service Director for Place and Communities and is comprised of departmental representatives plus specialist officers

from emergency planning, health and safety, risk and insurance, facilities management, property and ICT.

20. The Corporate Risk Register provides a summary scorecard of the main risks to the County Council at a strategic level, and assesses these in terms of their likelihood and potential impact were they to occur. It identifies measures in place to mitigate these risks and further measures that are planned for the future. Progress is monitored as part of the meetings of the RSEMB and is reported to Governance & Ethics Committee on a regular basis.

Environmental

21. Nottinghamshire is a unique County with a heritage and countryside that we all want to protect and promote. We will ensure our environment is well managed and our countryside is protected. We need road and transport systems that are fit for purpose and help companies to invest in Nottinghamshire. We will provide a reliable transport system which supports a growing economy whilst encouraging sustainable and healthy travel. We will ensure we are well prepared during severe weather by gritting major roads and bus routes to help both residents and businesses carry on as normal. In addition the Authority will:-

- Work with partners to act as a champion protecting the environment within Nottinghamshire.
- Work in partnership with District Councils and the private sector to provide waste management facilities and encourage changes in behaviour.
- Act as a community leader, by using the resources and expertise of the Authority to reduce our environmental impact.
- Deliver a road and transport infrastructure that seeks to meet the needs of our residents and businesses.
- Work in partnership with bus companies and community transport providers to improve usage of public transport.

People

22. The Authority is the largest employer in the County with a headcount of 5,457 centrally employed permanent and temporary staff, as at April 2017
23. Detailed workforce profile information is produced annually by the County Council and the most recent published information is available [here](#):

Vision

24. Your Nottinghamshire Your Future is the Council Plan for 2017 – 2021. The plan is focused around four vision statements:

A great place to bring up your family

- We want Nottinghamshire to be a great place to bring up a family so that children get the best possible start in life.
- Support will be provided to those who need it most, to ensure that children remain safe and healthy.
- Working in partnership with early years providers, schools, colleges and our universities, we will make sure that people have the opportunity to acquire the skills and qualifications they need to build a rewarding life and career.
- We will focus on encouraging those children who are high performers, whilst supporting those who are not yet achieving their full potential, for whatever reason.
- We want all children to have the same opportunities and life chances.

A great place to fulfil your ambition

- We want Nottinghamshire to be seen as a great place for those starting out or progressing their careers.
- Attracting a new and talented generation who have grown up with modern technologies will be instrumental in generating a strong and vibrant economy in our county.
- We know that a good choice of housing, excellent transport links, a healthy environment and a wide range of recreational facilities are all influential in persuading people to move into an area or stay there, so we will do everything possible to ensure Nottinghamshire leads the way on quality of life.

A great place to enjoy your later life

- Our ambition is to make Nottinghamshire a place where as many people as possible are healthy and happy as they grow older.
- As people live longer, many will find themselves working much later in life than previous generations.
- We will encourage a jobs market that values the skills and experience this older generation can offer.
- This will help to develop strong communities with many more people remaining active and independent for as long as possible.
- Our focus will be on helping people to help themselves, and offering a variety of services which are accessible in middle and later life.

A great place to start and grow your business

- We want to build on Nottinghamshire's proud heritage of innovation and create a great place to start or grow a business.
- We want to accelerate this growth by attracting more trade, visitors and investment.
- Nottinghamshire is well placed to do this because of our position in the centre of the country, with motorways, mainline railways and international airports either in or near our county.
- Our economy has already diversified and has strong foundations for the future.
- Our strengths include food and drink production, manufacturing, life sciences, construction and the visitor economy.
- We will promote the conditions that will help businesses thrive and prosper, a skilled and highly productive workforce, great transport links and access to superfast broadband delivered through a network of high quality and innovative business parks.
- We will lobby Government for more devolution of powers and resources because we think we can make decisions better locally.

Performance

25. The Council Plan 2017-2021 was agreed by Council in July 2017 and articulates the ambition to provide the best possible services for local people, improve the place in which we live, and give good value for money. The Plan sets out our 12 commitments for Nottinghamshire and how we will measure our success in delivering them. The aspirations, priorities and outcomes that the Council works towards are developed and articulated through four Departmental Strategies which set out the:

- Priorities and Key Activities that support the delivery of the Council Plan.
- Department Improvement and Change Portfolio.
- Department Core Dataset.

26. The Council's Planning and Performance Framework was agreed by Policy Committee on 21 June 2017 and sets out the approach the Council will take to planning and managing its performance. As part of the Framework, the measurement of the

Council's performance is set out through core data sets in the Council Plan and Departmental Strategies with the monitoring, evaluation and benchmarking of progress managed through a Business Intelligence Hub. The Authority proactively manages performance with Members and senior officers regularly reviewing performance information to identify and manage emerging challenges.

27. Key highlights from across the priorities in 2017/18 include:

- Our good performance, when compared against national and regional attainments, in respect of permanent admissions of older people (aged 65 and over) to residential and nursing care homes indicates that service users are being able to retain their independence for as long as is possible. By performing at better than the national average the Council is also ensuring that NHS service users who are medically fit leave hospital with a minimum of delay enabling them to continue their recovery in a non-hospital setting and freeing up beds for others.
- Provisional year-end figures for the average number of days between a child coming into Council care and moving in with their adoptive family indicate a significant improvement, over the last three years reducing from 540 days to 432 days.
- More Nottinghamshire pupils (45.5%) achieved a strong pass in both GCSE English and mathematics (grade 9-5) in 2017 compared with the national average (42.9%).
- Nottinghamshire County Council met the Department for Education target to convert all pupils on Statements of Special Educational Needs on to Education, Health and Care Plans before the deadline of 31st March 2018.
- The percentage of municipal waste sent to landfill has continued to reduce with latest figures showing this at 6.5%, below the target of 8%. This has been achieved through the increased use of the Eastcroft and Sheffield Energy from Waste Plants, waste processed as Refuse Derived Fuel and by improved recycling and composting performance.
- The Council continues to support businesses by ensuring that over 95% of supplier invoices are paid on time.

28. The Authority has also identified a number of key challenges and pressures that may affect performance over 2018/19 and will seek to assess and pro-actively manage these through the coming year.

Summary

29. The Authority will continue to seek savings and, as an example, has worked with 7 other Local Authorities to set up LGPS Central Ltd as part of the national pooling agenda for pension fund investments. This new company will take responsibility for the investment of pension fund assets and, through economies of scale and internal delivery of investment services, aims to significantly reduce the costs for the constituent pension funds.

30. Overall the financial position remains challenging, however the Authority continues to deliver good financial and non-financial performance. The Authority will continue to respond to change and to deliver the savings required to meet the budget requirements. Robust financial management and ongoing risk management processes will ensure the Authority continues to deliver good value to the people of Nottinghamshire and ensure we make Nottinghamshire a better place to live, work and visit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE COUNTY COUNCIL

We have audited the financial statements of Nottinghamshire County Council ('the Authority') for the year ended 31 March 2018 which comprise the Authority Comprehensive Income and Expenditure Statement(s), the Authority Balance Sheet, the Authority Movement in Reserves Statement, the Authority Cash Flow Statement, the Fund Account and Net Assets Statement for the Nottinghamshire Pension Fund and the related notes, including the accounting policies and the Pension Fund accounting policies.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Nottinghamshire Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Service Director (Finance, Procurement & Improvement) is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Service Director (Finance, Procurement & Improvement) responsibilities

As explained more fully in the statement set out on page 15, the Service Director (Finance, Procurement & Improvement) is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Nottinghamshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Nottinghamshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Nottinghamshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

Due to work on the WGA Return not being completed by the [date of the audit report]

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Due to the Pension Fund Annual Report not being prepared by [date of the audit report]

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Nottingham Pension Fund with the pension fund accounts included in the financial statements of Nottinghamshire County Council. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December following the end of the relevant financial year. As the authority has not yet prepared the Pension Fund Annual Report we have not issued our report on the financial statements included in the Pension Fund Annual Report. Until we have done so, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Due to matters brought to our attention by a local authority elector

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector relating to 2015/16. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Tony Crawley
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

25th July 2018

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Service Director - Finance, Procurement and Improvement) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

Responsibilities of the Service Director (Finance, Procurement & Improvement)

The Service Director (Finance, Procurement & Improvement) is responsible for the preparation of the Authority's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Service Director (Finance, Procurement & Improvement) has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Nigel Stevenson
Service Director (Finance, Procurement & Improvement)
31 May 2018

STATEMENT OF APPROVAL OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts were approved by a meeting of the Governance and Ethics Committee on 25 July 2018. The Service Director (Finance, Procurement & Improvement) is satisfied with the position set out in the Statement of Accounts. As Chairman of the Governance and Ethics Committee, I am satisfied that the approval process for the Statement of Accounts has now been completed satisfactorily and that the Statement of Accounts may now be issued.

Councillor Bruce Laughton
Chairman of the Governance and Ethics Committee
25 July 2018

STATEMENT OF ACCOUNTING POLICIES

1. General Policies

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

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

2. 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 Authority 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 Authority
- Revenue from the provision of services is recognised when the Authority 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 Authority
- 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

3. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

4. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

5. Costs of Support Services

The costs of overheads and support services are charged to services in accordance with the Authority's arrangements for reporting accountability and financial performance.

6. 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 Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution 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 are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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 (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) 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.

7. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

8. Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that 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 Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are, however, only recognised when they exceed the de-minimis levels for 2017/18 set out below:

Asset Type	De minimus
Land and Buildings	£0
Community Assets	£10,000
Infrastructure Assets	£0
Assets under Construction	£0
Heritage Assets	£10,000
Vehicles, Plant, Furniture and Equipment	£6,000
Other assets	£6,000

Measurement

Assets are initially measured at cost, 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

- an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, Community Assets and Assets under Construction – depreciated historical cost
- Heritage Assets - held at valuation or, under certain conditions, historical cost (depreciated where appropriate)
- Operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Non-Operational Assets (i.e. not providing service potential to the Authority) – fair value as per the requirements of IFRS13 using the principle of “highest and best use” from a market participants perspective.

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

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

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2018 issued by Ms Mona Walsh MRICS, Team Manager – Property and Estates from the Authority’s Place Department on 29th May 2018. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation schedule undertaken during that year.

Assets included in the Balance Sheet at current value are revalued 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 a loss previously charged to a service.

Where decreases in value are identified, 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.

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.

Impairment

Assets are assessed at each year-end as to whether there is any indication that they 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 identified, 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 subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all PPE 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) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged in the year after acquisition or construction. Where depreciation is provided for, assets are depreciated using the straight line method. The lives of the assets vary and fall within the following ranges:

Asset Type	Useful Life (In Years)
Buildings	1 – 50
Vehicles and plant	1 – 20
Infrastructure	40
IT and other equipment	3 – 5
Intangibles	3 – 5
Furniture and Fittings	5 - 15

Where an item of PPE has major components whose costs are at least 20% of the total cost of the item, the components are depreciated separately. A review was carried out for all items over a de-minimis of £0.5 million. For the 2017/18 Statement of Accounts, the Authority has not identified any components to be depreciated separately.

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

Accounting for Schools Property, Plant and Equipment

The Authority has made detailed judgements regarding the control exercised over schools run in a wide variety of ways to determine whether non-current assets should be held on the Balance Sheet. The treatment of all schools has been considered by analysis predicated on the application of tests inherent within the following IFRS adopted by the CIPFA Code (Module 4 – Non Current Assets) – IAS16 – Property, Plant and Equipment, IAS17 – Leases and IFRIC12 – Service Concession Arrangements. This has resulted in the following treatment:

- Academy schools - off-Balance Sheet
- Foundation schools - on-Balance Sheet
- Voluntary Aided schools – off-Balance Sheet
- Voluntary Controlled schools – off-Balance Sheet
- Community schools – on-Balance Sheet

The assets of those Schools that convert to Academy status are derecognised from the Authority's Balance Sheet at nil proceeds. No impairment is recognised by the Authority prior to disposal.

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 revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. 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 criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve and can then be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement).

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 Balance in the Movement in Reserves Statement.

9. Revenue Expenditure Funded from Capital under Statute (REFfCUS)

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

10. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

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 Authority as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower), where the fair value exceeds the de-minimus limit. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to write down the lease liability. Where material, 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
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is 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 (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant or Equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority 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. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (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 financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the 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 Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement 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.

11. Private Finance Initiative (PFI) and Similar Contracts

The Authority has entered into a number of Private Finance Initiative contracts. PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Bassetlaw Schools PFI scheme and East Leake Schools PFI scheme, the liability was written down by initial capital contributions of £9.0 million and £2.9 million respectively.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority.

The amounts payable to the PFI operators each year 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 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 – charges for ongoing maintenance of the Property, Plant and Equipment debited to the relevant scheme.

12. Heritage Assets

Tangible and Intangible Heritage Assets

The Authority's Heritage Assets are held at County Hall or at the Nottinghamshire Archives. Nottinghamshire Archives has a number of architectural drawings and records relating to Rufford Abbey and the Savile of Rufford Estate. These collections are held in support of the primary objective of the Authority's Archives. In addition, the Authority retains a number of important ceremonial regalia and paintings that are also retained for increasing the knowledge, understanding and appreciation of the Authority's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below. The Authority's collections of Heritage Assets are accounted for as follows:

Ceremonial Regalia and Art Collection

The ceremonial regalia and art collection includes ceremonial items, paintings (both oil and watercolour), sketches, sculptures, glass and silverware and is reported in the Balance Sheet at market value. These assets are deemed to have indeterminate lives and a high residual value; hence the Authority 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.

Architectural Drawings and Records

The architectural drawings and records relating to the Savile of Rufford Estate are held at Nottinghamshire Archives and are reported in the Balance Sheet at historical cost. Valuation of these items is not readily available and the Authority believes that the benefits of obtaining annual valuations for these items would not justify the cost. These assets are deemed to have indeterminate lives and a high residual value; hence the Authority 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 if appropriate with

valuations provided by external valuers. Nottinghamshire Archives holds a number of other records (e.g. Lothian of Melbourne records) that are valued at less than £10,000. Consequently, the Authority does not recognise these assets on the Balance Sheet.

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 Authority's general policies on impairment. Where assets are disposed of, the proceeds of such items are accounted for in accordance with the Authority'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.

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) 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 line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 and the Capital Receipts Reserve.

14. 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 as per the requirements of IFRS13. Fair value is based on the amount at which the asset could be sold in an orderly transaction between knowledgeable market participants at the measurement date. As a non-financial asset, an investment property will be measured at its highest and best use. Properties are not depreciated but are revalued 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 and the Capital Receipts Reserve

15. Employee Benefits and Pensions

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post-Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pension Scheme, administered by Nottinghamshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Young People and Schools line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme (LGPS)

The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority 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. In assessing these liabilities at 31 March 2018 for the 2017/18 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increases and inflation.

- The assets of the pension fund attributable to the Authority 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 several components:

- Service Cost comprising:
 - current service cost / gain – the change in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions 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 of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit 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.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions 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 – credited/debited to the Pensions Reserve
- Contributions paid to the 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 Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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 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 Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

16. Cash and Cash Equivalents

Amounts held in call accounts or money market funds are highly liquid and readily convertible. These can be held for relatively long periods as call account rates are currently attractive. However, these accounts are used to cover short-term cash flow needs and so will be classed as cash equivalents.

Fixed term investments, of whatever duration, are not readily convertible to known amounts of cash. Fixed deals can be broken but only through negotiation with the borrower and at a penalty depending on the fair value of the loan at the time of break. All fixed term investments will not therefore be classed as cash equivalents.

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 Authority's cash management.

17. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are 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 was originally recognised.

For most of the borrowings that the Authority 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 according to 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/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 Authority has a policy of spreading the gain or 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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured 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 most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Authority, for policy reasons, can make loans to voluntary organisations at less than market rates (soft loans). 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 from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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. 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.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

18. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at each reporting date. 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. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability

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

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

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

19. Inventories

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

20. Joint Operations

An assessment of the Authority's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Authority's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors.

Joint operations are arrangements where the parties that have joint control have the rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises, where material:

- its assets, including share of assets held jointly;
- its liabilities, including share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output;
- its share of the revenue from the sale of the output by the joint operation;
- its expenses, including its share of any expenses incurred jointly.

21. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower

settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

22. The Carbon Reduction Scheme

The Authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The Authority is required to purchase allowances, either prospectively or retrospectively, and surrender them 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 Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

23. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence, or otherwise, of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either 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 are disclosed in a note to the accounts.

24. Contingent Assets

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

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

No contingent assets have been identified for the Authority at 31 March 2018.

25. Reserves

The Authority sets aside specific amounts as 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, retirement and employee benefits and do not represent usable resources for the Authority.

26. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for Local Authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Local Authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Local Authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

27. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

28. Accounting for Council Tax and NNDR

The Council Tax and NNDR 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 NNDR 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 NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

29. Accounting Policies not relevant or material

All accounting policies are reviewed annually to ensure on-going relevance. The following policies have been omitted on the basis of having a non-material impact on the financial statements:

- Valuation of available for sale assets
- Intangible assets – recognition of internally generated assets
- Exceptional Items

Expenditure and Funding Analysis 2017/18

	Net Expenditure Chargeable to the General Fund £000	Total Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Children & Young People	106,245	(6,941)	99,304
Schools	3,380	473	3,853
Adult Social Care & Public Health	192,961	10,823	203,784
Communities & Place	100,665	17,027	117,692
Policy	28,849	7,880	36,729
Finance & Major Contracts Management	2,956	435	3,391
Governance & Ethics	7,387	175	7,562
Personnel	15,147	3,121	18,268
Cost of Services	457,590	32,993	490,583
Other Income and Expenditure	(463,879)	(36,472)	(500,351)
(Surplus) or Deficit on Provision of Services	(6,289)	(3,479)	(9,768)
Opening Usable Revenue Reserves	181,729		
Surplus or (Deficit) on Provision of Services	6,289		
Closing Usable Revenue Reserves	188,018		

Expenditure and Funding Analysis 2016/17

As Restated

	Net Expenditure Chargeable to the General Fund £000	Total Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Children & Young People	108,291	22,977	131,268
Schools	5,330	(199)	5,131
Adult Social Care & Public Health	206,561	3,603	210,164
Communities & Place	100,010	21,765	121,775
Policy	30,565	5,011	35,576
Finance & Major Contracts Management	2,729	157	2,886
Governance & Ethics	6,878	183	7,061
Personnel	15,208	2,053	17,261
Cost of Services	475,572	55,550	531,122
Other Income and Expenditure	(465,304)	(30,638)	(495,942)
(Surplus) or Deficit on Provision of Services	10,268	24,912	35,180
Opening Usable Revenue Reserves	191,997		
Surplus or (Deficit) on Provision of Services	(10,268)		
Closing Usable Revenue Reserves	181,729		

Movement in Reserves Statement 2017/18

	Usable Revenue Reserves Balance £000	Capital Receipts and Grants Unapplied Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2017	181,729	4,206	185,935	(716,841)	(530,906)
Movement in Reserves during 2017/18					
Total Comprehensive Income and Expenditure	9,769	(1)	9,768	226,764	236,532
Adjustments between accounting and funding basis under regulations					
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.					
Pensions Costs	3,168	-	3,168	(3,168)	-
Financial Instruments	(15)	-	(15)	15	-
Collection Fund Adjustments (Council Tax and NNDR)	2,142	-	2,142	(2,142)	-
Employee Benefits	(680)	-	(680)	680	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to Capital expenditure	56,797	-	56,797	(56,797)	-
Total Adjustments to Revenue Resources	61,412	-	61,412	(61,412)	-
Adjustments between Revenue and Capital Resources					
Statutory provision for the financing of capital investment	(5,868)	-	(5,868)	5,868	-
Capital Expenditure Charged in the year to the General Fund	(6,182)	-	(6,182)	6,182	-
Total Adjustments between Revenue and Capital Resources	(12,050)	-	(12,050)	12,050	-
Adjustments to Capital Resources					
Capital Grants unapplied credited to CI&E	(49,170)	49,170	-	-	-
Application of grants to capital financing transferred to CAA	-	(49,473)	(49,473)	49,473	-
Movement in Deferred Capital Receipts	(3,672)	-	(3,672)	3,672	-
Total Adjustments to Capital Resources	(52,842)	(303)	(53,145)	53,145	-
Increase or (Decrease) in 2017/18	6,289	(304)	5,985	230,547	236,532
Balance at 31 March 2018	188,018	3,902	191,920	(486,294)	(294,374)

Movement in Reserves Statement 2016/17

	Usable Revenue Reserves Balance £000	Capital Receipts and Grants Unapplied Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2016	191,997	2,984	194,981	(375,607)	(180,626)
Movement in Reserves during 2016/17					
Total Comprehensive Income and Expenditure	(35,182)	1	(35,181)	(315,099)	(350,280)
Adjustments between accounting and funding basis under regulations					
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.					
Pensions Costs	14,307	-	14,307	(14,307)	-
Financial Instruments	(17)	-	(17)	17	-
Collection Fund Adjustments (Council Tax and NNDR)	1,677	-	1,677	(1,677)	-
Employee Benefits	592	-	592	(592)	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to Capital expenditure	78,603	-	78,603	(78,603)	-
Total Adjustments to Revenue Resources	95,162	-	95,162	(95,162)	-
Adjustments between Revenue and Capital Resources					
Statutory provision for the financing of capital investment	(8,603)	-	(8,603)	8,603	-
Capital Expenditure Charged in the year to the General Fund	(6,917)	-	(6,917)	6,917	-
Total Adjustments between Revenue and Capital Resources	(15,520)	-	(15,520)	15,520	-
Adjustments to Capital Resources					
Capital Grants unapplied credited to CI&E	(54,728)	54,728	-	-	-
Application of grants to capital financing transferred to CAA	-	(53,507)	(53,507)	53,507	-
Movement in Deferred Capital Receipts	-	-	-	-	-
Total Adjustments to Capital Resources	(54,728)	1,221	(53,507)	53,507	-
Increase or (Decrease) in 2016/17	(10,268)	1,222	(9,046)	(341,234)	(350,280)
Balance at 31 March 2017	181,729	4,206	185,935	(716,841)	(530,906)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		2016/17 As Restated		2017/18			
	Note	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure £000	Income £000	Net Expenditure £000
Gross expenditure, gross income and net expenditure of continuing operations							
Children & Young People		154,668	(23,400)	131,268	124,852	(25,548)	99,304
Schools		360,407	(355,276)	5,131	354,477	(350,624)	3,853
Adult Social Care & Public Health		373,286	(163,122)	210,164	385,835	(182,051)	203,784
Communities & Place		156,323	(34,548)	121,775	148,321	(30,629)	117,692
Policy		56,802	(21,226)	35,576	58,616	(21,887)	36,729
Finance & Major Contracts Management		4,621	(1,735)	2,886	5,082	(1,691)	3,391
Governance & Ethics		7,574	(513)	7,061	8,071	(509)	7,562
Personnel		30,257	(12,996)	17,261	30,349	(12,081)	18,268
Internal Recharges Adjustment		(40,314)	40,314	-	(39,183)	39,183	-
Cost of services		1,103,624	(572,502)	531,122	1,076,420	(585,837)	490,583
Other Operating Expenditure							
Loss on Disposal of non-current assets		39,255	-	39,255	55,554	-	55,554
Change in fair value of Assets Held for Sale	17	743	-	743	15	-	15
Other Operating Income and Expenditure		(17,035)	(346)	(17,381)	(46,541)	(159)	(46,700)
Financing and Investment Income and Expenditure							
Interest Payable	29	34,757	-	34,757	34,573	-	34,573
Net Interest on the defined liability/(asset)	22	31,653	-	31,653	30,961	-	30,961
Interest and Investment Income	29	-	(1,061)	(1,061)	-	(1,226)	(1,226)
Income and Expenditure in relation to Investment Properties and changes in their fair value	14	1,696	(488)	1,208	(9,094)	(574)	(9,668)
Net (Surplus)/Deficit of Trading Undertakings	33	51,678	(50,486)	1,192	43,222	(40,288)	2,934
Insurance Revenue	35	(3,437)	(1,287)	(4,724)	(5,550)	(64)	(5,614)
Taxation and Non-Specific Grant Income							
Recognised capital grants and contributions	27			(75,983)			(59,002)
Income from Council Tax				(312,551)			(331,409)
General Government Grants	27			(77,182)			(56,448)
National Non-Domestic Rates Distribution				(103,813)			(107,649)
New Homes Bonus Scheme				(3,774)			(3,119)
Transition Grant				(1,980)			(1,984)
Education Services Grant				(6,301)			(1,569)
(Surplus)/Deficit on Provision of Services				35,180			(9,768)
(Surplus)/Deficit on Revaluation of non current assets				15,890			(113,948)
Actuarial (gains) / losses on pensions assets / liabilities	22			298,509			(114,108)
Any other (gains) and losses				701			1,292
Total Comprehensive Income and Expenditure				350,280			(236,532)

BALANCE SHEET

		31 March 2017		31 March 2018	
	Note	£000	£000	£000	£000
Property, Plant and Equipment (PPE)	10				
Land and Buildings		606,279		716,685	
Vehicles, Plant, Furniture and Equipment		40,673		40,047	
Infrastructure Assets		523,585		544,333	
Community Assets		30		29	
Surplus Assets		53,854		60,712	
Assets Under Construction		10,612	1,235,033	8,248	1,370,054
Heritage Assets	16	481		420	
Investment Property	14	16,439		25,516	
Intangible Assets	15	5,698		4,215	
Long Term Advances	28	3,965		4,441	
Long Term Investments	28	2,516		-	
Long Term Debtors	20	511	29,610	368	34,960
Total Long Term Assets			1,264,643		1,405,014
Short Term Investments	28	32,036		4,550	
Inventories	19	1,571		2,172	
Short Term Debtors	20	53,427		76,678	
Less allowance for Bad Debts	20	(6,246)		(6,099)	
Cash and Cash Equivalents	38	68,396		61,069	
Assets Held for Sale	17	1,105		738	
Total Current Assets			150,289		139,108
Short Term Creditors	23	(103,448)		(112,841)	
Short Term Provisions	24	(2,394)		(2,570)	
Loans to be repaid within 1 year	28, 31	(18,087)		(22,182)	
Short Term Finance Lease Liability	12, 13, 28, 31	(4,517)	(128,446)	(6,554)	(144,147)
Total Assets less Current Liabilities			1,286,486		1,399,975
Long Term Provisions	24	(14,059)		(11,729)	
Long Term Borrowing	28, 31	(428,876)		(443,922)	
Long Term Finance Lease Liability	12, 13, 28, 31	(120,600)		(115,560)	
Deferred Liability	29	(1,161)		(1,084)	
Capital Grants Receipts in Advance	27	(4,641)	(569,337)	(9,786)	(582,081)
IAS 19 Pensions Liability	22		(1,248,055)		(1,112,268)
Total Net Assets			(530,906)		(294,374)
Usable Reserves	34				
Capital Receipts and Grants Unapplied Reserve		4,206		3,902	
Other Earmarked Reserves		111,702		116,229	
General Insurance	35	16,285		21,000	
Schools Statutory Reserves	36	26,036		19,919	
General Fund Balance		27,706	185,935	30,870	191,920
Unusable Reserves	37				
Capital Adjustment Account		399,301		416,882	
Revaluation Reserve		143,275		244,368	
IAS 19 Pensions Reserves	22	(1,248,055)		(1,138,407)	
Deferred Capital Receipts		-		3,672	
Financial Instruments Adjustment Account		(70)		(56)	
Collection Fund Adjustment Account		3,585		1,444	
Employee Benefits Account		(14,877)	(716,841)	(14,197)	(486,294)
Net Worth / Total Reserves			(530,906)		(294,374)

CASH FLOW STATEMENT

		2016/17	2017/18
	Note	£000	£000
Net (surplus) or deficit on the provision of services		35,180	(9,768)
Adjust for non-cash movements			
Depreciation and amortisation		(41,565)	(40,766)
Revaluation / Impairment of Property, Plant and Equipment		(10,634)	35,633
Donated Assets		21,254	9,831
Movement in current assets and liabilities		(20,213)	10,331
Movement in reserves and provisions		1,559	2,154
Adjustments in respect of pension charges		(14,307)	(3,168)
Grants applied		54,728	49,170
Carrying value of assets disposed of		(42,055)	(62,398)
Other		(2,354)	9,268
		(53,587)	10,055
Adjust for items included in investing or financing		2,798	3,173
Net cash flows from operating activities		(15,609)	3,460
Investing activities	40	14,062	22,253
Financing activities	41	(931)	(18,386)
Net (increase)/decrease in cash and cash equivalents		(2,478)	7,327
Cash and cash equivalents at beginning of period		65,918	68,396
Cash and cash equivalents at end of period		68,396	61,069

NOTES TO THE STATEMENT OF ACCOUNTS

1. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

There are no prior period adjustments to report in the 2017/18 accounts. To aid year on year comparisons, some accounts have been restated to reflect the Authority's revised committee structure as approved at the Full Council meeting on 25 May 2017.

2. Accounting Standards Issued but not yet Adopted

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires the Authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

IFRS 9 Financial Instruments - introduces extensive changes to the classification and measurement of financial assets and a new expected credit loss model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets.

IFRS 15 Revenue from Contracts with Customers - presents new requirements for the recognition of revenue based on a control based revenue recognition model. The Authority does not have any material revenue streams within the scope of the new standard.

From 2019/20, IFRS 16 will require local authorities that are lessees to recognise most leases on their balance sheets as right of use assets with corresponding lease liabilities (there is exemption for low-value short term leases.) The impact of this change will be assessed in due course.

There are a number of further minor changes to the Code which will not have a material impact upon the financial statements of the Authority.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in the Statement of Accounting Policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Authority has made detailed assessment and applied judgement regarding the extent of control exercised over schools run under various arrangements to determine whether associated assets and liabilities are consolidated into the single entity accounts. The outcome is as follows:
 - Community schools - on Balance Sheet
 - Academy schools - off Balance Sheet
 - Foundation schools - on Balance Sheet
 - Voluntary Aided schools - off Balance Sheet
 - Voluntary Controlled schools - off Balance Sheet
- The 2017/18 Code of Practice clarifies the requirements for valuing property, plant and equipment (PPE) to ensure valuations are "sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period". To achieve this objective, the Authority has consulted its professional valuers who have affirmed that there is no such material deviation from current value at the Balance Sheet date for those assets not subject to a formal in-year valuation.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority has considered in line with accounting standards and the Code of Practice on group accounts all significant relationships with regard to joint arrangements. The review considered all relationships for material interests that have the nature of subsidiaries, associates and jointly controlled entities. This included assessment of control by a single entity, joint control and materiality. There are no material interests and no group accounts. Refer to Note 32 for arrangements the Authority has with related parties.
- Arc Property Services Partnership Ltd and Via East Midlands Ltd are considered to be joint operations but they have not been fully consolidated into the Authority's accounts as a joint operation because there is no material difference to the costs already reflected.

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 Authority 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 assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2018 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

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 Authority 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 an asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.8 million for every year that useful lives had to be reduced.

Land and Building assets that are required to be measured at current value are revalued on a 5 year rolling basis by the Authority's internal team of valuers. Each property is assessed and valued on its own merits and the valuation is determined with due regard to any changes or uncertainties which may affect the specific property. It is estimated that a theoretical 1% market drop applied across all properties valued in 2017/18 would equate to an impairment variation of £12.4 million to be expensed through the surplus / deficit on the provision of services.

Fair Value

When determining fair value for the measurement and disclosure requirements in relation to the Authority's assets and liabilities, it is likely the Authority will be required to make assumptions and estimations. Where direct observable market data is unavailable, judgement is required in order to determine a fair value and the Authority uses relevant experts to ensure that appropriate valuation techniques are used where typically judgements include considerations such as uncertainty and risk.

Insurance

The Authority operates a self insurance scheme and has established a provision of £11.2 million to cover known claims and liabilities. The values provided are based upon historic experience and advice from claims advisers. However the actual payments paid out are subject to agreement and possible legal action. Therefore the final payments may differ significantly from that provided. A variation of 10% on the amount provided would have an impact of £1.1 million on the provision required.

Pensions

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured and is contained in Note 22.

5. Post Balance Sheet Events

There are no material events to report since the accounts were prepared, which are not already reported in the accounts.

6. Adjustments between Accounting Basis and Funding Basis under Regulations

The adjustments between the accounting basis and the funding basis under regulations are shown in the Expenditure and Funding Analysis and the Movement in Reserves Statement.

7. Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	2017/18			
	Adjustments for Capital Purposes £000	Net change for Employee Adjustments under IAS19 £000	Other Differences £000	Total Differences £000
Children & Young People	(16,841)	9,900	-	(6,941)
Schools	-	473	-	473
Adult Social Care & Public Health	3,811	7,012	-	10,823
Communities & Place	15,556	1,472	(1)	17,027
Policy	6,115	1,778	(13)	7,880
Finance & Major Contracts Management	-	435	-	435
Governance & Ethics	-	175	-	175
Personnel	648	2,473	-	3,121
Net Cost of Services	9,289	23,718	(14)	32,993
Other Income and Expenditure	(17,383)	(21,230)	2,141	(36,472)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	(8,094)	2,488	2,127	(3,479)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	2016/17 As Restated			
	Adjustments for Capital Purposes £000	Net change for Employee Adjustments under IAS19 £000	Other Differences £000	Total Differences £000
Children & Young People	22,575	402	-	22,977
Schools	-	(199)	-	(199)
Adult Social Care & Public Health	1,430	2,173	-	3,603
Communities & Place	21,298	484	(17)	21,765
Policy	4,707	304	-	5,011
Finance & Major Contracts Management	-	157	-	157
Governance & Ethics	-	183	-	183
Personnel	1,307	746	-	2,053
Net Cost of Services	51,317	4,250	(17)	55,550
Other Income and Expenditure	(42,964)	10,649	1,677	(30,638)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	8,353	14,899	1,660	24,912

8. Segmental Income

Income received on a segmental basis is analysed below. This is the income attributable to the General Fund under the funding basis rather than an accounting basis.

	2016/17 As Restated £000	2017/18 £000
Children & Young People	(21,176)	(23,041)
Schools	(355,275)	(350,624)
Adult Social Care & Public Health	(182,534)	(220,164)
Communities & Place	(36,053)	(32,469)
Policy	(29,661)	(31,438)
Finance & Major Contracts Management	(1,735)	(1,691)
Governance & Ethics	(513)	(509)
Personnel	(12,996)	(12,081)
Total	(639,943)	(672,017)

9. Expenditure and Income Analysed by Nature

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

	2016/17 £000	2017/18 £000
Expenditure		
Employee expenses	487,616	488,438
Other operating expenses	626,391	604,661
Depreciation, amortisation & impairment	52,199	5,133
Other Expenditure relating to held for sale & investment properties	1,951	(9,653)
Interest Payments	34,757	34,573
Precepts & Levies	276	280
Gains or Losses on disposal of Non Current Assets	39,255	55,554
Total Expenditure	1,242,445	1,178,986
Income		
Fees, charges & other service income	(214,903)	(207,115)
Interest & Investment Income	(1,061)	(1,226)
Income from Council Tax, NNDR	(416,364)	(439,058)
Government grants	(574,937)	(541,355)
Total Income	(1,207,265)	(1,188,754)
(Surplus)/Deficit on Provision of Services	35,180	(9,768)

10. Property, Plant and Equipment
Movement in 2017/18

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation								
At 1 April 2017	626,466	85,532	725,745	36	54,270	10,704	1,502,753	28,773
Additions	21,214	7,981	35,968	-	4,131	6,402	75,696	703
Donations	9,831	-	-	-	-	-	9,831	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	89,011	-	-	-	1,376	-	90,387	13,653
Revaluation increases/(decreases) recognised in the surplus/deficit on Provision of Services	34,111	-	-	-	(2,337)	-	31,774	4,534
Derecognition - disposals	(57,908)	(10,042)	(20)	-	(5,720)	-	(73,690)	-
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sales/Investment Property	-	-	-	-	(161)	-	(161)	-
Other Transfers between Asset Categories	(3,649)	265	2,936	-	9,571	(8,857)	266	-
Other Movements in cost or valuation	1	1	-	-	(1)	(1)	-	-
At 31 March 2018	719,077	83,737	764,629	36	61,129	8,248	1,636,856	47,663
Accumulated Depreciation and Impairment								
At 1 April 2017	(20,187)	(44,859)	(202,160)	(6)	(416)	(92)	(267,720)	(3,294)
Depreciation charge	(12,822)	(7,777)	(18,136)	(1)	(33)	-	(38,769)	(1,262)
Depreciation written out to the Revaluation Reserve	23,616	-	-	-	6	-	23,622	877
Depreciation written out to the Surplus/Deficit on Provision of Services	3,860	-	-	-	-	-	3,860	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - disposals	3,234	9,058	20	-	-	-	12,312	-
Derecognition - other	-	-	-	-	-	-	-	-
Change in category	(93)	(112)	(20)	-	26	92	(107)	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	(3)
At 31 March 2018	(2,392)	(43,690)	(220,296)	(7)	(417)	-	(266,802)	(3,682)
Net Book Value								
At 31 March 2018	716,685	40,047	544,333	29	60,712	8,248	1,370,054	43,981
At 31 March 2017	606,279	40,673	523,585	30	53,854	10,612	1,235,033	25,479

10 .Property, Plant and Equipment (Continued)

Movement in 2016/17

	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	As Restated PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation								
At 1 April 2016	650,174	91,296	691,001	35	72,351	3,919	1,508,776	28,943
Additions	17,152	8,550	34,195	-	1,921	5,755	67,573	2,197
Donations	21,254	-	-	-	-	-	21,254	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(270)	-	-	-	(20,706)	-	(20,976)	(829)
Revaluation increases/(decreases) recognised in the surplus/deficit on Provision of Services	(15,141)	-	-	-	(747)	-	(15,888)	(125)
Derecognition - disposals	(41,640)	(14,315)	(1)	-	(655)	-	(56,611)	(1,372)
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sales/Investment Property	(1,008)	-	-	-	(374)	-	(1,382)	-
Other Transfers between Asset Categories	(4,054)	-	548	-	2,477	1,029	-	-
Other Movements in cost or valuation	(1)	1	2	1	3	1	7	(41)
At 31 March 2017	626,466	85,532	725,745	36	54,270	10,704	1,502,753	28,773
Accumulated Depreciation and Impairment								
At 1 April 2016	(19,922)	(49,505)	(184,891)	(5)	(242)	-	(254,565)	(3,727)
Depreciation charge	(13,386)	(8,314)	(17,267)	(1)	(30)	-	(38,998)	(1,340)
Depreciation written out to the Revaluation Reserve	5,080	-	-	-	6	-	5,086	204
Depreciation written out to the Surplus/Deficit on Provision of Services	5,254	-	-	-	-	-	5,254	196
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition - disposals	2,533	12,963	-	-	8	-	15,504	1,372
Derecognition - other	-	-	-	-	-	-	-	-
Change in category	254	-	-	-	(156)	(92)	6	-
Other movements in depreciation and impairment	-	(3)	(2)	-	(2)	-	(7)	1
At 31 March 2017	(20,187)	(44,859)	(202,160)	(6)	(416)	(92)	(267,720)	(3,294)
Net Book Value								
At 31 March 2017	606,279	40,673	523,585	30	53,854	10,612	1,235,033	25,479
At 31 March 2016	630,252	41,791	506,110	30	72,109	3,919	1,254,211	25,216

11. Valuation of Property, Plant and Equipment (PPE)

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at current value are revalued at least every five years. Furthermore, for those assets measured at current value that fall outside of the 5-year rolling cycle, a revaluation is applied when evidence suggests that the carrying amount may be materially inaccurate. Annual revaluations are undertaken for the highest value assets and also those subject to significant in-year additional expenditure. This ensures that the closing current value of assets held on the balance sheet does not materially deviate from a current value as determined by a recent formal revaluation. The effective date of valuation is 31st March.

Operational land and buildings are valued based on their existing use value to reflect their current operating capacity. Surplus Assets (i.e. those assets not being used for service delivery and/or not eligible to be classified as Held for Sale) are measured at their fair value which represents the financial capacity and opportunity cost of holding such an asset as surplus.

All valuations of land and buildings have been 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 (RICS).

Other PPE assets are carried at depreciated historic cost as a proxy for fair value.

Revaluation of Property, Plant and Equipment

The following statement shows the progress of the Authority's rolling programme for the revaluation of Property, Plant and Equipment. The basis for valuation is set out in the Statement of Accounting Policies.

Basis of Measurement	Op Land & Bldgs £000	Surplus Assets £000	Other PPE Assets £000	Total £000
Valued at current value as at:				
31/03/2018	649,817	43,862		693,679
31/03/2017	13,648	3,350		16,998
31/03/2016	19,045	13,500		32,545
31/03/2015	15,869	-		15,869
31/03/2014	18,306	-		18,306
Valued at historic cost			592,657	592,657
Total	716,685	60,712	592,657	1,370,054

Fair Value Hierarchy

The Authority's portfolio of Surplus Assets have been assessed in relation to the Fair Value Hierarchy for the purposes of valuation (see Statement of Accounting Policies for full explanation)

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/18 £000
Surplus Assets	-	16,885	43,827	60,712

2016/17 Comparative Figures

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/17 £000
Surplus Assets	-	29,859	23,995	53,854

Transfers between levels of the Fair Value Hierarchy

There were no transfers of assets between levels 1 and 2 of the hierarchy during the year.

Significant Observable Inputs - Level 2

The fair value of Surplus Assets has been derived using the market approach applying current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

Significant Unobservable Inputs - Level 3

The market approach uses comparable data based on recent transactions with similar characteristics and locations to the Authority's assets. Where this valuation is significantly adjusted by the valuer to reflect asset specific factors, the inputs are categorised as Level 3. In addition, if the inputs are categorised in different levels of the hierarchy, the asset is categorised on the same level as the lowest level input that is significant to the entire measurement.

Assets are also measured using the investment approach based on discounted cash flows to establish the present value of the net projected income stream. This method requires the use of estimates (e.g. future rental income) and other unobservable inputs to determine a fair value. There is no reasonably available information to indicate that market participants would use different assumptions.

Reconciliation of Fair Value Measurements within Level 3

	2017/18 £000
Opening Balance	23,995
Transfers into Level 3	14,379
Transfers out of Level 3	(680)
Total gains (or losses) for the period included in Surplus or Deficit on Provision of Services resulting from changes in Fair Value	(694)
Unrealised gains / (losses)	3,460
Additions	3,388
Disposals	-
Other	(21)
Closing Balance	43,827

Impairment review

In accordance with the requirements of the Code, the Authority undertakes a review each year to identify any assets which may have been subject to an impairment in value. Where a potential impairment of Land and Buildings is identified, the asset is revalued and consequently any decrease in value is treated as a revaluation loss.

The Authority also recognised impairment losses totalling £1.9m in the CIES due to the demolition of various buildings prior to derecognition.

12. Leases

Authority as Lessee

Finance Leases

The Authority leases the following assets that qualify as a finance lease:

Land & Buildings - Highways Depot

The assets acquired under each lease are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2016/17 £000	2017/18 £000
Other Land & Buildings	3,487	2,680
	3,487	2,680

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

	2016/17 £000	2017/18 £000
Finance lease liabilities (net present value of minimum lease payments):		
- current	1	1
- non-current	878	878
Finance costs payable in future years	4,758	4,710
Minimum lease payments	5,637	5,589

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Not later than one year	48	48	1	1
Later than one year and not later than five years	241	241	1	1
Later than five years	5,348	5,300	877	877
	5,637	5,589	879	879

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 2017/18 £0.01m of contingent rents were payable by the Authority (£0.01m in 2016/17).

Operating Leases

The Authority leases a wide variety of properties for use in the provision of services including libraries, offices, industrial units and youth centres.

The minimum lease payments due under leases in future years are:

	2016/17 £000	2017/18 £000
Not later than one year	374	409
Later than one year and not later than five years	1,114	972
Later than five years	1,007	1,406
	2,495	2,787

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

	2016/17 £000	2017/18 £000
Minimum lease payments	562	474
Contingent rents	36	36
	598	510

Authority as Lessor

Finance Leases

The Authority leases school land and buildings to Academy schools for 125 year terms on peppercorn rentals. As per accounting policy, related assets are derecognised from the Authority's balance sheet upon transfer to Academy status.

Operating Leases

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

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

The minimum lease payments receivable under leases in future years are:

	2016/17 £000	2017/18 £000
Not later than one year	865	971
Later than one year and not later than five years	1,574	1,361
Later than five years	1,528	1,768
	3,967	4,100

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 £0.1m contingent rents were receivable by the Authority (£0.1m in 2016/17).

13. Private Finance Initiative (PFI)

East Leake Schools

The Authority has a contract with East Leake Schools Limited for the provision of secondary and primary schools and a community leisure facility in East Leake. Service commenced during 2003/04 and the contract finishes on 31 July 2027 when the buildings transfer back to the Authority.

The Authority retained the freehold of the land which is valued and included in the Balance Sheet as other land and buildings where the school is under local authority control.

The assets used to provide the schools services are recognised on the Authority's Balance Sheet where the school is under local authority control.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2018 including an estimate of inflation at 2.5% but excluding any performance or availability deductions, are as follows:

	Service Charge £000	Lifecycle Replacement £000	Finance Liability £000	Interest £000	Contingent Rent £000	Total £000
Payable within 1 year	571	236	623	879	359	2,668
Within 2-5 years	2,343	1,191	2,996	2,835	1,575	10,940
Within 6-10 years	2,645	1,077	5,056	1,459	2,119	12,356
	5,559	2,504	8,675	5,173	4,053	25,964

Bassetlaw Schools

The Authority has a contract with Transform Schools (Bassetlaw) Ltd for the provision of five secondary schools, two post-16 centres, one special school and two community leisure centres. These became fully operational during 2007/08 and the contract finishes on 31 July 2032 when the buildings transfer back to the Authority.

An agreement has been entered into between Nottinghamshire County Council and Bassetlaw District Council with regards to the two leisure facilities which form part of the PFI Scheme. A lease has been granted to Bassetlaw District Council for a term of 60 years secured on both the leisure facilities. Consequently these facilities are not included as assets on the Authority's Balance Sheet.

The Authority retained the freehold of the land which is valued and included in the Balance Sheet as other land and buildings where the school is under local authority control.

The assets used to provide the schools services are recognised on the Authority's Balance Sheet where the school is under local authority control.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2018 including an estimate of inflation at 2.5% but excluding any performance or availability deductions, are as follows:

	Service Charge	Lifecycle Replacement	Finance Liability	Interest	Contingent Rent	Total
	£000	£000	£000	£000	£000	£000
Payable within 1 year	6,074	733	3,723	8,427	510	19,467
Within 2-5 years	26,108	6,005	16,558	30,068	1,271	80,010
Within 6-10 years	37,136	11,628	28,846	27,270	367	105,247
Within 11-15 years	37,309	11,540	38,819	10,499	239	98,406
	106,627	29,906	87,946	76,264	2,387	303,130

Waste Recycling

The Authority has received Government support for a Nottinghamshire Waste PFI scheme which involves the commissioning of Materials Recycling Facilities and an Energy Recovery Facility. A PFI credit of £38.3 million has been allocated. The contract was signed on 26 June 2006 with Veolia Environmental Services and the contract ends on 31 March 2033 when the assets transfer to the Authority. The first main new facility, the Materials Recycling Facility (MRF), became operational in January 2009. The MRF site is subject to a 50 year rental agreement with the Authority, which is then recharged to Veolia Environmental Services at the same rates.

The Authority retained the freehold of the land which is valued and included in the Balance Sheet.

The assets used to provide the services are recognised on the Authority's Balance Sheet. Movements in their value over the year are included in the analysis of the movement in Property, Plant and Equipment balance.

The Authority makes an agreed payment per tonne of waste which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2018 including an estimate of inflation at 2.5% but excluding any performance or availability deductions, are as follows:

	Service Charge	Lifecycle Replacement	Finance Liability	Interest	Contingent Rent	Total
	£000	£000	£000	£000	£000	£000
Payable within 1 year	18,560	-	2,208	2,786	2,255	25,809
Within 2-5 years	78,009	10,050	8,340	11,555	7,327	115,281
Within 6-10 years	109,001	3,643	8,198	13,391	16,304	150,537
Within 11-15 years	123,317	1,256	5,868	6,431	22,723	159,595
	328,887	14,949	24,614	34,163	48,609	451,222

14. 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.

	2016/17 £000	2017/18 £000
Rental income from Investment Property	(488)	(574)
Direct operating expenses arising from Investment Property	28	26
Net (income)/expenditure	(460)	(548)

There are no restrictions on the Authority's ability to realise the value inherent in its Investment Property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop Investment Property or to undertake repairs, maintenance or enhancement.

Investment Properties have been valued as at the Balance Sheet date by the Authority's estate specialist Ms M Walsh MRICS who holds a relevant professional qualification and has recent experience.

The following table summarises the movement in the fair value of Investment Properties over the year:

	2016/17 £000	2017/18 £000
Balance at start of year	18,004	16,439
Additions:		
Subsequent expenditure	-	-
Disposals	-	-
Net gains/(losses) from fair value adjustments	(1,668)	9,120
Transfers:		
(to)/from PPE	103	(43)
Balance at end of year	16,439	25,516

Fair Value Hierarchy

The Investment property portfolio has been assessed in reference to the Fair Value Hierarchy as per the requirements of IFRS13 (see Statement of Accounting Policies for further detail).

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/18 £000
Investment Properties	-	1,548	23,968	25,516

2016/17 Comparative Figures

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/17 £000
Investment Properties	-	9,009	7,430	16,439

Transfers between levels of the Fair Value Hierarchy

There were no transfers of assets between levels 1 and 2 of the hierarchy during the year.

Valuation techniques used to determine Fair value

Significant Observable Inputs - Level 2

The fair value has been derived using the market approach applying current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

Significant Unobservable Inputs - Level 3

The fair value has been measured using the investment method, where expected cash flows are discounted to establish the present value of the net income stream. The approach uses existing lease terms and internal data relating to rent growth and occupancy levels to derive a fair value. There is no reasonably available information to indicate that market participants would use different assumptions.

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

Reconciliation of Fair Value Measurements within Level 3

	2017/18
	£000
Opening Balance	7,430
Transfers into Level 3	7,460
Transfers out of Level 3	(91)
Total gains (or losses) for the period included in Surplus or Deficit on Provision of Services resulting from changes in Fair Value	9,169
Additions	-
Disposals	-
Closing Balance	23,968

15. Intangible Assets

The Authority 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.

All software is given a finite useful life, based on assessment of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are from 3-5 years.

Intangible Assets are held at depreciated historic cost as a proxy for fair value where useful lives are low and/or values are immaterial.

The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £2.0 million in 2017/18 (£2.6 million in 2016/17) was charged to the CIES.

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

	2016/17 Purchased Software Licences £000	2017/18 Purchased Software Licences £000
Balance at start of year		
Gross carrying amounts	17,620	17,678
Accumulated amortisation	(10,301)	(11,980)
Net carrying amount at start of year	7,319	5,698
Purchases	946	1,137
Disposals	-	(470)
Amortisation for the period	(2,567)	(1,997)
Other Movements	-	(153)
Net carrying amount at end of year	5,698	4,215
Comprising		
Gross carrying amounts	17,678	6,963
Accumulated amortisation	(11,980)	(2,748)
	5,698	4,215

Fully amortised assets with a gross value of £10.1 million were disposed of in year.

16. Heritage Assets

Heritage Assets are measured at Open Market Value, or, under certain circumstances, at historic cost and depreciated where appropriate.

	2016/17 £000	2017/18 £000
Balance at 1 April	481	481
Additions	-	-
Revaluations	-	(61)
Balance at 31 March	481	420

Further Information on Heritage Assets

Savile of Rufford Abbey estate records

These documents relate to estates built up by the family in the West Riding of Yorkshire from the Middle Ages to the 17th century, and subsequently, augmented by the inheritance of the former Rufford Abbey estates in Nottinghamshire in 1626 through the marriage into the Talbot family, earls of Shrewsbury. The records were removed from Rufford Abbey prior to the Second World War and subsequently catalogued by the National Register of Archives in London in the 1940s and 1950s. They were deposited in the Nottinghamshire Archives in 1958, with subsequent additional deposits added in 1960, 1974 and 1982. These were supplemented by smaller acquisitions made in 1982. The collection consists of 394 boxes of documents.

Architectural drawings of Rufford and elsewhere by James Gibbs, 17th-18th centuries

The collection consists of 35 documents: 22 architectural drawings of Rufford Abbey, Ollerton Hall and Ollerton Church, with one drawing possibly of Osberton Hall, together with 17th and 18th century news cuttings reporting on Rufford Abbey and the Savile family, prints of Mr Henry Savile, Sir Henry Savile and Rufford landscapes.

The drawings were passed down to the present Lord Savile by descent. They were purchased at Sotheby's auction by Nottinghamshire Archives in July 2010, with the assistance of then Museums Libraries and Archives Council and Archives Council (now Arts Council)/ Victoria and Albert Museum Purchase Grant Fund and the friends of the National Libraries.

Ceremonial Regalia and Art Collection

The ceremonial regalia and art collection includes ceremonial items, paintings (both oil and watercolour), sketches, sculptures, glass and silverware acquired over a number of years. The majority of the collection is on display at County Hall with the remainder held in secure storage.

17. Assets Held for Sale

	Current Assets	
	2016/17 £000	2017/18 £000
Balance at start of year	1,523	1,105
Assets newly qualified as Held for Sale:		
Property, Plant and Equipment	1,523	753
Revaluation losses	(743)	(15)
Revaluation gains	-	-
Declassified		
Property, Plant and Equipment	(250)	(555)
Assets sold	(948)	(550)
Balance at end of year	1,105	738

There are no non-current assets held for sale.

18. Capital Expenditure and Financing

	Note	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement (CFR)		715,308	716,239
Capital Investment			
Property, Plant and Equipment	10	66,411	75,157
Intangible Assets	15	946	1,137
Amounts treated as revenue expenditure in accordance with the Code but which are classified as capital expenditure under statute		11,100	14,377
Additions/Reductions to PFI finance liability		4,734	1,464
Other adjustments		184	-
Sources of finance			
Capital receipts		(4,349)	(448)
Government grants and other contributions		(62,575)	(56,124)
Sums set aside from revenue (Inc. MRP)		(10,017)	(7,582)
Repayment of PFI finance liability		(5,442)	(4,468)
Repayment of finance lease liability		(61)	-
Closing Capital Financing Requirement (CFR)		716,239	739,752
Movement in year			
Change in underlying need to borrow (unsupported by Government financial assistance)		931	23,513
		931	23,513

The estimated commitments for capital expenditure in future years for schemes that had started and for which a legal contract had been entered into by 31 March 2018 are:

	£000
2018/19	26,718
2019/20	2,177
2020/21	1,001
2021/22	519
	30,415

The committed projects for 2018/19 are:

	£000
School Projects	17,444
Country Parks	2,072
Better Broadband for Nottinghamshire	1,942
Microsoft Enterprise Agreement	739
Other	4,521
	26,718

19. Inventories

	Raw Materials		Finished Goods		Totals	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening Balance	1,699	717	1,041	854	2,740	1,571
Purchases	8,174	8,498	6,303	6,181	14,477	14,679
Expended	(8,863)	(8,610)	(6,396)	(5,468)	(15,259)	(14,078)
Written Off	-	-	(3)	-	(3)	-
Transfer to new provider	(293)	-	(91)	-	(384)	-
Closing Balance	717	605	854	1,567	1,571	2,172

20. Debtors and Long Term Debtors

Debtors less than one year	2016/17 £000	2017/18 £000
Central government bodies	7,076	13,702
Other local authorities	20,486	19,750
NHS bodies	3,456	4,572
Public corporations and trading funds	49	38
Other entities and individuals	22,360	38,616
	53,427	76,678
Less allowance for bad and doubtful debt	(6,246)	(6,099)
Total	47,181	70,579
Long term debtors	2016/17 £000	2017/18 £000
Adult care property debt	479	334
Other	32	34
Total	511	368
Analysis of allowance for bad and doubtful debt	2016/17 £000	2017/18 £000
Opening allowance for bad and doubtful debt	5,976	6,246
Amounts paid	(2,317)	(2,522)
Amounts written off	(436)	(651)
Allowance adjustment	3,023	3,026
Closing allowance for bad and doubtful debt	6,246	6,099

21. Pensions – Contributions

Teachers

In 2017/18, the Authority paid £16.4 million to the Teacher's Pension Agency (£17.7 million in 2016/17) in respect of teachers' pension costs, which represents 16.48% of teachers' pensionable pay. In addition the Authority is responsible for all pension payments relating to added years it has awarded together with the related inflation increases. In 2017/18, this was £6.0 million (£5.7 million in 2016/17), representing 6.00% of pensionable pay (5.35% in 2016/17). The Authority is allowed to enhance lump sum retirement payments to teachers and in 2017/18 no payments were made (nil in 2016/17).

Other Employees

During 2017/18, the net cost of pensions and other benefits amounted to £42.4 million (£39.1 million in 2016/17), which represented 22.20% of pensionable pay (20.00% in 2016/17).

The Actuarial report upon which 2017/18 accounts are based is for a 3 year period commencing 1 April 2017. The report indicated rates that will provide the cost for 100% of pension funding in accordance with IAS19.

This is a combined rate of 15.40% and a value to be contributed:

	Additional contribution
	£000
2017/18	13,069
2018/19	13,069
2019/20	13,069

The Authority is responsible for all pension payments relating to historical, discretionary added years benefits it has awarded, together with the related inflation increases. In 2017/18 these amounted to £2.4 million (£2.4 million in 2016/17), representing 1.30% of pensionable pay (1.30% in 2016/17). The Authority also paid £1.5 million into the Pension Fund in 2017/18 (£1.2 million for 2016/17) to fund the non-discretionary additional strain on the the pension fund of early retirements.

22. Pensions – IAS19

The IAS19 position as at 31 March 2018 was a net liability as set out in the table below :

	2016/17	2017/18
	£000	£000
Local Government Pension Scheme	(1,136,995)	(1,008,288)
Teachers Unfunded Defined Benefit Scheme	(111,060)	(103,980)
Total Net Liability	(1,248,055)	(1,112,268)

Assets have been valued using the market value at 31 December 2017 increased by market index returns for the last three months of the accounting period. Liabilities have been valued using the projected unit method which assesses the future liabilities of the fund discounted to their present value. This work was undertaken by Barnett Waddingham LLP, an independent firm of actuaries, based upon the estimated position at 31 March 2018 provided by the Authority during February/March 2018. The actual figures for 2017/18 are not considered materially different from the estimates provided.

The difference between the Total net liability and the IAS19 Pension Reserve is due to a 3 year upfront cash payment which is recognised in the net liability.

Local Government Pension Scheme

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
- Current service cost	(51,073)	(77,866)
- Past service cost (including curtailments)	(2,020)	(2,748)
- Liabilities (assumed) / extinguished on settlements	58,080	109,378
- Settlement Prices received / (paid)	(35,597)	(52,139)
Other Operating Expenditure		
- Administration Expenses	(510)	(657)
Financing and Investment Income and Expenditure		
- Net interest on the defined (liability) / asset	(28,895)	(28,691)
Net Charge to the Comprehensive Income and Expenditure Statement	(60,015)	(52,723)
Movement in Reserves		
- Reversal of net charges made for retirement benefits in accordance with IAS19	60,015	52,723
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers contributions payable to the Pension Fund and retirement benefits payable directly to pensioners	42,694	46,372
In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, the following actuarial gains/losses were included within Other Comprehensive Income and Expenditure.		
	2016/17 £000	2017/18 £000
Actuarial gains / (losses)	(279,249)	110,724
Assets and liabilities in relation to retirement benefits		
Reconciliation of present value of the scheme liabilities:		
	2016/17 £000	2017/18 £000
At 1 April	2,275,706	2,831,487
Current service cost	51,073	77,866
Interest cost	79,286	73,594
Change in Financial Assumptions	588,715	(109,343)
Change in Demographic Assumptions	16,136	-
Experience loss/(gain) on Defined Benefit Obligation	(63,979)	-
Past service costs/(gain)	2,020	2,748
Liabilities extinguished on settlements	(58,080)	(109,378)
Benefits paid	(69,202)	(68,689)
Contributions by scheme participants	12,029	11,780
Unfunded pension payments	(2,217)	(2,138)
at 31 March	2,831,487	2,707,927

Reconciliation of fair value of the scheme assets:

	2016/17 £000	2017/18 £000
At 1 April	1,435,981	1,694,492
Interest on assets	50,391	44,903
Return on assets less interest	271,938	230
Other actuarial gains/(losses)	(11,466)	-
Administration expenses	(510)	(657)
Employer contributions	41,994	70,707
Contributions by scheme participants	12,029	11,780
Estimated benefits paid	(71,419)	(70,827)
Settlement prices received/(paid)	(35,597)	(52,139)
Other Movements*	1,151	1,150
At 31 March	1,694,492	1,699,639
Opening Net Position	(839,725)	(1,136,995)
Closing Net Position	(1,136,995)	(1,008,288)

*Contribution from Nottinghamshire Probation Trust for former employees of the Authority.

The expected return on scheme assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2017 for the year to 31 March 2018). The returns on gilts and other bonds are assumed to be gilts yields and corporate bond yields (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilts yields.

Scheme History

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Present value of liabilities	(2,050.6)	(2,445.6)	(2,275.7)	(2,831.5)	(2,707.9)
Fair value of scheme assets	1,325.8	1,458.6	1,436.0	1,694.5	1,699.6
Surplus/(deficit) in the scheme	(724.8)	(987.0)	(839.7)	(1,137.0)	(1,008.3)
Cumulative actuarial gain (loss)	(286.4)	(514.3)	(319.7)	(598.9)	(488.2)

IAS19 requires the Authority to determine the surplus or deficit of its Pension Fund on an annual basis. In the short-term, changes in the value of investments can lead to a significant variation to the surplus or deficit on the fund which might be expected to show a smoother trend over the longer term. Every three years the Authority reviews its contributions to the fund based upon a detailed actuarial exercise which takes account of existing liabilities and likely investment returns and sets out an approach to meeting 100% of liabilities over a period of time. This takes a longer-term view of the fund position than that required by IAS19 and is expected to be less prone to significant changes in fund value as a result of short-term fluctuations in market values. The Authority does not expect the deficit shown to have a significant impact upon reserves or revenue funding requirements in the short term. The triennial revaluation effective 1 April 2017 showed that the Authority's contributions to the fund would be 15.4% of pensionable pay in each of the next three financial years, and an additional value of:

	£000
2017/18	13,454
2018/19	13,776
2019/20	14,105

The above amounts have been paid as an agreed up front payment of £39.2m as permitted by the Actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2019 is £26.2 million.

The actuarial assumptions used to calculate the position in accordance with IAS19 were as follows:

	31 March 2017	31 March 2018
Rate of inflation - RPI Increases	3.6%	3.3%
Rate of inflation - CPI Increases	2.7%	2.3%
Rate of increase in salaries	4.2%	3.8%
Rate of increase in pensions	2.7%	2.3%
Discount rate	2.7%	2.6%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men (years)	22.5	22.6
Women (years)	25.5	25.6
Longevity at 65 for future pensioners:		
Men (years)	24.7	24.8
Women (years)	27.8	27.9
Estimated return on assets	23.0%	3.0%
Proportion of employees opting to take an increased lump sum/reduced pension	50.0%	50.0%

The Authority's estimated asset allocation, which is 34% of the whole fund is as follows:

	31 March 2017		31 March 2018	
	£000	%	£000	%
Assets				
Equities	1,185,131	70	1,117,572	66
Gilts	51,801	3	38,936	2
Other Bonds	102,232	6	198,541	12
Property	188,401	11	213,507	13
Cash	85,250	5	33,581	2
Inflation-linked pooled fund	42,301	3	42,050	2
Infrastructure	39,376	2	55,453	3
Total	1,694,492	100	1,699,640	100

The Authority publishes a Pension Fund Annual Report which is available upon request. A copy is also available on the pension fund website (www.nottspf.org.uk).

Sensitivity analysis

This table shows the assumption change and the impact upon present value of total obligation and projected Service Cost:

	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	(0.1%)
Present Value of Total Obligation	2,657,708	2,707,927	2,759,146
Projected Service Cost	63,047	64,591	66,175
Adjustment to long term Salary Increase	+0.1%	0.0%	(0.1%)
Present Value of Total Obligation	2,712,023	2,707,927	2,703,856
Projected Service Cost	64,591	64,591	64,591
Adjustment to pensions Increase and Deferred revaluation	+0.1%	0.0%	(0.1%)
Present Value of Total Obligation	2,755,125	2,707,927	2,661,609
Projected Service Cost	66,177	64,591	63,041
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present Value of Total Obligation	2,811,022	2,707,927	2,608,732
Projected Service Cost	66,651	64,591	62,595

Teachers

Under IAS19, the Teachers added years scheme is classed as an unfunded defined benefit scheme. The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
- Past service (cost) / gain	-	-
- Gains / (losses) on curtailments	-	-
Financing and Investment Income and Expenditure		
- Interest cost	(2,758)	(2,270)
Net Charge to the Comprehensive Income and Expenditure Statement	(2,758)	(2,270)
Movement in Reserves	2016/17 £000	2017/18 £000
- Reversal of net charges made for retirement benefits in accordance with IAS19	2,758	2,270

Actual amount charged against the General

Fund Balance for pensions in the year:

- Employers contributions payable to the Pension Fund and retirement benefits payable directly to pensioners	5,772	5,966
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In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, the following actuarial gains/losses were included within other comprehensive income and expenditure.

	2016/17 £000	2017/18 £000
Actuarial gains / (losses)	(19,260)	3,384

Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2016/17 £000	2017/18 £000
Deficit at 1 April	94,814	111,060
Interest cost	2,758	2,270
Actuarial (gains) / losses	14,371	(3,384)
Change in demographic assumptions	(191)	-
Experience loss / (gain)	5,080	-
Unfunded pension payments	(5,772)	(5,966)
Deficit at 31 March	111,060	103,980

Scheme History

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Present value of liabilities	(95.1)	(100.7)	(94.8)	(111.1)	(104.0)
Fair value of scheme assets	-	-	-	-	-
Surplus/(deficit) in the scheme	(95.1)	(100.7)	(94.8)	(111.1)	(104.0)

The actuarial assumptions used to calculate the position in accordance with IAS19 were as follows:

	31 March 2017	31 March 2018
Rate of inflation - RPI Increases	3.2%	3.4%
Rate of inflation - CPI Increases	2.3%	2.4%
Rate of increase in pensions	2.3%	2.4%
Discount rate	2.1%	2.5%

Mortality assumptions:

Longevity at 65 for current pensioners:

Men	(years)	22.5	22.6
Women	(years)	25.5	25.6

23. Creditors

Creditors less than one year	2016/17 £000	2017/18 £000
Central government bodies	9,976	11,817
Other local authorities	10,077	7,804
NHS bodies	3,221	3,014
Public corporations and trading funds	19	166
Other entities and individuals	80,155	90,040
Total	103,448	112,841

24. General Provisions

Where events have happened, which are likely to result in future costs to the Authority, an estimate of the likely impact is made and a provision is set aside. The provisions made are set out below:

Short Term Provisions	2016/17 £000	Movement £000	2017/18 £000
General Insurance Claims prior to 1/4/98	650	(156)	494
General Insurance Claims from 1/4/98	653	(30)	623
Corporate Redundancy Provision	509	302	811
NDR provision for backdated appeals	582	(164)	418
Provisions below £200,000	-	224	224
Total	2,394	176	2,570

Long Term Provisions	2016/17 £000	Movement £000	2017/18 £000
General Insurance Claims prior to 1/4/98	5,846	(1,405)	4,441
General Insurance Claims from 1/4/98	5,887	(269)	5,618
NDR provision for backdated appeals	2,326	(656)	1,670
Total	14,059	(2,330)	11,729

25. Contingent Liabilities

Insurance

In 1992, Municipal Mutual Insurance (MMI) ceased to trade and now exists solely to discharge its responsibilities under policies that it had previously issued. These responsibilities relate mainly to legal liability claims, which will take many years to materialise and finalise. On 13 November 2012 the board of MMI triggered the previously agreed Scheme of Arrangement and Ernst & Young LLP became responsible for the management of MMI's business, affairs and assets. In February 2013 the proposed levy or claw-back rate was initially set at 15%. On 16 March 2016, MMI wrote to all scheme creditors and proposed that the levy be increased to 25%. This has been agreed by the Scheme Creditors Committee and the balance of 10% will comprise the second levy to be applied to claims payments made under the Scheme of Arrangement since 30 September 1993. The actuarial review of the insurance liabilities of MMI remains uncertain and Ernst & Young LLP is not able to guarantee that this revised levy percentage will be sufficient for a solvent run-off. It is therefore anticipated that further levies will be made.

Social Care

A group litigation has been lodged against the Authority for negligence in its responsibilities for providing social care. Experience of similar cases in other authorities suggests that it will be three to five years before the case is concluded. An allowance has been set aside within the insurance provision for the possible settlement that the Authority may have to pay. However, in order not to prejudice seriously the privacy of the individuals and the Authority's position in the case, any further information has been withheld from this publication.

26. Specific Revenue Grants

The value of revenue grants included as income within the cost of services is as follows:

Committee Segments	2016/17 As Restated £000	2017/18 £000
Children & Young People	7,803	3,544
Schools	335,352	335,724
Adult Social Care & Public Health	54,555	68,290
Communities & Place	6,998	6,143
Policy	4,632	5,241
Governance & Ethics	79	61
Personnel	289	233
	409,708	419,236
Funding Body		
Ministry of Housing, Communities & Local Government	10,690	28,239
Department for Education	346,107	340,006
Department for Environment, Food & Rural Affairs	73	-
Department of Health & Social Care	44,942	43,411
Department for Transport	2,445	1,396
Department for Work & Pensions	55	574
Home Office	1,228	1,158
Other Grants & Contributions	4,168	4,452
	409,708	419,236
Analysis of Revenue Receipts in Advance		
Ministry of Housing, Communities & Local Government	300	659
Department for Education	628	1,244
Department of Health & Social Care	121	163
Department for Transport	17	17
Other Grants & Contributions	113	92
	1,179	2,175

27. General Government Grants Income and Taxation

The Authority set the 2017/18 Council Tax for a Band D property at £1,351.97 including the Adult Social Care precept (£1,290.66 in 2016/17). This was suitably adjusted for other bands of property and a precept was issued to the District Councils to recover the relevant amounts. Any variances in the amounts actually collected by the District Councils on behalf of the Authority will be adjusted in the amounts payable in the following year.

The figure for income from Council Tax includes accruals for the year-end position for the Authority's share of the various District Council Collection Funds. The value of the accrual in 2017/18 decreased by £2.3 million (£2.1 million decrease in 2016/17) which is reversed out of the General Fund in the Movement in Reserves Statement and held in the Balance Sheet in the Collection Fund Adjustment Account.

A number of grants and contributions are paid to the Authority directly by the Government. During 2017/18, the Authority recognised donated assets of £9.8 million (£20.8 million in 2016/17) in relation to new school buildings financed by the Education Funding Agency as part of the Priority School Building Programme (PSBP). Such assets have been recognised on the Balance Sheet at fair value.

The Authority credited the following grants, contributions and donations to the Comprehensive Income and

Expenditure Statement during the financial year:

Credited to Taxation & Non Specific Grant Income	2016/17 £000	2017/18 £000
Department for Education	24,677	13,912
Department of Health & Social Care	1	338
Department for Transport	24,445	30,435
Other Grants & Contributions	5,994	4,486
Donations	20,866	9,831
Recognised Capital Grants & Contributions	75,983	59,002
	2016/17 £000	2017/18 £000
Revenue Support Grant	63,234	38,510
PFI	13,948	14,395
Adult Social Care Support Grant	-	3,543
General Government Grants	77,182	56,448

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that, if not fulfilled, will require the monies or property to be returned to the donor. The balances at year-end are as follows:

Capital Grants Receipts in Advance	2016/17 £000	2017/18 £000
Ministry of Housing, Communities & Local Government	32	1,032
Department for Education	9	9
Department for Transport	-	1,675
Other Grants & Contributions	4,600	7,070
Total	4,641	9,786

28. Financial Instruments Balance

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

	Long-term		Current	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Financial liabilities at amortised cost	549,476	559,482	116,013	130,893
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	549,476	559,482	116,013	130,893
Loans and receivables	6,481	4,441	67,065	59,569
Available for sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Total investments	6,481	4,441	67,065	59,569

The Authority does not hold any financial liabilities at fair value through profit and loss or available-for-sale financial assets. There have been no reclassifications of financial assets during the accounting period.

The Authority's borrowings include finance leases associated with PFI schemes and borrowings with the Public Works Loans Board (PWLB) and with UK and European banks through 'Lender's Option, Borrowers' Option' loans (LOBOs). These are both classed as 'other liabilities' and measured at amortised cost.

Financial liabilities at amortised cost

Long-term

	2016/17 £000	2017/18 £000
(a) Long Term Borrowing		
Amounts still owed on loans received from external sources to acquire capital assets such as roads, buildings & equipment.		
Long Term Borrowing for repayment after 1 year	428,876	443,922
(b) Finance Lease Liability		
Amounts still owed on finance leases taken with external sources to acquire capital assets for PFI Schemes and long term finance leases for repayment after 1 year	120,600	115,560
Total Long Term Borrowing at 31 March	549,476	559,482

Current

	2016/17 £000	2017/18 £000
(c) Borrowing		
Long term borrowing for repayment within 1 year	18,087	22,182
Finance leases and PFI schemes for repayment within 1 year	4,517	6,554
Total Borrowing at 31 March	22,604	28,736
	2016/17 £000	2017/18 £000
(d) Trade Creditors	93,409	102,157

Financial Assets - Loans & Receivables

Long-term

	2016/17 £000	2017/18 £000
(a) Long-term Investments		
Long term investments with other local authorities and financial institutions	2,516	-
	2016/17 £000	2017/18 £000
(b) Long-term Advances		
Car and Bike Loans	120	80
Nottinghamshire Cricket Club	1,663	2,494
Academies	211	126
Adult Care Property Debt - Deferred Payment Scheme	1,754	1,534
Funding Circle	17	7
ARC	200	200
	3,965	4,441

Car and Bike Loans

The Authority has made loans for car and bike purchases to 23 employees (2016/17 35 employees) in the Authority who are in posts that require them to drive regularly on the Authority's business. These loans are not subsidised.

Car and Bike Loans Breakdown:

	2016/17 £000	2017/18 £000
Opening balance	198	120
Advances	20	26
Repayments	(98)	(66)
Closing Balance	120	80

	2016/17 £000	2017/18 £000
Car Loans Breakdown:		
One year or less	60	34
More than one year	60	46
	120	80

Other Long Term Advances

On 19 September 2007 the Authority approved a loan of £1.23m for 20 years to Nottinghamshire County Cricket Club to help fund the £8.2m development plans for the Trent Bridge ground. In addition to enhancing the reputation of the Cricket Club and helping it to retain Trent Bridge as a test match venue there are benefits to the economy and wider community. Consequently, the loan was offered at a discounted rate with a capital repayment holiday for the first 5 years. Security has been set by way of a charge against the fixed assets of the Club to safeguard the interests of the Authority. Since the loan was offered at less than the prevailing rate the figure in the Balance Sheet represents the fair value of the loan carried at its amortised cost. The balancing figure appears in the Financial Instruments Adjustment Account.

On 7 October 2015 Policy Committee approved a further loan, in conjunction with Nottingham City Council and Rushcliffe Borough Council. The loan is to allow the club to invest £8.1m in a media facility, refurbishing the Pavilion, enhancing the William Clarke Stand and Lady Bay development. The loan is over 20 years, with no holiday periods for capital repayment and is secured by way of a charge against the fixed assets of the Club. The loan will be drawn upon over two years 2016/17 and 2017/18 as required, and the interest rate is fixed at the 20 year annuity PWLB rate at the time of the legal agreement plus 2%.

The Authority operates an internal school loans scheme to enable schools to purchase assets such as ICT equipment, minibuses, photocopiers or contribute towards capital schemes. Typically these amounts are repaid over a three year period. Interest is charged at the current base rate plus 1% on these loans. When a school converts to academy status any outstanding balance will be reclassified as a loan to an external body and shown as a loan on the Authority's Balance Sheet.

The Authority also provides loans to fund energy efficiency projects, e.g. lighting, ICT upgrades and energy management systems. These are normally repaid over a five year period. No interest is charged on these loans. Since the loan was offered at less than the prevailing rate the figure in the Balance Sheet represents the the fair value of the loan carried at its amortised cost. The balancing figure appears in the Financial Instruments Adjustment Account.

Adult Care Property Debt under the deferred payment scheme (Section 35 of the Care Act 2014) consists of loans to those with insufficient income and capital, excluding their property, to meet their care home fees. Repayment of such loans is deferred until the residents die or their property is sold.

As part of its Economic Regeneration programme since 2013/14, the Authority has invested through the Funding Circle as a way of supporting direct lending or investment to small and medium sized local businesses. This was a consequence of the reduction in lending to businesses from banks or other mainstream sources of funding following the economic downturn.

The Authority has partnered with Scape Group Ltd to set up Arc Property Partnership Ltd to deliver property design and operations functions. An amount of £0.2m has been provided to Arc as a short term loan to avoid excessive overdraft costs. The interest rate is PWLB rate at the time of the loan plus 4%.

Current

(c) Temporary investments	2016/17 £000	2017/18 £000
Temporary investments with other local authorities and financial institutions	32,036	4,550

The Authority manages its cash in line with its approved Treasury Management Policy and in accordance with prevailing statutory requirements. The amount invested at the year end depends on the cash flow position at that date.

Short-term Trade Debtors	2016/17 £000	2017/18 £000
(d) Trade Debtors (less allowance for bad and doubtful debt)	35,029	55,019

Financial Assets - unquoted equity investment at cost

Economic Development: There are equity holdings amounting to £0.12m (£0.12m in 2016/17) that have been written off to the Comprehensive Income and Expenditure Account to reflect the high risk of the investment. Consequently, their fair value has been assessed as nil on the Balance Sheet.

Interests in Companies - Joint Ventures and Divested Organisations

The Authority holds a share in the Local Authority controlled SCAPE Group Ltd (17% share). The value of this holding is small and there are conditions on the shares that prevent them being traded on the open market. Consequently, since the fair value cannot be measured reliably, no value is carried on the Balance Sheet.

ARC Property Services Partnership Ltd began trading in June 2016. It is a Joint Operation with SCAPE Group where both parties share 50% risk. The new company is contracted to deliver property services to the Authority and the predominant place of business is Nottinghamshire. More information is available [here](#):

Via East Midlands Ltd began trading in July 2016. It is a Joint Operation with CORSERV Ltd where the shares are 49% the Authority and 51% CORSERV. This new company is contracted with the Authority for highways services and the predominant place of business is Nottinghamshire. More information is available [here](#):

The Authority has a 50% interest in Futures Advice Skills and Employment Limited (formerly Nottingham and Nottinghamshire Futures Limited). The Company transferred into Local Authority control from the Learning and Skills Council at 1 April 2008 at no cost and consequently, this is reflected at an immaterial investment cost in the Authority's accounts.

29. Financial Instruments Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

	2016/17			2017/18		
	Financial Liabilities £000	Financial Assets £000	Total £000	Financial Liabilities £000	Financial Assets £000	Total £000
Interest expense	(34,757)	-	(34,757)	(34,573)	-	(34,573)
Losses on derecognition	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Interest payable and similar charges	(34,757)	-	(34,757)	(34,573)	-	(34,573)
Interest income	-	1,061	1,061	-	1,226	1,226
Gains on derecognition	-	-	-	-	-	-
Interest and investment income	-	1,061	1,061	-	1,226	1,226

The average cost of external borrowing was 4.39% (4.54% in 2016/17).

The interest expense figure includes the cost of administration fees. For most of the transactions entered into by the Authority the transaction costs are negligible. For example, the PWLB charges an administration fee when advancing new loans at the current rate of 35p per £1,000 and LOBO loans taken out through brokers have incurred fees of £24,000 on borrowings of £10m. Administration fees below 0.5% of the amount borrowed are considered not material and are charged directly to the Comprehensive Income and Expenditure Account.

Following comprehensive local government re-organisation in 1974, the Authority took over assets from other local authorities on which there were repayments of advances still outstanding. These debts are administered by the other authorities and the amounts recharged to the Authority are included in the above figures.

The balance outstanding on these deferred liabilities is as follows:

	2016/17 £000	2017/18 £000
Loan taken over from District Councils when the responsibility for services was transferred to the Authority on local government reorganisation in 1974.	1,161	1,084

30. Fair Value of Assets and Liabilities carried at amortised cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

For long term borrowings and investments, fair values have been calculated by reference to relevant interest rates in force as at 31 March 2017 and 2018 as follows:

- for PWLB loans, the relevant PWLB rate in force
- for LOBO loans, the PWLB premature repayment rate applicable to loans in excess of 50 years
- for long term investments, the market rate for a loan of similar value and profile
- for finance leases and Salix loan, the PWLB rate for an annuity commencing on 31 March of equal length to the remaining scheduled length
- for loans and receivables, the PWLB rate for an annuity commencing on 31 March of length equal to the remaining scheduled length of the relevant instrument, plus 1% to recognise risk on loans and receivables.

	2016/17		2017/18	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial liabilities	665,489	912,972	690,375	927,099

The fair value is greater than the carrying amount because the Authority's portfolio of loans and finance leases includes a number of fixed rate loans and leases where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lender agreed to early repayment of the loans.

	2016/17		2017/18	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and receivables	73,546	76,096	64,010	64,033

The fair value is different from the carrying amount because the Authority's portfolio of investments included a number of fixed rate loans where the interest rate receivable was different from the rates available for similar loans at the Balance Sheet date. Where the agreed interest is above current market rates, the Authority would have to accept higher repayment if it negotiated early repayment of the loans; where the interest rate is lower then a lower repayment.

Fair Value Hierarchy

The financial liabilities, loans and receivables have been assessed in reference to the Fair Value Hierarchy as per the requirements of IFRS 13 (see Statement of Accounting Policies for further detail).

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/18 £000
Financial liabilities	-	-	927,099	927,099
Loans and receivables	-	-	64,033	64,033

	Level 1 £000	Level 2 £000	Level 3 £000	Fair Value as at 31/3/17 £000
Financial liabilities	-	-	912,972	912,972
Loans and receivables	-	-	76,096	76,096

Valuation techniques used to determine Fair Value

Significant Unobservable Inputs - Level 3

The Fair Value has been measured using the investment method, where expected cashflows are discounted to the present value of the net income stream.

31. Disclosure of nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the risk of failure by a counterparty to meet its contractual obligations under an investment, borrowing, capital, project or partnership financing.
- liquidity risk – the risk that cash will not be available when it is needed, thereby causing additional unbudgeted costs with consequent impact on the Authority's business/service objectives.
- market risk – the risk that, through adverse market fluctuations in the value of the principal sums the Authority borrows and invests, its stated treasury management policies are compromised.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. In 2002, the Authority adopted the CIPFA Code of Practice on Treasury Management. In accordance with this Code of Practice, the Authority sets an annual Treasury Management Strategy by March each year. This contains a number of measures to control the key financial instrument risks above including:

- treasury management practices.
- prudential indicators for borrowing and investment.
- approved counterparties for lending purposes.

The Authority also receives regular reports measuring the performance of the treasury management function. A copy of the Authority's Treasury Management Policy and Strategy is available [here](#):

Credit Risk

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amounts at 31/3/18 £000	Historical experience of default	Historical experience adjusted for market conditions at 31/3/18	Estimated maximum exposure to default and uncollecta- bility £000
Deposits with banks and financial institutions	4,544	-	-	-
Customers	26,121	0.20%	0.20%	52

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Customers are assessed, taking into account their financial position, past experience and other factors. The Authority's policy is to set aside an allowance for bad and doubtful debts in order to minimise the effect of default. At the end of 2017/18 the allowance for bad and doubtful debt was £6.1 million (£6.2 million in 2016/17).

The Authority does not generally allow credit for customers, such that £12.4 million (£8.4 million in 2016/17) of the £26.1 million (£22.4 million in 2016/17) balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	5,228
Three to six months	1,370
Six months to one year	1,496
More than one year	4,280
	12,374

Liquidity risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that a significant proportion of borrowings will mature at a time of unfavourable interest rates. Current borrowings are spread over 70 years with a maximum of any one year's maturity around 7% of the total. However, since the Authority's future borrowing requirement is fairly sizeable in relation to current debt, the prudential indicator for debt maturity has been set as part of the annual Treasury Management Strategy. The strategy for new loans is to borrow each year close to the lowest rate available and, where economic circumstances make it favourable, early repayment of fixed rate loans will be considered.

In addition, the Authority has a number of finance lease liabilities that relate to PFI and other schemes.

The maturity analysis of financial liabilities is as follows:

	2016/17 £000	%	2017/18 £000	%
Maturity date				
Within 1 year	22,604	4.0	28,736	4.9
1 year and up to 2 years	19,243	3.4	20,142	3.4
2 years and up to 5 years	57,883	10.1	58,048	9.9
5 years and up to 10 years	88,373	15.4	90,852	15.4
10 years and up to 15 years	92,686	16.2	90,446	15.4
15 years and up to 20 years	60,419	10.6	49,123	8.4
20 years and up to 25 years	50,003	8.7	50,003	8.5
25 years and over	180,869	31.6	200,868	34.1
	572,080	100.0	588,218	100.0

	2016/17 £000	2017/18 £000
Source of Borrowing		
Public Works Loan Board	336,712	356,510
External Bonds and Loans	106,282	106,281
Finance Leases related to PFI and other schemes	125,117	122,114
Salix Loan	3,969	3,313
	572,080	588,218

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

Market risk

Interest rate risk

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

- borrowings at fixed rates – the fair value of the borrowings will fall.
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest receivable on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in other comprehensive income and expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy for borrowing rates is to achieve a managed decline in the average rate and to borrow each year close to the lowest rate available. During periods of falling interest rates, and where economic circumstances make it favourable, early repayment of fixed rate loans will be considered to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs. The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget. The strategy is used to advise investment and borrowing decisions and also whether new borrowing taken out should be fixed or variable. This allows any adverse changes to be accommodated.

The Authority has no variable rate borrowings and minimal variable rate investments. A 1% change in interest rates would therefore have no material impact on the Comprehensive Income and Expenditure Statement. If interest rates had been 1% higher at 31 March 2018, with all other variables held constant, the fair value of fixed rate borrowings would be lower but with no impact on the Comprehensive Income and Expenditure Statement.

Price risk

The Authority does not hold any equity shares that can be measured and consequently is not exposed to losses from movements in the prices of shares.

Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to movements in exchange rates.

32. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. 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 Authority.

Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates and provides a significant part of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills). Grants received from Government Departments are set out in the subjective analysis in Notes 26 and 27.

Members

Members of the Council have direct control over the Authority's financial and operating policies. The total of Members allowances paid in 2017/18 is shown in Note 48. During 2017/18, there were no works or services commissioned from companies in which Members had an interest (2016/17 - none). Any contracts would have been entered into in full compliance with the Authority's standing orders. Grants totalling £1,883,906 were paid to 10 organisations in which 12 Members had positions on the governing body (2016/17 £2,895,109 to 8 organisations, 9 Members). No grants were made to organisations whose senior management included close members of the families of Members. In all instances, the grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members Interests which is open to public inspection and is also available on the Authority's website at this link: [here](#)

There are 2 Members on the board of Inspire and the transactions with the authority have been examined. There were no material direct grants paid to Inspire.

Senior Employees

In accordance with section 117 of the Local Government Act 1972, senior employees must declare their interest in any organisations which have received grant payments. During 2017/18, £6,651 grant was paid to the organisation where 2 senior employees declared an interest (in 2016/17 none was made). There are 2 senior officers on the board of Via with transactions between Via and the Authority are noted below.

Other Public Bodies (subject to common control by Central Government)

The Authority has a pooled budget arrangement with Integrated Community Equipment Loan Service (ICELS). The Authority has also entered into a pooled budget arrangement with NHS bodies called the Better Care Fund (BCF). Balances are detailed in Note 46.

The Authority is the administering body for the Local Government Pension Scheme (LGPS). Details of the Accounts of the Pension scheme can be found after the notes to the Authority's accounts.

Entities Controlled or Significantly Influenced by the Authority

These organisations are deemed to be influenced significantly by the Authority through its representation on the board or ownership of shares.

SCAPE Group Ltd - See note 28

Arc Property Partnership Ltd

	Audited 2016/17 £000	Unaudited 2017/18 £000
Revenue	21,254	35,248
Profit / (loss)	(743)	(427)
Total Assets	8,533	8,611
Total Liabilities	(11,120)	(10,880)
Equity and Reserves	(2,587)	(2,269)

The liabilities total includes £6.6m of pension liability (£6.1m 2016/17) not covered in the shareholder agreement split 50:50.

Nottinghamshire County Council had the following transactions with Arc:

	2016/17 £000	2017/18 £000
Purchases of works and services	19,069	35,125
Service Level Agreements	(140)	(428)
Other	(28)	37
Loan	200	(9)

Via East Midlands Ltd

	Audited 2016/17 £000	Unaudited 2017/18 £000
Revenue	36,293	64,554
Profit / (loss)	507	1,359
Total Assets	6,547	13,134
Total Liabilities	(6,142)	(11,748)
Equity and Reserves	405	1,386

Nottinghamshire County Council had the following transactions with Via:

	2016/17 £000	2017/18 £000
Purchases of works and services	39,472	61,555
Service Level Agreements	41	(1,441)
Other	(2,000)	(1,524)

Futures Advice, Skills & Employment Ltd (Futures)

Futures Advice, Skills and Employment Ltd (Futures) is a company owned equally between Nottingham City Council and Nottinghamshire County Council that provides support services to young people in Nottinghamshire.

	Audited 2016/17 £000	Unaudited 2017/18 £000
Revenue	17,704	18,223
Profit / (loss)	345	158
Total Assets	6,616	7,788
Total Liabilities	(23,492)	(22,621)
Equity and Reserves	(16,876)	(14,833)

Nottinghamshire County Council had the following transactions with Futures:

	2016/17 £000	2017/18 £000
Grants given	2,100	1,750
Purchases of works and services	744	127

Culture, Learning and Libraries (Midlands), trading as Inspire

Culture, Learning and Libraries (Midlands), trading as Inspire, is an independent Community Benefit Society launched by the Authority. Although the Authority does not control this entity, it does exercise power due to contract volume, being lessor of most of the properties and providing some support services. However, it has been agreed that the value does not meet the Authority's group accounts materiality threshold. The total expenditure is £13.4m (£13.0m in 2016/17) and income is £1.3m (£1.9m in 2016/17). More information can be found at the link [here](#)

33. Summary Revenue Accounts of Trading Undertakings

Note	Turnover	2016/17 Expend- iture	Surplus/ (Deficit)	Turnover	2017/18 Expend- iture	Surplus/ (Deficit)
	£000	£000	£000	£000	£000	£000
1 Direct Services <i>Cleaning, catering, grounds maintenance to the Authority. Some work is undertaken on behalf of external clients.</i>	45,661	46,440	(779)	35,373	37,821	(2,448)
County Supplies <i>A purchasing and supply service to the Authority and some external public bodies</i>	4,815	5,041	(226)	4,401	4,800	(399)
Clayfields Secure Unit <i>Specialist children's services to the Youth Justice Board and Local Authorities</i>	4,197	4,384	(187)	4,305	4,392	(87)
Total	<u>54,673</u>	<u>55,865</u>	<u>(1,192)</u>	<u>44,079</u>	<u>47,013</u>	<u>(2,934)</u>

Note:

1.The Direct Services deficit is a result of the pension costs impact of IAS19 and a Living Wage increase to employee costs.

34. Movement on Usable Reserves

	2015/16 £000	Transfers Out £000	Transfers In £000	2016/17 £000	Transfers Out £000	Transfers In £000	2017/18 £000
General Fund Balance	24,017	-	3,689	27,706	-	3,164	30,870
Schools Statutory Reserves	34,380	(8,559)	215	26,036	(6,350)	233	19,919
General Insurance Reserve	11,884	-	4,401	16,285	-	4,715	21,000
Capital Receipts and Grants Unapplied Reserve	2,984	(68,904)	70,126	4,206	(59,487)	59,183	3,902
Corporate Reserves							
Earmarked Reserves	9,665	(6,608)	6,559	9,616	(6,263)	-	3,353
Capital Projects Reserve	12,088	(1,385)	2,905	13,608	(3,881)	2,791	12,518
NDR Pool Reserve	5,312	(1,368)	2,059	6,003	(1,797)	3,920	8,126
East Leake PFI Schools	3,213	-	28	3,241	(13)	7	3,235
Bassetlaw PFI Schools	304	-	265	569	-	96	665
Waste PFI Reserve	27,773	(2,209)	87	25,651	(737)	669	25,583
Corporate Pay Review Reserve	710	(710)	-	-	-	-	-
Surplus Pension Contributions	302	(118)	-	184	(37)	-	147
Corporate Redundancy Reserve	5,053	-	1,182	6,235	-	1,929	8,164
Historic Abuse Inquiry Reserve	-	-	341	341	(271)	2,700	2,770
Strategic Development Fund	7,652	(3,160)	200	4,692	(2,000)	200	2,892
Earmarked for Services Reserves							
Trading Activities	3,631	(2,355)	1,310	2,586	(1,160)	245	1,671
Departmental Reserves	11,602	(5,326)	1,612	7,888	(1,290)	5,093	11,691
Revenue Grants	17,586	(7,104)	5,462	15,944	(3,653)	4,847	17,138
Section 256 Grants	16,825	(2,241)	560	15,144	(1,367)	4,499	18,276
Total Other Earmarked Reserves	121,716	(32,584)	22,570	111,702	(22,469)	26,996	116,229
Total Usable Reserves	194,981	(110,047)	101,001	185,935	(88,306)	94,291	191,920

General Fund Balance comprises reserves available for use by the Authority as a contingency.

Schools Statutory Reserves - See note 36

General Insurance Reserve - See note 35

Capital Receipts and Grants Unapplied Reserve - holds capital grant / capital receipt balances that have been received but not yet utilised.

Corporate Reserves

Earmarked Reserves hold year end underspends where approval has been given to be carried forward and spent in the following year. This reserve also contains reserves previously classified under earmarked for services but are no longer required for their original purpose.

Capital Projects Reserve supports the Medium Term Financial Strategy as well as current and future capital commitments.

NDR Pool Reserve holds the Authority's share of the Non Domestic Rates pool surplus. The pool was established 1 April 2013 when the new funding mechanism was introduced with the seven District and Borough Councils. It also holds the Authority's share of growth and renewable energy.

East Leake, Bassetlaw and Waste PFI Reserves are surplus funding amounts set aside during the early years of the PFI contracts. These are contributions from central Government and the Authority will be required in later years to finance the unitary charge.

Surplus Pension Contributions Reserve is the surplus amounts charged against services. This overpayment will contribute towards future years deficit payments.

Corporate Redundancy Reserve was established to help meet redundancy costs in excess of the amount already held in contingency for future years.

Historic Abuse Inquiry Reserve was been established to fund future expenditure associated with the Government led inquiry into historic abuse.

Strategic Development Fund was approved in the Budget Report to Council 27 February 2014 to facilitate the Authority's commitment to redefine service delivery.

Earmarked for Services Reserves

Trading Activities reserves comprise accumulated revenue surpluses plus or minus any transfer between those reserves and the General Fund.

Departmental Reserves are amounts set aside to cover expected events where the accounting criteria for the creation of provisions are not met.

Revenue Grants and Section 256 Grants are grants without specific conditions that remain unspent at the year-end are transferred into usable reserves, in accordance with the Code.

35. Insurance Reserve and Account

The Authority operates a self-insurance scheme and covers each kind of risk up to set limits which are reviewed annually. External insurers cover risks in excess of the internally insured amounts. The major areas where significant risks are covered externally are Fire, Liability and Motor. The insurance provision covers known liabilities. Amounts are also set aside in the Insurance Reserve to cover possible insurance claims losses that are not yet known about.

The total of the Insurance Provision and Reserve as at 31 March 1998 has been ring-fenced for liabilities arising up to that date. The balance and the liabilities are being shared by the County and City Councils in the proportion of 23.55 % City and 76.45% County.

The amount set aside in the Insurance Provision is detailed in Note 24. The Insurance Reserve is shown below:

General Insurance Reserve	Note	2016/17 £000	2017/18 £000
General Insurance Reserve		16,285	21,000
Insurance Account		2016/17 £000	2017/18 £000
Premiums paid		1,718	1,764
Claims made		2,329	1,699
Contribution (from)/to Provision		(1,688)	(2,340)
Contribution to Closed Fund from County Council		974	-
Miscellaneous charges		35	40
		3,368	1,163
Less charges to Departments	1	(7,524)	(7,294)
Future Liabilities of Nottm City Council Adjustment		719	581
Total Expenditure		(3,437)	(5,550)
		2016/17 £000	2017/18 £000
External Premiums		(13)	(64)
Contribution to Closed Fund from City and County Council's		(1,274)	-
Total Income		(1,287)	(64)
Net (surplus)/deficit		(4,724)	(5,614)

Note 1. Classed as expenditure to avoid double counting in the net cost of services.

36. Schools Statutory Reserves

Surplus and deficit balances relating to schools must be carried forward from one financial year to the next in accordance with the requirements of Section 48 of the School Standards and Framework Act 1998. The Schools Statutory Reserves are committed to be spent on schools and is not available to the Authority for general use.

During 2017/18 the overall reserve has reduced by £6.1 million to £19.9 million. Within the total reserve school accumulated balances decreased by £1.6 million to £18.4 million; of this, £1.8 million is to fund capital schemes.

The reserves also include £2.0 million relating to the non-ISB (Individual Schools Budget) element of the Schools Budget.

Part of the reserves are used to finance a school loan scheme, whereby schools are advanced funding for major capital items and then repay this over a three year period.

	2016/17	Movement	2017/18
	£000	in year £000	£000
School Balances			
Balances held by schools	19,994	(1,598)	18,396
Non ISB Balances	6,724	(4,752)	1,972
School Loan Scheme	(682)	233	(449)
School Statutory Reserves Total	26,036	(6,117)	19,919

37. Unusable Reserves

	2016/17	2017/18
	£000	£000
Revaluation Reserve	143,275	244,368
Capital Adjustment Account	399,301	416,882
Financial Instruments Adjustment Account	(70)	(56)
IAS 19 Pensions Reserve	(1,248,055)	(1,138,407)
Collection Fund Adjustment Account	3,585	1,444
Deferred Capital Receipts	-	3,672
Employee Benefits Account	(14,877)	(14,197)
Total Unusable Reserves	(716,841)	(486,294)

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. 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
- 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.

	2016/17	2017/18
	£000	£000
Balance at 1 April	167,531	143,275
Upward revaluation of assets	21,006	126,619
Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(36,896)	(12,671)
Surplus/(deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,890)	113,948
Difference between fair value depreciation and historic cost depreciation	(1,935)	(1,706)
Accumulated gains on assets sold or scrapped	(6,431)	(11,149)
Amount written off to the Capital Adjustment Account	(8,366)	(12,855)
Balance at 31 March	143,275	244,368

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 historic cost basis). The Account is credited with the amounts set aside by the Authority 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 Authority. 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.

	2016/17 £000	2017/18 £000
Balance at 1 April	398,757	399,301
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation on non-current assets	(38,998)	(38,769)
Revaluation and Impairments on PPE	(10,634)	35,633
Amortisation of intangible assets	(2,567)	(1,997)
Revenue expenditure funded from capital under statute	(14,673)	(15,301)
Transformation funded under Capital Direction	-	(2,724)
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	(37,500)	(59,226)
	(104,372)	(82,384)
Adjusting amounts written out of the Revaluation Reserve	8,366	12,855
Net written out amount of the cost of non-current assets consumed in the year	(96,006)	(69,529)
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	20,865	9,831
Application of grants to capital financing from the Capital Grants Unapplied Account	62,575	56,124
Statutory provision for the financing of capital investment charged against the General Fund	8,603	5,868
Capital expenditure charged against the General Fund	6,917	6,182
	98,960	78,005
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,667)	9,120
Movement in the fair value of Non Current Assets Held for Sale credited to the Comprehensive Income and Expenditure Statement	(743)	(15)
Balance at 31 March	399,301	416,882

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments.

	2016/17 £000	2017/18 £000
Balance at 1 April	(88)	(70)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	18	14
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	18	14
Balance at 31 March	(70)	(56)

IAS19 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 Authority 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, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

	2016/17 £000	2017/18 £000
Balance at 1 April	(934,539)	(1,248,055)
Actuarial gains / (losses) on pensions assets and liabilities	(298,509)	114,108
Other gains / (losses)	(700)	(1,292)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provisions of Services in the Comprehensive Income and Expenditure Statement	(62,773)	(54,993)
Employer's pensions contributions and direct payments to pensioners payable in the year	48,466	51,825
Balance at 31 March	(1,248,055)	(1,138,407)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and NNDR income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2016/17 £000	2017/18 £000
Balance at 1 April	5,262	3,585
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	(2,149)	(2,337)
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	472	196
Balance at 31 March	3,585	1,444

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve is an unusable reserve that holds the value of capital receipts that the Authority has recognised as disposal income in the Comprehensive Income and Expenditure Statement but where the consideration is to be paid in future years.

	2016/17 £000	2017/18 £000
Balance at 1 April	1,755	-
Movement in Deferred Capital Receipts held	(1,755)	3,672
Balance at 31 March	-	3,672

Employee Benefits Account

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

	2016/17 £000	2017/18 £000
Balance at 1 April	(14,285)	(14,877)
Settlement or cancellation of accrual made at the end of the preceding year	14,285	14,877
Amounts accrued at the end of the current year	(14,877)	(14,197)
Amount by which the officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(592)	680
Balance at 31 March	(14,877)	(14,197)

38. Cash and Cash Equivalents

The Authority monitors cash balances on a daily basis to make maximum use of the funds available and invests any surplus cash identified. The bank account balance at 31 March will consist of an overdraft with the Authority's main bank, amounts held in call accounts or money market funds and school deposits either with the Authority's main bank or held with other banks.

The analysis of cash and cash equivalents is as follows:

	2016/17		2017/18	
	£000	£000	£000	£000
Amounts held in call accounts and money market funds		46,474		49,089
Main overdraft		(12,310)		(18,498)
School bank accounts:				
Main Authority accounts	27,101		24,793	
Other bank accounts	7,131	34,232	5,685	30,478
		<u>68,396</u>		<u>61,069</u>

39. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2016/17	2017/18
	£000	£000
Interest received	(1,085)	(1,193)
Interest paid	34,832	34,701

40. Cash Flow Statement - Investing Activities

	2016/17	2017/18
	£000	£000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	68,220	83,165
Purchase of short and long-term investments	162,000	3,450
Pensions Deficit Payment	-	26,139
Other payments for investing activities	1,566	1,078
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(2,798)	(3,173)
Capital Grants and contributions received	(52,187)	(54,315)
Proceeds from short-term and long-term investments	(162,002)	(33,480)
Net other receipts from investing activities	(737)	(611)
Net cash flows from investing activities	<u>14,062</u>	<u>22,253</u>

41. Cash Flow Statement - Financing Activities

	2016/17	2017/18
	£000	£000
Cash receipts of short and long-term borrowing	(11,753)	(44,857)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(851)	806
Repayments of short and long-term borrowing	11,673	25,665
Net cash flows from financing activities	<u>(931)</u>	<u>(18,386)</u>

42. Minimum Revenue Provision (MRP)

Regulations require local authorities to set aside money to provide for redemption of outstanding debt. This amount is offset against the level of depreciation already charged to the Authority's Comprehensive Income and Expenditure Statement to ensure that depreciation charges do not increase the net expenditure of the Authority.

The amount required under the MRP regulations for 2017/18 is £5.9m (£8.6m for 2016/17) of which £4.5m (£5.5m for 2016/17) relates to repayments of the PFI and finance lease liabilities. The amount of depreciation and amortisation charged was £40.8m (£41.6m for 2016/17).

43. Audit Fees

The Authority has been advised of the following fees payable to KPMG (UK) LLP. All fees have been included in the accounts for the period to which they relate except grant claims.

	2016/17 £000	2017/18 £000
External Audit Fees	98	98
Work undertaken on Objection	-	30
Grant Claims	9	6
	107	134

44. Employee Remuneration

The table below shows the number of staff employed by the Authority whose remuneration, taxable expenses and severance (if applicable) amounted to £50,000 or more in the financial year. The table includes the senior staff separately identified in the subsequent tables.

Pay Band		Number of Staff					
		2016/17			2017/18		
		Exc Redundancy		Inc. Redundancy Total	Exc Redundancy		Inc. Redundancy Total
		Schools	Non Schools		Schools	Non Schools	
£170,000	£174,999	-	1	1	-	1	1
£165,000	£169,999	-	-	-	-	-	-
£160,000	£164,999	-	-	-	-	-	-
£155,000	£159,999	-	-	-	-	-	-
£150,000	£154,999	-	-	-	-	-	-
£145,000	£149,999	-	-	-	-	-	-
£140,000	£144,999	-	-	-	-	-	-
£135,000	£139,999	-	2	2	-	1	1
£130,000	£134,999	-	-	-	-	-	-
£125,000	£129,999	-	1	1	-	1	1
£120,000	£124,999	-	1	1	-	2	2
£115,000	£119,999	-	-	-	-	-	-
£110,000	£114,999	-	-	1	-	-	1
£105,000	£109,999	-	1	1	1	-	1
£100,000	£104,999	1	-	2	-	1	1
£95,000	£99,999	-	-	1	-	1	2
£90,000	£94,999	2	1	3	-	5	5
£85,000	£89,999	2	7	9	1	4	6
£80,000	£84,999	1	5	8	1	1	3
£75,000	£79,999	4	-	6	1	1	2
£70,000	£74,999	6	4	10	12	3	15
£65,000	£69,999	30	13	44	30	11	41
£60,000	£64,999	47	9	58	45	14	62
£55,000	£59,999	76	32	106	70	32	102
£50,000	£54,999	87	20	111	74	28	104
		256	97	365	235	106	350

The tables below show the remuneration of the Authority's Senior Employees as defined by the Accounts and Audit (England) Regulations 2015.

2017/18

Post Holder information (Post title and name (where applicable))	Note	Salary (including fees & allowances) £	Expenses £	Compensation for Loss of Office £	Employer Pension contributions* £	Total Remuneration £
Chief Executive - A May		173,417	989	-	38,499	212,905
Corporate Director of CYP		137,620	1,339	-	30,552	169,511
Corporate Director of ASC&PH (and Deputy Chief Executive)		128,922	-	-	28,596	157,518
Corporate Director of Place & Communities		123,811	671	-	27,486	151,968
Corporate Director of Resources	1	123,811	751	-	27,486	152,048
Director of Public Health	4	7,809	-	-	1,123	8,932
Director of Public Health - (interim)	3	76,806	970	-	11,045	88,821
Service Director (Finance, Procurement & Improvement)	2	88,644	836	-	19,679	109,159

*Pension Contributions are estimated at 22.2% to account for the pensions deficit (see note 19).

1. The post of Corporate Director of Resources has the statutory responsibility of Monitoring Officer.
2. The post of Service Director (Finance, Procurement and Improvement) has the statutory responsibility of Section 151 Officer.
3. The interim Director of Public Health annualised salary is £76,668. They left the post in March 2018.
4. The incumbent Director of Public Health started on 01 March 2018 and their annualised salary is £86,848.

2016/17

Post Holder information (Post title and name (where applicable))	Note	Salary (including fees & allowances) £	Expenses £	Compensation for Loss of Office £	Employer Pension contributions* £	Total Remuneration £
Chief Executive - A May		171,700	1,999	-	34,340	208,039
Corporate Director of CYP		136,257	383	-	27,251	163,891
Corporate Director of ASC&PH (and Deputy Chief Executive)		127,689	-	-	25,517	153,206
Corporate Director of Place	5	91,939	1,172	-	-	93,111
Corporate Director of Place	6	37,237	-	-	7,447	44,684
Corporate Director of Resources	1	122,585	683	-	24,517	147,785
Director of Public Health	3	33,894	-	-	4,670	38,564
Director of Public Health - (Interim)	4	67,921	774	-	9,713	78,408
Service Director (Finance, Procurement & Improvement)	2	85,988	597	-	17,198	103,783

*Pension Contributions are estimated at 20.0% to account for the pensions deficit (see note 21).

1. The post of Corporate Director of Resources has the statutory responsibility of Monitoring Officer.
2. The post of Service Director (Finance, Procurement and Improvement) has the statutory responsibility of Section 151 Officer.
3. The Director of Public Health left on 30 April 2016. The salary shown includes some arrears for service in previous financial years. Their annualised salary was £102,466.
4. The incumbent Director of Public Health started on 01 May 2016. Their annualised salary is £74,371.
5. The Corporate Director of Place left in December 2016. Their annualised salary was £122,585.
6. The incumbent Corporate Director of Place started in December 2016. Their annualised salary is £122,585.

The table below includes all exits from the Authority, including school based staff, and takes into account the cost of pension contributions that would have been paid had a retiring employee not left the Authority early. It may therefore differ from other published information.

Payment Ranges			Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages		Total Cost of Exit Packages £	
			2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0	-	£20,000	118	58	101	26	219	84	1,196,391	620,579
£20,001	-	£40,000	13	9	42	26	55	35	1,437,391	1,003,896
£40,001	-	£60,000	3	3	7	9	10	12	485,864	595,090
£60,001	-	£80,000	-	1	3	8	3	9	196,262	616,931
£80,001	-	£100,000	1	-	3	4	4	4	351,489	347,993
£100,001	-	£150,000	-	-	1	3	1	3	116,818	358,145
£150,001	-	£200,000	-	-	-	2	-	2	-	333,312
			135	71	157	78	292	149	3,784,215	3,875,946

45. Deployment of Dedicated Schools Grant

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DFE), the Dedicated Schools Grant (DSG). An element of DSG is recouped by the DFE to fund Academy schools in the Authority's area. The DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on an Authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

Schools Budget Funded by Dedicated Schools Grant

	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
Final DSG for 2017/18 before Academy recoupment			561,727
Academy figure recouped for 2017/18			(262,043)
Total DSG after Academy recoupment for 2017/18			299,684
Brought Forward 2016/17			6,724
Carry Forward to 2018/19 agreed in advance			-
Agreed initial budgeted distribution for 2017/18	52,263	254,145	306,408
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
In year adjustments	(10,063)	10,617	554
Final budgeted distribution for 2017/18	42,200	264,762	306,962
Actual central expenditure	(40,228)	-	(40,228)
Actual ISB deployed to schools	-	(264,762)	(264,762)
Plus Local Authority contribution for 2017/18	-	-	-
Carried forward to 2018/19	1,972	-	1,972

46. Pooled Budgets

Under Section 31 of the Health Act 1999, Nottinghamshire County Council has entered into the following Pooled Budget Arrangements with the partners set out below. The County Council is the host authority for the pooled budget and has responsibility for its financial management. The details are set out below:

Integrated Community Equipment Loan Service (ICELS) - Nottinghamshire

Nottinghamshire County Council (Host)
 Nottingham City Council
 Nottingham City CCG
 Nottinghamshire County CCGs
 Bassetlaw CCG

Pooled Budgets Memo Account	2016/17 £000	2017/18 £000
Net (surplus) / deficit brought forward	(110)	(529)

Funding provided to the pooled budget:

Nottinghamshire County Council ASC&PH	(1,527)	(1,504)
Nottinghamshire County Council CYP	(249)	(253)
Nottingham City Council	(1,111)	(985)
Bassetlaw CCG	(477)	(449)
Nottinghamshire County CCGs	(2,937)	(2,630)
Nottingham City CCG	(1,154)	(1,097)
Continuing Healthcare Specialist Equipment	(210)	(185)
Other	(82)	(19)
Total Funding	(7,747)	(7,122)

	2016/17 £000	2017/18 £000
<u>Expenditure met from the pooled budget:</u>		
Partnership Management and Administration Costs	615	643
Contract Management Fee	1,264	1,361
Continuing Healthcare Specialist Equipment	252	114
Equipment	4,985	5,047
Minor Adaptations	209	298
Direct Payments	3	-
Total Expenditure	7,328	7,463
Net (surplus) / deficit carried forward	(529)	(188)

The current contract began on 1 April 2016 for a period of 5 years with the option to extend for a further 2 years.

Better Care Fund

The Better Care Fund (BCF) was announced by the Government in the June 2013 spending round, to ensure a transformation in integrated health and social care. In 2017/18, the Nottinghamshire Clinical Commissioning Groups contributed the values in the table below towards creation of a BCF pooled budget in Nottinghamshire of £57.5m (£56.1m in 2016/17).

The Spending Reviews from 2015 to 2017 have identified temporary funding for Adult Social Care in the form of the Improved Better Care Fund (iBCF). This new element of the BCF is to be paid directly to Local Authorities. Further information is reported to MHCLG and can be found [here](#)

Assessment of the operation of the BCF pooled fund identified that it does not constitute a joint arrangement and therefore requirements of IFRS11 are not met.

Pooled Budgets Memo Account	2016/17 £000	2017/18 £000
Net (surplus) / deficit brought forward	(1,672)	(3,364)

Funding provided to the pooled budget:

Nottinghamshire County Council ASC&PH	(5,475)	(5,958)
Bassetlaw CCG	(7,554)	(7,690)
Mansfield & Ashfield CCG	(12,597)	(12,815)
Newark & Sherwood CCG	(8,020)	(8,146)
Nottingham North & East CCGs	(9,244)	(9,409)
Nottingham West CCG	(6,266)	(6,378)
Rushcliffe CCG	(6,974)	(7,099)
iBCF	-	(16,061)
Total Funding	(56,130)	(73,556)

	2016/17 £000	2017/18 £000
<u>Expenditure met from the pooled budget:</u>		
Nottinghamshire County Council ASC&PH	23,972	26,191
Bassetlaw CCG	4,680	4,763
Mansfield & Ashfield CCG	7,797	7,929
Newark & Sherwood CCG	5,106	5,180
Nottingham North & East CCGs	5,355	5,711
Nottingham West CCG	3,417	3,615
Rushcliffe CCG	4,026	4,331
iBCF (various projects)	-	16,061
Returned to CCGs (prior year underspend)	85	-
Total Expenditure	54,438	73,781
Net (surplus) / deficit carried forward	(3,364)	(3,139)

47. Termination Benefits

The Authority terminated the contracts of a number of employees in 2017/18, with a net value of £3.6 million (£2.5 million in 2016/17). These figures include accounting entries required by The Code.

48. Members Allowances

The Authority makes payments to Councillors for work undertaken in the course of their duties. The cost during the financial year was £1,490,353 (£1,433,507 in 2016/17). In addition to this, Members were reimbursed a total of £60,277 (£68,733 in 2016/17) for expenses incurred on Authority business.

49. Income from bodies under the Local Authority (Goods and Services) Act 1970

The Authority is empowered by this Act to provide goods and services to other public bodies. The Authority provided the following:

	2016/17		2017/18	
	£000	£000	£000	£000
	Expenditure	Income	Expenditure	Income
Administration and Professional Services				
NHS Trusts	61,070	(61,070)	66,144	(66,144)
Other Authorities	4,192	(4,192)	5,464	(5,464)
Schools and Colleges	64	(64)	71	(71)
Maintenance works				
Other Authorities	166	(166)	170	(170)
Schools and Colleges	21	(21)	29	(29)
	65,513	(65,513)	71,878	(71,878)

50. Section 137 of the Local Government Act 1972

Local authorities are empowered by Section 137 of the Local Government Act 1972, as amended, to make contributions to certain charitable funds, not for profit bodies providing a public service and mayoral appeals. During 2017/18 these powers were not used.

51. Publicity Work

Local authorities are required to disclose their expenditure on publicity. The definition of publicity includes a number of routine items of expenditure. The Authority's expenditure is summarised below:

	2016/17	2017/18
	£000	£000
Advertising for staff	351	297
Other advertising, including education courses	611	395
Public Relations - salaries and running costs	1,332	1,133
Other publicity expenditure	73	250
	2,367	2,075

As a percentage of gross expenditure (cost of services)	0.21%	0.19%
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Introduction

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The LGPS is a statutory scheme administered by individual pension funds. The benefits within the scheme are determined by regulation and are guaranteed by statute. The pension fund exists to help defray the cost of paying the pension benefits. Members make contributions to the Fund as specified in the regulations and employers make contributions as determined by the Fund's actuary as part of the triennial valuation of the Fund. All new employees are brought into the scheme automatically, unless a positive election not to participate is received from the employee.

The Authority administers the pension fund for over 400 participating employers and over 136,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The operation of the Fund is set out in a number of published policy statements. Under the Governance Compliance Statement, the functions as administering authority of the Fund are delegated to the Nottinghamshire Pension Fund Committee.

The Funding Strategy Statement sets out the aims and purpose of the Fund and details the responsibilities of the administering authority as regards funding the scheme.

The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the Fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the Fund's approach to responsible investment and corporate governance issues.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the Fund. A key part of this strategy is a dedicated Fund website (available at www.nottspf.org.uk).

A separate annual report for the Fund is also produced and this, along with previous years' reports, will be accessible via the pension fund website. The annual report includes the accounts and the published policies as well as information on the performance of the fund.

The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires:

- a fund account showing the changes in net assets available for benefits
- a net assets statement showing the assets available at the year end to meet benefits
- supporting notes.

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

FUND ACCOUNT

	Notes	2016/17 £000	2017/18 £000
Contributions	4		
Employer contributions		(135,650)	(193,459)
Member contributions		(43,495)	(45,176)
		(179,145)	(238,635)
Transfers in from other pension funds		(4,068)	(9,813)
Benefits	5		
Pensions		146,132	153,122
Commutation of pensions and lump sum retirement benefits		31,093	27,700
Lump sum death benefits		4,726	4,741
		181,951	185,563
Payments to and on account of leavers		14,746	16,713
Administration expenses	6	1,703	1,953
Net (additions)/withdrawals from dealings with members		15,187	(44,219)
Oversight and governance expenses	7	806	488
Investment Income	8	(142,281)	(149,816)
Profits & losses on disposal of investments & changes in value		(744,384)	(51,189)
Taxes on income		593	620
Investment management expenses	9	4,381	4,895
Net Returns on Investments		(881,691)	(195,490)
Net (increase)/decrease in net assets available for benefits during the year		(865,698)	(239,221)
Opening net assets of the Fund		4,066,670	4,932,368
Net assets available to fund benefits		4,932,368	5,171,589

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2017 £000	31 March 2018 £000
Investment Assets	10 & 14		
Fixed Interest Securities		745,298	716,004
Equities		1,998,629	2,032,516
Pooled Investment Vehicles		1,681,780	1,807,298
Property		367,175	438,470
Forward Foreign Exchange		-	103
Cash deposits		102,267	146,032
Other Investment Balances	12	34,094	31,062
Investment liabilities	12	(3,289)	(3,772)
		4,925,954	5,167,713
Current assets	13	10,614	11,773
Current liabilities	13	(4,200)	(7,897)
		6,414	3,876
Net assets of the fund available to pay benefits at the year end		4,932,368	5,171,589

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*, is shown at note 2c.

1. Accounting Policies**(a) Basis of Preparation**

The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2015* (the Pensions SORP) or to individual International Accounting Standards (IAS). Disclosures in the Pension Fund accounts have been limited to those required by the Code.

(b) Debtors and Creditors

The accruals concept is applied to these accounts in compliance with the Code.

(c) Investments

Pension fund investments are carried at fair value in accordance with the Code. Fair value is defined as 'the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction'. Where an active market exists, the quoted market price is used. Where there is no active market, fair value is established by using valuation techniques.

Specific details on the valuation methods for particular classes of assets are listed below:

- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.
- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers at the year end in accordance with industry accepted guidelines.
- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

Transaction costs arising on all investment purchases and sales are charged to the Fund Account within 'Profits & losses on disposal of investments & changes in value' by adding to purchase costs and netting against sale proceeds, as appropriate, for all investment types. This achieves consistency between asset classes and ensures all transaction costs are charged to the Fund Account. It also ensures that the financial statements faithfully represent the economic substance of the transactions. The economic substance of purchases and sales of all asset types is to generate returns for the Fund to help mitigate the cost to employers of providing pensions. Transaction costs are ancillary to this purpose.

The change in fair value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Forward foreign exchange contracts are "over the counter contracts" under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 10(b).

(d) Investments Income

Income is accounted for on an accruals basis for the following:

- interest on cash deposits and fixed interest securities is accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend
- rents from property are accrued in accordance with the terms of the lease.

(e) Taxes on Income

UK equity dividends are quoted and accounted for at the net rate. The tax credit, which the Fund is unable to recover, is not recognised (in accordance with the Pensions SORP). Overseas equity dividends are accounted for gross of withholding tax, where this is deducted at source. Partial reclaims of withholding tax, where allowed, are adjusted at the year end by outstanding claims.

(f) Foreign Currencies

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

(g) Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for on an accruals basis.

(h) Benefits Payable

Under the rules of the Scheme, members can receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the member leaves the Scheme or on death.

(i) Transfers to and from Other Schemes

Transfer values represent the capital sums either receivable (in respect of members from other pension schemes of previous employers) or payable (to the pension schemes of new employers for members who have left the Scheme). They take account of transfers where the trustees (or administering authority) of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

(j) Other Expenses

Management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund. Fees and charges within pooled investment vehicles have the effect of reducing the fair value of those investments. These embedded costs are disclosed at note 9.

(k) Property related income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

2. Operation of the fund

(a) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Under the 2008 scheme, employees were required to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary.

From 1 April 2014 the new Local Government Pension Scheme was introduced for service accruing after that date. This is a career average revalued earnings (CARE) scheme with an accrual rate of 1/49th of pensionable pay and a retirement age linked to the state retirement age. Employee contribution rates in the new scheme range from 5.5% to 12.5% depending on salary.

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the fund in a state of solvency, having regard to existing and prospective liabilities.

(b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £4,067 million. The Actuary has estimated that the value of the Fund was sufficient to meet 87% of its expected future liabilities in respect of service completed to 31 March 2016. The certified contribution rates are expected to improve this to 100% within a period of 20 years. The full actuarial valuation report is available on the Fund's website at www.nottspf.org.uk.

The Actuarial Valuation was carried out using the projected unit method and the assumptions used within the valuation are shown below.

	31 March 2016 % pa
Expected investment returns:	
Equities	7.4
Gilts	2.4
Property	5.9
Discount Rate	5.4
Retail price inflation (RPI)	3.3
Consumer price inflation (CPI)	2.4
Long term pay increases	3.9
Pension Increases	2.4

The 2016 valuation produced an average employer contribution rate of 20.4%. Employer contributions were certified by the actuaries for the years 2017/18 to 2019/20. For the majority of employers, the rate for future service accrual was certified as a percentage of salary with an additional cash amount specified for deficit recovery. The following list shows the contributions payable by the main employers:

Certified employer contributions	2017/18	2018/19	2019/20
Nottinghamshire County Council	15.4%	15.4%	15.4%
Plus:	£13,454,000	£13,776,000	£14,105,000
Nottingham City Council	13.7%	13.7%	13.7%
Plus:	£12,009,000	£12,296,000	£12,590,000
Ashfield District Council	14.4%	14.4%	14.4%
Plus:	£1,919,000	£1,965,000	£2,012,000
Bassetlaw District Council	16.2%	16.2%	16.2%
Plus:	£1,880,000	£1,159,000	£1,187,000
Broxtowe Borough Council	14.4%	14.4%	14.4%
Plus:	£691,000	£707,000	£724,000
Gedling Borough Council	15.1%	15.1%	15.1%
Plus:	£575,000	£588,000	£602,000
Mansfield District Council	16.7%	16.7%	16.7%
Plus:	£2,298,000	£2,353,000	£2,409,000
Newark and Sherwood District Council	14.5%	14.5%	14.5%
Plus:	£1,299,000	£1,330,000	£1,362,000
Rushcliffe Borough Council	14.7%	14.7%	14.7%
Plus:	£1,198,000	£1,227,000	£1,256,000

A number of employers have made accelerated payments for their future years deficit recovery amounts.

(c) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 19. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2016 allowing for the different financial assumptions required under IAS19. The assumptions used for the purposes of the IAS 19 calculations are as follows:

	31 March 2016		31 March 2017		31 March 2018	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.3	-	3.6	-	3.3	-
CPI increases	2.4	(0.9)	2.7	(0.9)	2.3	(0.9)
Salary Increases	4.2	0.9	4.2	0.6	3.8	0.5
Pension Increases	2.4	(0.9)	2.7	(0.9)	2.3	(0.9)
Discount Rate	3.7	0.4	2.8	(0.8)	2.6	(0.8)

The net liability under IAS 19 is shown below.

	31 March 2016 £000	31 March 2017 £000	31 March 2018 £000
Present value of funded obligation	6,665,990	8,332,963	8,442,517
Fair value of scheme assets	4,034,292	4,895,150	5,132,636
Net Liability	2,631,698	3,437,813	3,309,881

The present value of funded obligation consists of £8,147.4 million in respect of vested obligation and £295.1 million in respect of non-vested obligation.

These figures are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

(d) Investment Strategy

The investment strategy of the Fund is designed to maximise growth within acceptable risk parameters to help meet the future liabilities. The powers of investment are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The current investment policy is set out in the Fund's Investment Strategy Statement, a copy of which is available on the pension fund website (www.nottspf.org.uk).

During 2017/18 the Nottinghamshire Pension Fund Committee, was responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Pension Fund Committee consisted of nine elected County Councillors (voting members), three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies and two appointed pensioner representatives (non voting members). Meetings were also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments were managed by officers of the Authority or by organisations specialising in the management of pension fund assets. The Pension Fund Committee was responsible for monitoring performance of the fund and met on a quarterly basis to review the Fund's main investment managers and their performance.

(e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. All fees have been included in the accounts for the period to which they relate. The fee for 2017/18 is £29,926 (£33,442 for 2016/17).

3. Contributors and Pensioners

	Members at 31 March 2018				
	County Council	City Council	District Councils	Other	Total
Contributors	17,102	7,968	3,141	19,194	47,405
Deferred Beneficiaries	23,441	12,137	4,301	13,798	53,677
Pensioners	16,521	7,152	4,797	7,365	35,835
					136,917

	Members at 31 March 2017				
	County Council	City Council	District Councils	Other	Total
Contributors	15,268	8,153	3,163	16,600	43,184
Deferred Beneficiaries	21,985	11,542	4,214	12,156	49,897
Pensioners	16,299	6,865	4,667	6,409	34,240
					127,321

4. Analysis of Contributions

	Employers		Members		Total	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
County Council	39,984	70,101	11,937	11,894	51,921	81,995
Scheduled Bodies	88,994	116,383	29,192	30,713	118,186	147,096
Admitted Bodies	6,672	6,975	2,366	2,569	9,038	9,544
	135,650	193,459	43,495	45,176	179,145	238,635

5. Analysis of Benefits

	2016/17 £000	2017/18 £000
Pensions	146,132	153,122
Commutation and lump sum	31,093	27,700
Lump sum death benefits	4,726	4,741
	181,951	185,563
Comprising of:		
County Council	71,648	71,902
Scheduled Bodies	99,843	105,158
Admitted Bodies	10,460	8,503
	181,951	185,563

6. Administration Expenses

	2016/17 £000	2017/18 £000
Printing and stationery	14	8
Legal fees	16	6
Other external fees	36	313
Administering Authority Costs	1,637	1,626
	1,703	1,953

7. Oversight and Governance Expenses

	2016/17 £000	2017/18 £000
Training and conferences	14	10
Printing and stationery	1	1
Subscriptions and membership fees	43	42
Actuarial fees	66	23
Audit fees	33	30
Legal fees	11	3
Other external fees	238	(28)
Administering Authority Costs	400	407
	806	488

8. Investment Income

Analysis by type of investment	2016/17 £000	2017/18 £000
Interest from fixed interest securities	(19,796)	(31,194)
Income from index-linked securities	-	-
Dividends from equities	(72,747)	(67,735)
Income from pooled investment vehicles	(23,888)	(27,049)
Income from property pooled vehicles	(7,201)	(4,971)
Net rents from property	(16,048)	(16,950)
Interest on cash deposits	(813)	(580)
Other	(1,788)	(1,337)
	<u>(142,281)</u>	<u>(149,816)</u>
Directly held property		
Rental income	(17,746)	(18,810)
Less operating expenses	1,698	1,860
Net rents from property	<u>(16,048)</u>	<u>(16,950)</u>

The future minimum lease payments receivable by the fund are as follows:

	2016/17 £000	2017/18 £000
Within one year	16,974	18,890
Between one and five years	61,717	71,609
Later than five years	170,303	203,342
Future lease payments due under existing contracts	<u>248,994</u>	<u>293,841</u>

9. Investment Management Expenses

	2016/17 £000	2017/18 £000
Custody fees	377	352
Investment management fees	3,823	4,365
Other external fees	160	160
Administering Authority Costs	18	18
Legal fees	3	-
	<u>4,381</u>	<u>4,895</u>

The investment management fees shown above are those fees attributable to external managers and charged directly to the Fund. Additional fees and charges are incurred through pooled investment vehicles. These have the effect of reducing the fair value of the investments. The estimated embedded costs within pooled investment vehicles were £10.5 million in 2017/18 (£10.6 million in 2016/17).

10. Investments

(a) Investment Analysis	31 March 2017	31 March 2018
	£000	£000
Fixed Interest Securities		
UK Public Sector	155,841	125,381
UK Other	576,684	564,823
Overseas Other	12,773	25,800
Equities		
UK	1,177,651	1,188,878
Overseas	815,967	836,114
Unlisted	5,011	7,524
Pooled Investment Vehicles		
Unit Trusts	711,405	761,045
Other Managed Funds	766,303	793,502
Pooled Vehicles Invested in Property		
Property Unit Trusts	115,737	152,051
Other Managed Funds	88,335	100,700
Property	367,175	438,470
Forward Foreign Exchange	-	103
Cash and Currency	102,267	146,032
Investment Liabilities	-	-
Total Investments	<u>4,895,149</u>	<u>5,140,423</u>

The original values of investments are based on purchase cost plus transaction costs. If any investments have been held since 1 April 1974 (when the Authority was given the responsibility for the Fund) these are included at the market value as at that date.

	31 March 2017	31 March 2018
	£000	£000
Market Value	4,895,149	5,140,423
Original Value	3,337,794	3,719,836
Excess/(Deficit) of Market Value over Original Value	<u>1,557,355</u>	<u>1,420,587</u>

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 contain a number of restrictions on investments. The limits that are relevant to the Fund are specified in the Fund's Statement of Investment Principles as follows:

- (a) Not more than 10% of the Fund to be invested in unlisted securities.
- (b) Not more than 10% of the Fund to be invested in a single holding.
- (c) Not more than 25% of the Fund to be invested in securities which are managed by any one body i.e. in a unit trust type arrangement.
- (d) Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.

No investments have been made contrary to these limits.

(b) Reconciliation of Opening and Closing Values of Investments 2017/18

	Value at 1 April 2017 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2018 £000
Fixed Interest Securities	745,298	128,873	(133,315)	(24,852)	716,004
Equities	1,998,629	256,950	(184,836)	(38,227)	2,032,516
Pooled Investment Vehicles	1,477,708	330,379	(333,498)	79,958	1,554,547
Property Pooled Vehicles	204,072	38,212	-	10,467	252,751
Property	367,175	60,044	(10,739)	21,990	438,470
	4,792,882	814,458	(662,388)	49,336	4,994,288
Forward Foreign Exchange	-	110,364	(112,114)	1,853	103
	4,792,882	924,822	(774,502)	51,189	4,994,391
Cash deposits	102,267				146,032
	4,895,149				5,140,423

Reconciliation of Opening and Closing Values of Investments 2016/17

	Value at 1 April 2016 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2017 £000
Fixed Interest Securities	421,376	422,114	(119,178)	20,986	745,298
Equities	1,885,900	269,143	(560,761)	404,347	1,998,629
Pooled Investment Vehicles	1,025,118	269,665	(118,370)	301,295	1,477,708
Property Pooled Vehicles	169,618	33,009	(11,151)	12,596	204,072
Property	343,314	29,810	(12,995)	7,046	367,175
	3,845,326	1,023,741	(822,455)	746,270	4,792,882
Forward Foreign Exchange	168	64,680	(62,962)	(1,886)	-
	3,845,494	1,088,421	(885,417)	744,384	4,792,882
Cash deposits	193,339				102,267
	4,038,833				4,895,149

For Forward Foreign Exchange contracts, the purchase cost and sale proceeds represent the sterling value of the currency purchases and sales at the settlement dates specified in the contracts.

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £3.9 million in 2017/18 (£2.8 million in 2016/17). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

The assets of the Fund are managed within five portfolios and a breakdown of these as at the Net Assets Statement date is shown below:

	31 March 2017 £000		31 March 2018 £000	
In-house	1,552,181	31.6%	1,489,164	29.0%
Schroder Investment Management	1,375,020	28.2%	1,409,787	27.4%
Kames Capital	755,278	15.4%	741,001	14.4%
Aberdeen Property Investors	379,860	7.8%	452,933	8.8%
Specialist	832,810	17.0%	1,047,538	20.4%
Total	4,895,149	100.0%	5,140,423	100.0%

A breakdown of material pooled holdings managed by external managers within the In-house and Specialist portfolios is shown below:

	31 March 2017 £000	31 March 2018 £000
In-house		
Legal & General	332,354	315,215
Specialist		
Kames Capital	157,879	189,494
RWC Capital	204,874	244,347
Aberdeen Standard	81,843	97,525

(d) Asset Allocation

The asset allocation of the Fund as at the Net Assets Statement date is shown below:

	31 March 2017 £000		31 March 2018 £000	
UK Fixed Interest	732,525	15.0%	690,204	13.4%
Overseas Fixed Interest	12,773	0.3%	25,800	0.5%
UK Equities	1,294,167	26.4%	1,227,158	23.9%
Overseas Equities:				
US	888,602	18.2%	857,461	16.7%
Europe	388,945	7.9%	469,744	9.1%
Japan	194,767	4.0%	257,278	5.0%
Pacific Basin	135,346	2.8%	136,352	2.7%
Emerging Markets	252,095	5.1%	246,446	4.8%
UK Property	495,597	10.1%	611,444	11.9%
Overseas Property	75,650	1.5%	79,777	1.6%
Private Equity	83,402	1.7%	94,394	1.8%
Infrastructure	118,219	2.4%	169,219	3.3%
Multi-Asset	120,794	2.5%	129,011	2.5%
Forward Foreign Exchange	-	-	103	-
Cash	102,267	2.1%	146,032	2.8%
Total	4,895,149	100.0%	5,140,423	100.0%

(e) Property

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Savills Commercial Limited. The analysis of property is:

	31 March 2017 £000	31 March 2018 £000
Freehold	350,775	406,370
Leasehold more than 50 years	16,400	32,100
	367,175	438,470
Original Value	302,860	351,889

Details of movement on directly owned properties is as follow.

	31 March 2017 £000	31 March 2018 £000
Opening balance	343,314	367,175
Additions:		
Purchases	24,353	45,973
New construction	5,246	13157.0
Subsequent expenditure	211	913
Disposals	(13,725)	(8,031)
Net increase in market value	7,776	19,283
Other changes in fair value	-	-
Closing balance	367,175	438,470

(f) Analysis of Pooled Investment Vehicles

The underlying economic exposure of pooled investment vehicles is shown below:

	31 March 2017 £000	31 March 2018 £000
UK Equities	168,846	110,937
Overseas Equities:		
US	420,577	399,306
Europe	101,558	163,553
Japan	134,213	185,510
Pacific Basin	135,346	136,352
Emerging Markets	224,745	215,828
UK Property	128,422	172,974
Overseas Property	75,650	79,777
Private Equity	78,390	86,871
Infrastructure	93,239	127,179
Multi-Asset	120,794	129,011
Total	1,681,780	1,807,298

(g) Private Equity and Infrastructure Funds

The Fund has made commitments to a number of private equity and infrastructure funds. The original commitment amounts are shown below in the fund currencies:

	Currency	Commitment millions
Private Equity Funds		
Wilton Private Equity Fund LLC	USD	14
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	5
Collier International Partners IV	USD	10
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Collier International Partners V	USD	18
Catapult Growth Fund LP	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Collier International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Foresight Nottingham Fund LP	GBP	10
Aberdeen SVG Private Equity	USD	15
DCM Private Equity Fund IV	USD	16
Collier International VII	USD	16
Pantheon Multi-Strategy	EUR	14
Capital Dynamics CPEV 15-16	GBP	10
Capital Dynamics CPEV 16-17	GBP	10
Capital Dynamics CPEV 17-18	GBP	10
YFM Equity Partners 2016 LP	GBP	10
Infrastructure Funds		
Partners Group Global Infrastructure	EUR	12
Altius Real Assets Fund I	USD	15
Hermes GPE Infrastructure Fund LP	GBP	25
AMP Capital Global Infrastructure Fund	USD	21
SL Capital Infrastructure LP	GBP	15
JP Morgan IIF UK 1	USD	22
Green Investment Bank Offshore Wind Fund	GBP	15
MacQuarie European Infrastructure Fund 5 LP	EUR	30
Equitix Fund IV LP	GBP	20
Hermes GPE Infrastructure II LP	GBP	25

These commitments are drawn by the funds over time as investments are made in underlying companies or assets. The undrawn commitments as at 31 March 2018 were £141.4 million (£141.5 million at 31 March 2017). Of the funds above, the following were new commitments made during 2017/18:

	Currency	Commitment millions
Equitix Fund IV LP	GBP	20
Hermes GPE Infrastructure II LP	GBP	25

(h) Analysis of derivatives

Open Forward Foreign Exchange contracts at 31 March 2018

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	5,743	EUR	(6,500)	31	-
Up to 3 months	GBP	25,156	USD	(35,300)	72	-
					103	-
Total net forward foreign exchange contracts					103	

Open Forward Foreign Exchange contracts at 31 March 2017

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	-	EUR	-	-	-
Up to 3 months	GBP	-	USD	-	-	-
					-	-
Total net forward foreign exchange contracts					-	

11. Contingent Liabilities

The fund has 33 private equity and infrastructure funds which have undrawn commitments as at 31 March 2018 of £141.4 million (£141.5 million at 31 March 2017).

12. Other Investment Balances and Liabilities

	31 March 2017 £000	31 March 2018 £000
Other investment balances		
Outstanding investment transactions	-	-
Investment income	34,094	31,062
	34,094	31,062
Investment Liabilities		
Outstanding investment transactions	(325)	(230)
Investment income	(2,964)	(3,542)
	(3,289)	(3,772)

13. Current Assets and Liabilities

	31 March 2017 £000	31 March 2018 £000
Current assets		
Contributions due from employers	9,521	10,010
Other	1,093	1,763
	10,614	11,773
Current Liabilities		
Payments in advance	-	-
Sundry creditors	(4,000)	(7,553)
Other	(200)	(344)
	(4,200)	(7,897)

14. Financial Instruments and Property Investments

- (a) The various financial instruments held by the Fund are valued at fair value. The following tables analyse the fair value of financial assets and liabilities by asset class.

31 March 2018				
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	716,004	-	-	716,004
Equities	2,032,516	-	-	2,032,516
Pooled Investment Vehicles	1,554,547	-	-	1,554,547
Property Pooled Vehicles	252,751	-	-	252,751
Forward Foreign Exchange	103	-	-	103
Cash deposits	-	146,032	-	146,032
Other investment balances	-	31,062	-	31,062
Current Assets	-	11,773	-	11,773
	4,555,921	188,867	-	4,744,788
Financial Liabilities				
Investment Liabilities	-	-	(3,772)	(3,772)
Current Liabilities	-	-	(7,897)	(7,897)
	-	-	(11,669)	(11,669)
	4,555,921	188,867	(11,669)	4,733,119

31 March 2017				
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	745,298	-	-	745,298
Equities	1,998,629	-	-	1,998,629
Pooled Investment Vehicles	1,477,708	-	-	1,477,708
Property Pooled Vehicles	204,072	-	-	204,072
Forward Foreign Exchange	-	-	-	-
Cash deposits	-	102,267	-	102,267
Other investment balances	-	34,094	-	34,094
Current Assets	-	10,614	-	10,614
	4,425,707	146,975	-	4,572,682
Financial Liabilities				
Investment Liabilities	-	-	(3,289)	(3,289)
Current Liabilities	-	-	(4,200)	(4,200)
	-	-	(7,489)	(7,489)
	4,425,707	146,975	(7,489)	4,565,193

No financial assets were reclassified during the accounting period.

(b) Valuation of financial instruments and Property Investments carried at fair value

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

- Level 1 Fair values derived from quoted market price.
- this includes all quoted equity, fixed interest and index linked instruments.
- Level 2 Fair values derived from valuation techniques based significantly on observable inputs.
- this includes all pooled property investments.
- Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.
- this includes unlisted shares and investments in private equity funds.
- following guidance from IFRS13 Property is included in level 3 from 2016/17

As at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss				
Financial instruments	4,201,252	252,751	101,918	4,555,921
Freehold and leasehold property	-	-	438,470	438,470
Loans and receivables	188,867	-	-	188,867
Total	4,390,119	252,751	540,388	5,183,258
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(11,669)	-	-	(11,669)
Total	(11,669)	-	-	(11,669)
Net	4,378,450	252,751	540,388	5,171,589

As at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss				
Financial instruments	4,133,222	204,072	88,413	4,425,707
Freehold and leasehold property			367,175	367,175
Loans and receivables	146,975	-	-	146,975
Total	4,280,197	204,072	455,588	4,939,857
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(7,489)	-	-	(7,489)
Total	(7,489)	-	-	(7,489)
Net	4,272,708	204,072	455,588	4,932,368

Sensitivity of assets valued at level 3

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

	Assessed valuation range (+/-)	Value at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Freehold and leasehold property	5%	438,470	460,394	416,547
Private equity and unlisted shares	15.0%	101918.0	117,206	86,630
Total		540,388	577,600	503,177

(c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

The key risks to the achievement of these aims, as well as measures to mitigate those risks, are set out in the various Fund policies (available at www.nottspf.org.uk) including:

- Investment Strategy Statement
- Funding Strategy Statement
- Governance Compliance Statement
- Risk Management Strategy and Risk Register

The Risk Register identifies the highest risks as arising from:

- Fund assets are assessed as insufficient to meet long term liabilities
- Standing data and permanent records are not accurate
- Significant variations from assumptions used in the actuarial valuation

Actions have been agreed to mitigate these risks.

The Fund's primary risk is that its assets fall short of its long term liabilities. The Funding Strategy Statement states that the funding objectives are to:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below (prepared by the Fund's actuaries) shows the impact of a

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation (£000)	8,279,564	8,442,517	8,608,840

The Fund deficit at the last triennial valuation was £621 million.

For the first time in 2013/14 there was a net withdrawal from dealings with members. The net withdrawal in 2014/15 would have been marginal but for the transfer out in respect of the Nottinghamshire Probation Trust. The net withdrawal in 2015/16 was again marginal, but in 2016/17 is somewhat larger, but still more than covered by investment income. In 2017/18 a number of employers made lump sum deficit contributions, and for this reason there was a net addition to the fund from dealings with members.

The Fund continues to receive significant investment income and is therefore unlikely to need to sell assets in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. The level of risk in the equities block is managed by a balance between passive and active management.

Policies are reviewed regularly to reflect changes in activity and in market conditions. Responsibility for reviewing and revising the policies rests with the Nottinghamshire Pension Fund Committee.

15. Members Additional Voluntary Contributions

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is shown below:

	31 March 2017 £000	31 March 2018 £000
Prudential	34,085	34,088
Scottish Widows	4,261	4,300
	<u>38,346</u>	<u>38,388</u>

16. Related Party Transactions

Under IAS 24, a party is related to an entity if:

- the party is a member of the key management personnel
- the party is a post-employment benefit plan for the benefit of employees of the entity.

The purpose of related party disclosures is to provide information on transactions and balances that could have an effect on the operations or financial position of an entity. For example, related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.

Disclosures are required for:

- the nature of the related party relationship
- key management personnel compensation
- information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool.

No services were provided by LGPS Central Ltd during 2017/18 as operation only commenced in April 2018.

£1,315,000 has been invested in share capital and £685,000 in a loan to LGPS Central during the year. These are the balances at year end.

£306,124 has been spent on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then recharged equally to the administering authorities. A total of £499,260 is due to be refunded to Nottinghamshire Pension Fund by LGPS Central reflecting the cost of setting up the enterprise to the end of March 2018.

GLOSSARY OF TERMS

Accruals	The concept that income and expenditure are recognised as they are earned or incurred, not as money happens to be received or paid.
Actuary	An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme actuary reassesses the rate of employer contributions to the Pension Fund every three years.
Added Years	Additional years of service awarded to increase benefits of employees taking early retirement.
ASC&PH	Department for Adult Social Care and Public Health
Amortisation	The process of charging asset consumption in relation to Intangible Assets to the Comprehensive Income & Expenditure Statement over a suitable period of time.
Balance Sheet	The accounting statement which sets out the Council's total net assets and how they were financed.
Budget	The Council's statement of spending plans and policies for a financial year, expressed in financial terms.
Capital Adjustment Account (CAA)	This account absorbs the timing differences between the consumption of non-current assets and the financing arrangements in respect of their acquisition, creation or enhancement throughout their useful life.
Capital Financing Requirement (CFR)	The Capital Financing Requirement is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.
Capital Grants Receipts in Advance	Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable unless conditions apply to the grant/contribution. In which case the grant/contribution is classified as capital grants receipts in advance on the balance sheet.
Carbon Reduction Commitment Efficiency Scheme (CRC)	The CRC Efficiency Scheme is a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations.
CIPFA	Chartered Institute of Public Finance and Accountancy
CYP	The Children and Young People's Committee, served by the Department for Children and Families
Clinical Commissioning Groups (CCG)	The Clinical Commissioning Groups took over from Primary Care Trusts (PCT) with effect from 1 April 2013.
Comprehensive Income and Expenditure Statement (CI&ES)	Consolidates all the gains and losses experienced during the financial year.

Community Assets	Assets such as historical structures and artefacts that the Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal.
Creditors	Persons or bodies owed monies by the Authority that have not been paid by the end of the financial year.
Debtors	Persons or bodies owing sums to the Authority that have not been paid by the end of the financial year.
Depreciation	A charge to reflect the consumption of benefits in relation to tangible fixed assets.
Expenditure and Funding Analysis (EFA)	A statement to show the net expenditure in the CIES statement highlighting the adjustment between funding and accounting basis.
Earmarked Reserves	Reserves set aside for a specific purpose.
Financial Instruments	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. For instance, financial assets could be bank deposits, loans receivable, shares etc, whilst financial liabilities could be borrowings, financial guarantees etc.
General Fund	The account which absorbs the accumulated balances for the cost of providing services funded from Council Tax and Government Grants.
IAS	International Accounting Standard.
IFRS	International Financial Reporting Standard.
IFRIC	The International Financial Reporting Interpretations Committee provides interpretations of IFRS.
Infrastructure Assets	Assets such as roads and bridges, expenditure on which is recoverable only by continued use of the asset. These assets, by their nature, have no practical prospect of being decommissioned and sold or applied to alternative uses.
Impairments	An impairment or loss of value may arise on an asset upon revaluation. Assets which may be impaired are those in the categories of Property, Plant and Equipment and Intangible Assets.
Intangible Assets	Identifiable assets that lack physical substance and are expected to yield benefits to the Authority and the services it provides, e.g. software.
LASAAC	Partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee.
LOBO	Loans which have a fixed primary period at a relatively beneficial interest rate followed by a higher rate for the

remaining period which can be changed by the lender at agreed intervals. The Authority, as a borrower, would be able to opt to repay the loan at agreed intervals if the lender chooses to change the quoted rates.

Leasing	A method of financing capital expenditure in which a rental charge for an asset is paid for a specific period. There are two forms of lease: 'finance leases' which transfer substantially all the risks and rewards of ownership to the lessee and other leases which are known as 'operating leases'.
Local Government Pension Scheme (LGPS)	Nottinghamshire County Council is the administering authority for the LGPS within Nottinghamshire.
MHCLG	Ministry of Housing, Communities and Local Government.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to revenue in the year for the repayment of debt (credit liabilities and credit arrangements). An authority may voluntarily set aside amounts in excess of the minimum required.
NNDR	National Non-Domestic Rate.
PFI	Private Finance Initiative.
PPE	Property, Plant and Equipment.
Precept Income	County Councils obtain part of their income from precepts levied on the District Councils in their area. Precepts, based on the 'Council Tax bases' of the District Councils, are levied on each District's 'collection fund'.
PWLB	Public Works Loans Board.
Provisions	Sums of money set aside to meet specific expenses which are likely or certain to be incurred, but where the amounts cannot be accurately determined or dates on which they will arise. The sums set aside are charged to the appropriate service revenue accounts.
Reserves	Sums of money set aside to cover future eventualities. The sums set aside are charged to the General Fund and not to service revenue accounts.
Revaluation Reserve	Represents the difference between the revalued amount of Property, Plant and Equipment as shown in the accounts and the historic cost.
Revenue Expenditure Financed from Capital Under Statute (REFCUS)	Legislation permits certain expenditure to be funded by capital resources even though no fixed asset is carried on the Balance Sheet. Examples include works on property not owned by the Authority and grants provided for economic development purposes.



External Audit ISA260 Report 2017/18

**Nottinghamshire County
Council and Nottinghamshire
Pension Fund**

July 2018

Summary for Governance and Ethics Committee

This document summarises the key findings in relation to our 2017-18 external audit at Nottinghamshire County Council ('the Authority') and Nottinghamshire Pension Fund.

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

Organisational and IT control environment

Considerable improvements have been made to the IT control environment of the Authority's SAP system following our recommendations raised in 2016-17; however we have made additional recommendations that are designed to further enhance it.

Accounts production

We received a complete set of draft accounts on 30 May 2018, which is before this year's statutory deadline of 31 May 2018. The Authority continues to have a strong financial reporting process as illustrated by finalising of the accounts in a shorter timescale.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18*) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see **Page 10 and onwards**):

- **Valuation of PPE** – The Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation;
- **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation.

We have not identified any material audit adjustments.

We have raised three recommendations which can be found in **Appendix 1**.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit. We will not be able to issue our certificate alongside the opinion and VFM conclusion due to the outstanding objection to the 2015/16 statement of accounts and the Whole of Government Accounts work being outstanding.

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Summary for Governance and Ethics Committee (cont.)

Pension Fund financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see **Page 12**):

- **Valuation of hard to price investments** – The Pension Fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We have verified a sample of investments to third party information and confirmations.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

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

- **Medium Term Financial Planning** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. For 2017/18, the Authority has a balanced budget, but the updated Medium Term Financial Strategy (MTFS) 2018/19 to 2021/22 identifies a gap of £54.7m between 2018/19 and 2021/22 as a result of increasing cost pressures and reductions in grant funding. We have reviewed the arrangements the Authority has in place to ensure financial resilience.

See further details on **Page 23**.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report in relation to our 2017/18 audit.

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

Acknowledgements

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

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable. Despite this, we have noted areas for further improvement, specifically in relation to segregation of duties for IT administrators.

Work completed

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

The Authority relies on information technology (“IT”) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we tested controls over access to systems and data, system changes, system development and computer operations.

Key findings

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

- Issue 1: An assessment of privileged user access rights also identified a number of potential segregation of duties conflicts that reduced the effectiveness of established change management processes; these were notified to the Authority; and
- Issues 2 & 3: Opportunities to further improve controls around access revocation and passwords.

As a result we have made recommendations - see **Appendix 1**.

Aspect of controls		Assessment
IT controls:		
Access to systems and data		3
System changes and maintenance		2
Development of new systems and applications		3
Computer operations and end-user computing		3
Key		
1	Significant gaps in the control environment.	
2	Deficiencies in respect of individual controls	
3	Generally sound control environment.	

Controls over key financial systems

From the testing undertaken, the controls over all of the key financial systems within our scope are sound.

Work completed

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

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

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

Key findings

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. Based on the work undertaken, we have determined that the controls over the key financial systems within our scope are sound.

An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, grey blouses, and a light blue shirt). The table has two laptops and a black folder. The scene is brightly lit with natural light from the left, creating strong shadows. A blue horizontal bar is overlaid across the middle of the image, containing the text.

Section two

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines.

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

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

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and completed a 'dry run' in 2016/17. We also engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good. Our audit timetable was moved forward to accommodate the faster close, the Authority produced working papers and a first draft of the accounts on 30 May 2018 within the statutory deadline of 31 May 2018.

Going concern

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

Further commentary on the Authority's arrangements in place to secure the financial resilience is included at **Page 23**.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17. The Authority has implemented the recommendation relating to the IT control environment in line with the timescales of the action plan. Further details are included in **Appendix 2**.

Completeness of draft accounts

We received a complete set of draft accounts on 30 May 2018, which is in advance of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the finance team in February 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority and the Pension Fund to provide audit evidence in line with our expectations.

Accounts production and audit process (cont.)

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear audit trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected. This achievement puts the Authority in a good position to take on the 2017/18 earlier closedown with no significant concerns.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Specific audit areas

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

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

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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

Specific audit areas

Significant Audit Risks – Authority

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

Risk:	<p>Valuation of PPE</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
Our assessment and work undertaken:	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we determined that the valuation is appropriately stated.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of the Nottinghamshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
Our assessment and work undertaken:	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority’s process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation and, compared them to expected ranges which involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then reviewed the methodology of how these assets are allocated across participating bodies.</p> <p>Work on pension fund is on-going due to clarifications sought from the actuary.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>

Risk:

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

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries and subsidiaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Governance and Ethics Committee meeting schedule has been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Governance and Ethics Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

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

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

We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years, with only minor presentational adjustments were identified.

Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

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

Risk:	Valuation of hard to price investments The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. In the prior year financial statements, £660 million out of a total of £4,932 million of investments, or 13%, were in this harder to price category. For year ended 31 March 2018, £793 million out of a total of £5,172 million of investments, or 15%, were in this harder to price category.
Our assessment and work undertaken:	 As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures. As a result of this work we determined that investment assets had been appropriately ‘tiered’ into the fair value hierarchy levels. We also determined that management had challenged the valuations reported by investment managers, especially when valuations had been ‘rolled-forward’ on a cash flow basis.

Judgements

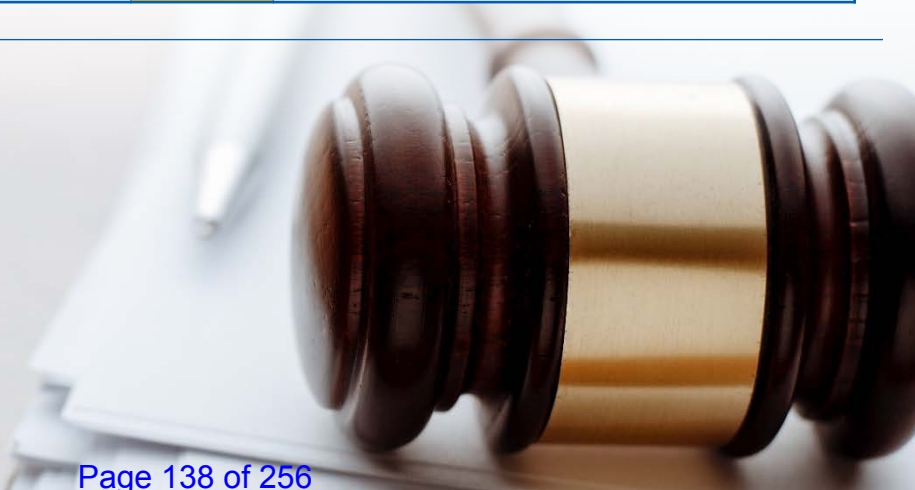
We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence						
0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	
	Acceptable Range					Audit Difference

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The Authority provisions (excluding Business Rates) have decreased by £1.3million since last year, primarily due to a reduction in the insurance provision. We consider these Provisions to be balanced.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The NNDR business rates appeals provisions have decreased slightly during the year to £2 million (2016/17: £2.9 million). We consider this provision to be balanced
Property Plant & Equipment: Assets	3	3	The Authority carries out a rolling valuation programme that ensures that all Property, Plant and Equipment required to be re-measured are revalued every 5 years. All valuations have been carried out by a specialist team internally. Due to significant increase in build costs the Authority have revalued all of its depreciated replacement cost (DRC) property assets to ensure they reflect the correct valuation as at 31 March 2018. We consider this to be a prudent approach.

Judgements (cont.)

Subjective area		Commentary		
Valuation of pension assets and liabilities		The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the net liability by £50.219 million. The below table compares Authority's and KPMG's assumptions using the range on the previous page. The overall set of assumptions proposed by the Authority are within our acceptable range and are considered to be balanced relative to KPMG's central rates for a typical UK scheme with a duration of 19 years.		
Assumption	Authority	KPMG	Assessment (See previous page for range definitions)	Commentary
Discount rate	2.55%	2.51%	3	The proposed assumption is considered to be balanced and within our normally acceptable range.
Pension Increase Rate	2.30%	2.15%	1	The proposed assumption is considered to be cautious but within our normally acceptable range.
Salary increases	CPI plus 1.5%	CPI plus 0% to 2.0%	3	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable.
Life expectancy at retirement	24.8 / 22.6	23.5 / 22.1	1	The life expectancies assumptions are consistent with those used in the most recent LGPS valuation and can be considered acceptable.
Males currently aged 45 / 65	27.9 / 25.6	25.4 / 23.9		
Females currently aged 45 / 65				



Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



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Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Governance and Ethics Committee on 25 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see **Appendix 3**) for this year's audit was set at £18.6 million. Audit differences below £0.93 million are not considered significant.

We did not identify any material misstatements. In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing these where significant.

Pension Fund financial statements

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Governance and Ethics Committee on 25 July 2018.

Pension Fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a higher materiality level of £50 million. Audit differences below £2.5 million are not considered significant.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual report

The statutory deadline for publishing the annual report is 1 December 2018. The Pension Fund Annual Report is currently due to be approved by the Pension Fund AGM on 4 October 2018. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in **Appendix 5** in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 officer for presentation to the Governance and Ethics Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

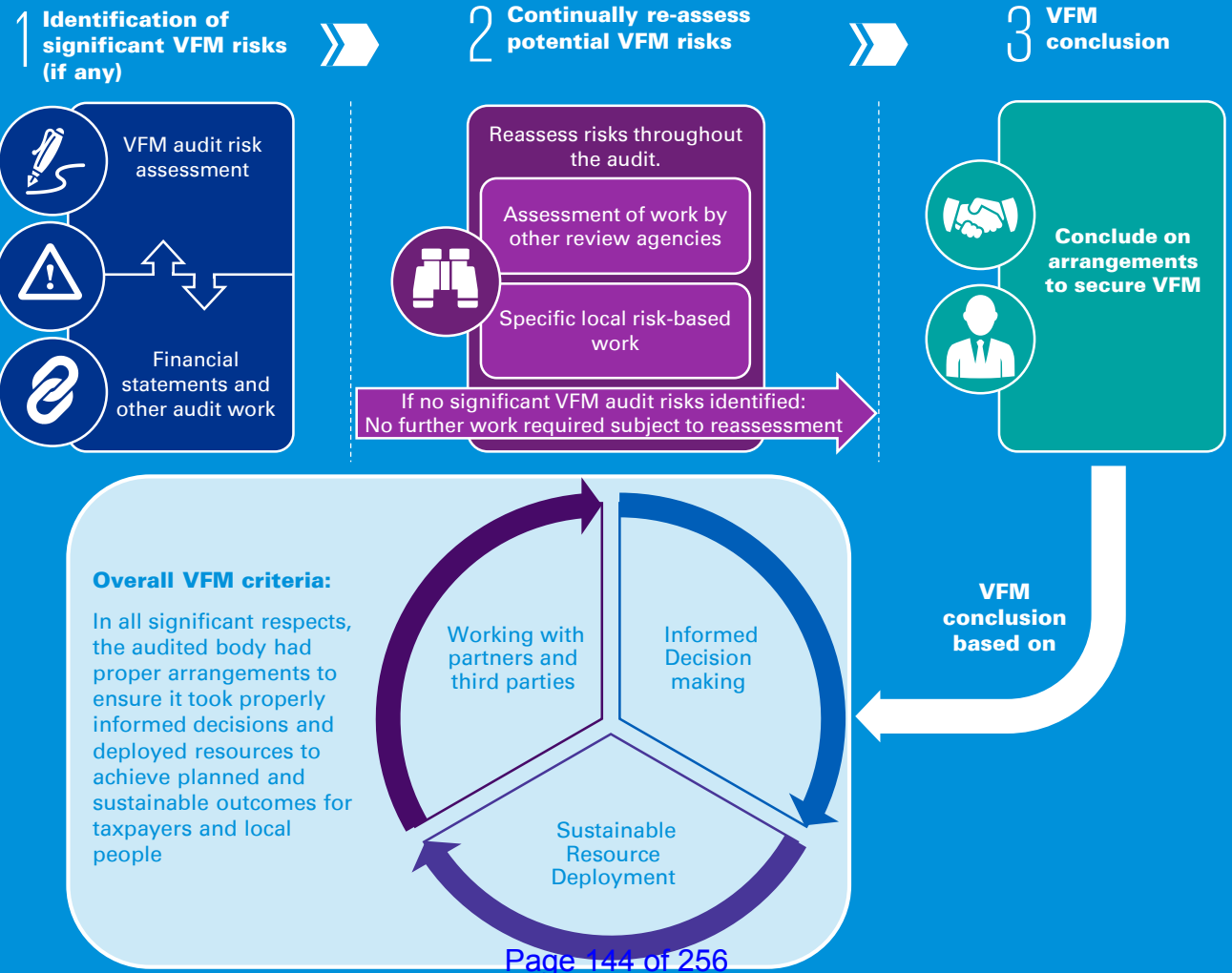
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Medium Term Financial Planning	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

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

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

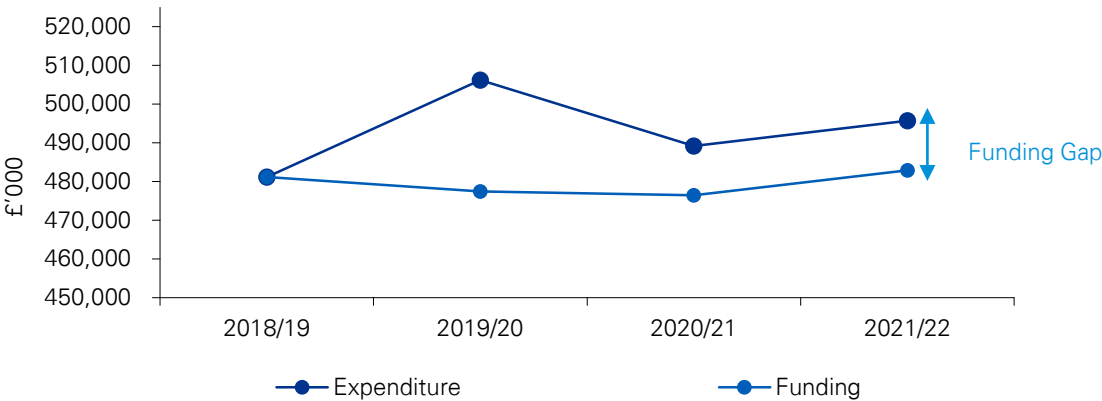
We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

Risk:	<p>Medium Term Financial Planning</p> <p>The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. For 2017/18, the Authority has a balanced budget, but the updated Medium Term Financial Strategy 2018/19 to 2021/22 identifies a gap of £54.7m between 2018/19 and 2021/22, resulting from increasing cost pressures and reductions in grant funding. The Authority needs to have effective arrangements in place for managing its annual budget, and identifying and implementing sufficient savings and income measures to balance its medium term financial plan.</p>
Our assessment and work undertaken:	<p>We have undertaken the following procedures over this VFM risk:</p> <ul style="list-style-type: none">— Reviewed the arrangements the Authority has in place to ensure financial resilience;— Assessed arrangements for ensuring that savings plans have been achieved as planned, including any actions taken by the Authority when schemes do not deliver as expected; and— Reviewed the Authority’s arrangements in place to deliver services through partnerships, including the Sustainability and Transformation Partnership. <p>We have completed our assessment by:</p> <ul style="list-style-type: none">— Regular liaison with the s151 officer, and key personnel;— Meetings with Corporate Directors from key areas of the Authority, including Adult Social Care and Health, Children Families and Cultural Services, and Place;— Review of the Medium Term Financial Strategy 2018/19 to 2021/22; and— Review of 2017/18 outturn vs budget and 2018/19 budget. <p>Our findings are summarised below:</p> <ul style="list-style-type: none">— The Authority reported an underspend of £17.6m on its net expenditure budget for 2017/18, which increases the General Fund balance by £3.2m to £30.9m as of 31 March 2018. As a result the closing balance on the General Fund is £8.7m higher than the revised budget. The Authority is currently undertaking an exercise to fully understand the permanent or temporary nature of this underspend. Permanent underspends will be removed from future base budgets. The remaining temporary underspend will be used to fund specific future priorities and support the strategy required to meet the £54.2m shortfall in funding across the medium term.— The Authority has set a balanced budget for 2018/19 with savings identified of £15.6m and use of planned reserves of £14.7m. The Authority has also revisited its assumptions contained in the Medium Term Financial Strategy 2018/19 to 2021/22 as part of the 2018/19 Budget process. Based on these assumptions the Authority is currently projecting a budget shortfall of £54.2m from 2019/20 to 2021/22 as shown on the graph over the page.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:



- Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care, as well as the more general uncertainties in relation to Brexit.
- The Authority have introduced a revised and more streamlined approach to strategic planning and performance management through the implementation of a new Planning and Performance Framework. Nevertheless the Authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.
- The Authority is proactive in developing relationships and working with third parties. These include the subsidiaries the Authority is working with, as well as Health Bodies. In addition, David Pearson (Corporate Director, Adult Social Care, Health and Deputy Chief Executive) is the lead officer for the Sustainability and Transformation Plan (STP) for Nottinghamshire. Nottinghamshire is part of a Public health and social care pilot based on integrated personal commissioning, which is described by NHS England as *'an entirely new proactive and joined-up way to care assessment and planning for those that need it most.'*

Appendices

Key issues and recommendations

Our audit work on the Authority’s 2017-18 financial statements has identified three issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	Priority One: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority Two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority Three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
Recommendations Raised: 0		Recommendations Raised: 1		Recommendations Raised: 2	

No.	Risk	Issue & Recommendation	Management Response
1	2	<p>An assessment of privileged user access rights within SAP identified a small number of potential segregation of duties conflicts that reduced the effectiveness of established change management processes; these were notified to the Authority</p> <p>Risk</p> <p>In specific circumstances, there is a risk that an individual member of staff is able to develop and implement a change within the live system, bypassing expected segregation of user roles within the system.</p> <p>Recommendation</p> <p>The Authority should amend user roles to enforce segregation of duties between roles allowing the development of changes and those that allow the release of changes into the live environment.</p>	<p>The small number of potential conflicts were mitigated to the satisfaction of KPMG during the Audit.</p> <p>The NCC support staff have a wide range of access due to their technical and functional support roles. Operationally, the segregation of duties is in place with the Competency Centre staff developing changes, and the ICT Basis staff processing changes. The roles for the Competency Centre staff will be reviewed in relation to restricting access to the processing of changes and therefore enforce segregation.</p> <p>Responsible Officer</p> <p>Nigel Carlisle Competency Centre Team Manager</p> <p>Implementation Deadline</p> <p>31/08/2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	3	<p>Audit testing of user administration processes identified three instances where SAP user account access was not revoked in a timely manner.</p> <p>Risk</p> <p>Failure to revoke access to use accounts in a timely manner increases the risk of unauthorised access to systems and data.</p> <p>Recommendation</p> <p>Whilst we were able to mitigate the risk for Audit purposes by establishing the accounts had not been used after the user’s leaving date, the Authority should review user administration processes to identify any opportunities for further improvement.</p>	<p>NCC will review the SAP user administration processes in conjunction with a recently procured software tool (ProfileTailor Dynamics) which offers new options relating to account management, with a view to ensuring access is evoked in a timely manner</p> <p>Responsible Officer</p> <p>Nigel Carlisle</p> <p>Competency Centre Team Manager</p> <p>Implementation Deadline</p> <p>31/10/2018</p>
3	3	<p>Our assessment of system-enforced password settings for both SAP and Active Directory identified that they were not fully compliant with the Authority’s password policy</p> <p>Risk</p> <p>Failure to fully comply with password policies may increase the risk of unauthorised access to Authority systems and data.</p> <p>Recommendation</p> <p>The Authority should review the password policies enforced within SAP & Active Directory and align them to the password policy</p>	<p>The NCC password policies and SAP capabilities will be reviewed in order to comply.</p> <p>Responsible Officer</p> <p>Nigel Carlisle</p> <p>Competency Centre Team Manager</p> <p>Implementation Deadline</p> <p>31/08/2018</p>

Follow-up of prior year recommendations

The Authority has implemented the recommendation raised through our previous audit work.

This appendix summarises the progress made to implement the recommendation identified in our *ISA 260 Report 2016/17*.

Number of recommendations that were

Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our audit	-

No.	Risk	Issue & Recommendation	Management Response	Status as at June 2018
1	1	<p>We reviewed the general IT controls at the Authority, specifically looking at the controls over the SAP system. We noted the following exceptions:</p> <ul style="list-style-type: none">Several named individuals had been granted access to highly privileged profiles the use of which is discouraged by the software supplier SAP due to their powerful nature;A number of generic accounts exist within the live system that grant access to highly privileged transactions. The use of generic accounts reduces individual accountability for changes made and in the cases identified grant access to privileged profiles in SAP, which the software supplier SAP recommend are not accessible to users because of their privileged nature;An assessment of privileged user access rights also identified a number of potential segregation of duties conflicts that reduced the effectiveness of established change management processes; these were notified to the Authority; andInadequate controls over the locking and unlocking of the system. We noted that the live system had recently been locked and that some logging functionalities had not been enabled during this time. This meant that we were unable to tell how long the system had been unlocked and how many times it had been locked and unlocked during the period under review.	<p>The County Council has a support contract with CGI to ensure any issues with the SAP system which cannot be resolved by in-house resources are rectified.</p> <p>Access by CGI staff only occurs when issues have been logged by Business Support Centre (BSC) staff and detailed records of when this access is used and what is undertaken are maintained by the BSC.</p> <p>In terms of the specific recommendations, these have all been actioned.</p> <p>Responsible Officer</p> <p>Group Manager – Financial Strategy & Compliance Group Manger – Business Support Centre</p> <p>Implementation Deadline</p> <p>N/A – completed.</p>	<p>Implemented</p> <p>A new recommendation relating to opportunities to improve segregation of duties controls has been raised (see Appendix 1).</p>

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Management Response	Status as at June 2018
1	1	<p>(continued)</p> <p>Risk</p> <p>Although we were able to mitigate the impact of these exceptions on our overall assessment, it is imperative that any changes to the system, which includes the 'locking and unlocking' of the system is sufficiently logged.</p> <p>Recommendation</p> <p>The Authority should:</p> <ul style="list-style-type: none">• Review the users with privileged profile access and determine whether this level of access is appropriate;• Restrict the use of privileged transactions in line with guidance from the software provider SAP;• Where possible, all changes should be made through established change management processes without the system being unlocked (via STMS); and• Where changes require the system to be unlocked, this should be sufficiently documented and logged with an thorough audit trail.		

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in February 2018.

Materiality for the Authority's accounts was set at £18.6 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Governance and Ethics Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Ethics Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.93 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Ethics Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £50 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £2.5 million for 2017-18.

Appendix 4:

Required communications with the Governance and Ethics Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Standards on Auditing (UK and Ireland).

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted material audit differences. See page 16 for details.
Unadjusted audit differences	We have identified no unadjusted audit differences
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Governance and Ethics Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<p>We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified, on pages 26 to 27.</p> <p>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated.</p>
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	<p>No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 5 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NOTTINGHAMSHIRE COUNTY COUNCIL AND NOTTINGHAMSHIRE PENSION FUND

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

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

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

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

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

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

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

Summary of fees

We have detailed the fees charged by us to the authority for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	98,213	98,213
Audit of the Pension Fund	29,926	33,442
Total audit services	128,139	131,655
Non-audit services	6,000	6,000
Total Non Audit Services	6,000	6,000

No approval is required from PSAA for the non-audit services above as they are below the relevant threshold. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

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

Appendix 5:

Declaration of independence (cont.)

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £
Non-audit services			
Teachers Pension Return 2016/17	Self-interest: These engagements are entirely separate from the audit through separate contracts. In addition, the statutory audit fee scale rates were set independently to KPMG by the PSAA. Therefore, these engagements have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. Self-review: The nature of this work is auditing these grant returns. The returns have no impact on the main audit. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threatens to our role as external auditors. Consequently we consider we have appropriately managed this threat. Management threat: This work will be audit work only – all decisions are made by the Authority. Familiarity: This threat is limited given the scale, nature and timing of the work. Advocacy: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. Intimidation: not applicable.	Fixed fee	£3,000
Local Transport Plan Major Projects return 2016/17			£3,000
(Both performed in 2017/18 but relate to 2016/17)			
Total			£6,000

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Governance and Ethics Committee.

Declaration of independence (cont.)

Confirmation of audit independence

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

This report is intended solely for the information of the Governance and Ethics Committee of the authority and should not be used for any other purposes.

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

KPMG LLP

KPMG LLP



The key contacts in relation to our audit are:

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Director

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

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

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

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This matter is being dealt with by:
Nigel Stevenson
T 0115 977 3033
E nigel.stevenson@nottscc.gov.uk
W nottinghamshire.gov.uk

Tony Crawley
Director, Infrastructure & Government & Healthcare
KPMG LLP UK
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ.

25 July 2018

Dear Mr Crawley,

**Nottinghamshire County Council and Nottinghamshire County Council Pension Fund
– Audit for the year ended 31 March 2018**

This representation letter is provided in connection with your audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund (“the Authority”) for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial Statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
 - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii. The Authority has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

13. On the basis of the process established by the Authority and having made appropriate

enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits*.

The Authority further confirms that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

(b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was agreed at the meeting of the Governance and Ethics Committee on 25 July 2018

Yours faithfully,

Signed:

Councillor Bruce Laughton
Chairman of the Governance and Ethics Committee

Signed:

Name: Nigel Stevenson

Position: Service Director – (Finance, Infrastructure and Improvement), Nottinghamshire County Council.

Date: 25 July 2018

Appendix to the Authority Representation Letter of Nottinghamshire County Council and Nottinghamshire Pension Fund: Definitions

Financial Statements

A complete set of financial statements comprises:

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

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

A housing authority must present:

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

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

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

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

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

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

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

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

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

Related party transaction:

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



25 July 2018

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR, INVESTMENT AND GROWTH

CHANGES AND PROGRESS FOLLOWING AN AUDIT REPORT ON VACANT PROPERTY MANAGEMENT

Purpose of the Report

1. To review and report on progress against actions identified in the Audit report and to provide details of the delivery of the Property Transformation Programme.

Actions Identified

2. The Audit report was structured in 7 sections:
 - A. Site handover
 - B. Vacant property strategy and site security strategy
 - C. Insurance and health and safety considerations
 - D. Procurement activity to progress disposal
 - E. Financial liabilities and insurance
 - F. Vacant property management
 - G. Temporary use of empty properties
3. Analysis of events led auditors to conclude that Property, acting as Corporate Landlord needed to lead the implementation of 15 recommendations prioritised as 1 or 2. These are set out in appendix A with a narrative and progress against each action identified sequentially.
4. A profile of the Authority's 65 surplus and vacant properties and sites are outlined in appendix B.

Delivery of the Property Transformation Programme

5. Since the conclusion of the audit work, further service reviews and analysis has taken place to review the performance and effectiveness of the Councils property functions.
6. Turner & Townsend, a national organisation with a track record in supporting local authorities in property related improvement activity were engaged in January 2018 to undertake a diagnostic of the current property function. This diagnostic highlighted that the issues flagged in the vacant property review were symptomatic of wider issues in the service.
7. Due to the strategic importance of an effective property service, proposals were agreed by Policy Committee on 20 June 2018 to initiate a Property Transformation Programme

with the allocation of significant investment to ensure momentum was gathered in improving the service. Policy Committee agreed to appoint Turner & Townsend, who already have knowledge of the organisation to support the programme and to complement this with select internal resource from across the Council.

8. Given the seriousness of the improvement required in the property service the transformation programme is designed to deliver a root and branch review of all aspects of the service. As a result the scope of the programme extends far above and beyond the Audit of Vacant Property Management. Many of the actions arising from this audit have been subsumed into the programme which will ensure a more joined up and holistic response rather than implementing actions in isolation.
9. The Transformation Programme is based on a number of Themes, outlined below, each with their own lead officer and team. Policy Committee endorsed the following themes and will receive a progress report in the autumn.

Theme	Output
Strategy	<ul style="list-style-type: none"> Develop a new Corporate Property Strategy
Governance	<ul style="list-style-type: none"> Develop a new Property Governance Framework Develop a clearer 'Commissioning'/'Client' split
Policies & Procedures	<ul style="list-style-type: none"> Revise Property Policies & Procedures Framework Develop new Property Policies (as required)
Data & Management Information	<ul style="list-style-type: none"> Review and revise the central property database so that it is up to date and accurate Develop and implement supporting policies and procedure regarding data management
Capacity & Capability	<ul style="list-style-type: none"> Develop property capacity and skills Develop effective workload & resource management tools Develop the Intelligent client function
Delivering Capital & Revenue Spend	<ul style="list-style-type: none"> Revise and implement the corporate policy for maintenance Establish Project and Programme Management standards and methodologies Develop gateway review processes Develop high quality briefs Risk and change management process improvements
Operating Model	<ul style="list-style-type: none"> Develop an overall Property Operating Model Develop a fit for purpose Property staffing structure
Performance	<ul style="list-style-type: none"> Develop a clear performance reporting framework

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

11. No financial implications arising from the report.

RECOMMENDATION/S

- 1) To note progress in response to the Auditor's recommendations and the launch of a new Property Transformation Programme.

David Hughes

Service Director, Investment & Growth

For any enquiries about this report please contact: David Cox, Interim Head of Property, Growth & Development, Tel: 07843 569 367

Constitutional Comments [SLB 16/07/2018]

12. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 12/07/18)

13. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Internal Audit Report ref: 2017/94

Electoral Division(s) and Member(s) Affected:

All

Appendix A

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation – 1 – Priority 1 – Reliable documentation of handover checks</p> <p>NCC Property Services ensure that handover checks for vacant sites are reliably documented, as a result of joint site meetings with colleagues from Risk and Insurance and Health & Safety, and securely stored.</p>	<p>Existing handover documentation to be revised and improved to incorporate a check list to ensure consistency of application.</p> <p>A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>All of our current plans, policies and procedures are being reviewed as part of the Property Transformation Programme, which was agreed by Policy Committee at the June meeting. A revised proforma has been produced incorporating a check list to ensure consistency with actions and comments is in preparation and will better inform and document the handover. These new procedures are having effect. The former Gedling School was handed back to the Council in October 2017, during the audit process which critically informed our practice in swiftly securing the site. Joint site meetings took place with colleagues from across the organisation.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 2 – Priority 1 – Extent of handover checks</p> <p>NCC Property Services should enhance the ‘Procedures for Securing Vacant Premises and Land’ by reviewing the procedure against best practice guidance and co-ordinating the checks with advice from other professionals within the Council.</p>	<p>Existing handover documentation to be revised and improved to incorporate a check list to ensure consistency of application. A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>All of our current plans, policies and procedures are being reviewed as part of the Property Transformation Programme, which was agreed by Policy Committee at the June meeting. As part of the Property Transformation Programme, best practice guidance is being provided by consultants Turner and Townsend to ensure that our documentation and procedures are robust and reflective of leading practice. T&T are professional based consultancy who have track record in property, strategic asset management and compliance. The T&T team are currently embedded in the Place Department as part of the transformation programme.</p>
<p>Recommendation 3 – Priority 1 – Documented vacant property and site security strategy</p> <p>NCC Property Services should maintain a vacant property strategy for each vacant asset, incorporating a site security strategy which is subject to review at pre-determined timeframes (1 month, 3 months, 6 months).</p>	<p>Existing handover documentation to be revised and improved to incorporate a check list to ensure consistency of application. A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>All of our current strategies and plans are being reviewed as part of the Property Transformation Programme, which was agreed by Policy Committee at the June meeting. A revised Asset Management Strategy is under development as part of this Programme. The new Vacant Property and Site Security Strategy includes a revised and robust approach to vacant assets and land, site security and management. The strategy will be presented to Policy Committee for approval.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 4 – Priority 2 - Review and reporting of vacant properties</p> <p>Effective corporate reporting and monitoring of vacant properties is put in place and reported to key decision-makers and stakeholders.</p>	<p>Corporate Property Management Group, comprising senior operational managers from service departments, Health and Safety and Risk and Insurance to be established and meet on a quarterly basis to share information, issues, and best practice.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>An interim Head of Property has been recruited into the Council. This action has not yet been completed but work is now underway to establish the CPMG whilst the Property Transformation Programme is implemented.</p> <p>One of the Programme strands is focused on Governance and this will determine the future shape and need for such a corporate group.</p> <p>Colleagues from across the Council are engaged in the Programme, including from Property, Compliance, Health and Safety, Risk and Insurance.</p>
<p>Recommendation 5 – Priority 2 - Insurance and Health & Safety advice</p> <p>Property Services should work more closely with officers from Risk & Insurance and Health & Safety to ensure that concerns raised through the independent reviews are used to prompt re-assessments of site security.</p>	<p>Corporate Property Management Group, comprising senior operational managers from service departments, Health and Safety and Risk and Insurance to be established and meet on a quarterly basis to share information, issues, and best practice.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>An interim Head of Property has been recruited into the Council. This action has not yet been completed but work is now underway to establish the CPMG whilst the Property Transformation Programme is implemented.</p> <p>One of the Programme strands is focused on Governance and this will determine the future shape and need for such a corporate group.</p> <p>Colleagues from across the Council are engaged in the Programme, including from Property, Compliance, Health and Safety, Risk and Insurance.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 6 – Priority 1 Decommissioning</p> <p>Property Services should clearly establish and record to what degree decommissioning of utilities has been undertaken at each vacant property. This should include clarity if utilities have been removed, isolated from the network or isolated at the meter. If demolition is expected this could include consideration or obtaining disconnection certificates ahead of works starting.</p>	<p>A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>All of our current strategies and plans are being reviewed as part of the Property Transformation Programme, which was agreed by Policy Committee at the June meeting.</p> <p>The new Vacant Property and Site Security Strategy includes a revised and robust approach to vacant assets and land, site security and management and will drive procedures for receiving vacant properties. The strategy will be presented to Policy Committee for approval.</p> <p>Whilst the policies, procedures and strategy are being finalised, current practice has improved as a result of the audit report. When the former Gedling School was returned to the Council in October 2017, checks were made to ensure utilities were removed and isolated from the network.</p>
<p>Recommendation 7 – Priority 1 - Exit fire risk assessment</p> <p>NCC Property Services should undertake an exit fire risk assessment as part of the handover process to identify ongoing risks and to inform external bodies. The degree to which the exit fire risk assessment is completed will depend upon the risk ranking for the vacant property in line with the established risk ranking process.</p>	<p>A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>All of our current strategies and plans are being reviewed as part of the Property Transformation Programme, which was agreed by Policy Committee at the June meeting.</p> <p>The new Vacant Property and Site Security Strategy includes a revised and robust approach to vacant assets and land, site security and management and will drive procedures for receiving vacant properties. The strategy will be presented to Policy Committee for approval.</p> <p>Whilst these plans/policies are brought forward for approval, current practice has improved and a formal report is prepared and recommendations implemented where appropriate.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 8 – Priority 2 - Pace of procurement</p> <p>Property Services should review the length of time taken to progress the procurement for both sites using Arc and the framework approach, to identify opportunities to speed up the process for future projects. This should include a re-assessment of the circumstances in which feasibility studies are requested.</p>	<p>Timely decision making within NCC will be driven by the information provided to the Corporate Property Management Group, however improvements to the briefing process between NCC and Arc will allow early identification of priorities and timescales, and options for project delivery. Cognisance of these priorities will ensure that a suitable delivery mechanism is chosen to reflect the required balance of cost and timescale.</p> <p>Date for implementation Already Implemented</p> <p>Officer responsible for implementation Group Manager Place Commissioning</p>	<p>A Major Projects Board has been established which is adding further management oversight of the procurement and project management of demolition works.</p> <p>Through the robust contract management arrangements that are in place to client Arc, appropriate steps have been taken to ensure that the procurement of demolition activities takes place in an effective and timely manner.</p> <p>Where the County Council takes a decision not to demolish, either for strategic reasons or a lack of funds, a range of measures are now at our disposal to activity manage vacant sites. For example security and/or, CCTV monitoring.</p> <p>Further discussions are taking place with Arc through the Property Transformation Programme to establish performance specifications coupled with pro-active client-side decision making to accelerate demolitions. This change in the approach to procurement is part of the overall Vacant Property and Site Security Strategy and Plan.</p>
<p>Recommendation 9 – Priority 1 - Value for Money in the procurement arrangements</p> <p>The review of end-to-end property processes should incorporate assessments of value for money delivered through the framework arrangements.</p>	<p>NCC client team and Arc meet on a monthly basis at a number of levels to ensure projects are evaluated at all stages. This includes a suitable value for money assessment, alongside benchmarking of project design and delivery costs, and evaluation of frameworks where available.</p> <p>Date for implementation Already Implemented</p> <p>Officer responsible for implementation Group Manager Place Commissioning</p>	<p>Initial action complete. To further ensure confidence in value for money through the Arc and framework arrangements, the Property Transformation Programme has a work stream related to capital and revenue value for money.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 10 – Priority 1 - Insurance liability during construction works</p> <p>Property Services should ensure that, when insurance cover is not being provided by the contractor, they are consulted by Arc prior to commercial negotiations commencing. This would afford the opportunity to take advice from the Risk and Insurance Team to determine the most appropriate insurance cover for the Council.</p>	<p>Initial, and subsequently quarterly meetings are to be held between Risk and Insurance, Arc, corporate procurement and the property commissioning team to establish effective and agreed insurance arrangements and for all projects, and ensure insurance provisions are reviewed and incorporated into contract documents as appropriate.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>Discussions are ongoing and further built into the Property Transformation Programme.</p>
<p>Recommendation 11 – Priority 1 - Reviewing insurance liability on other works</p> <p>Property Services review the insurance arrangements in place for other construction works to determine whether insurance liability remains with the Council on any other current works let through Arc since 1st June 2016. Should this be the case, Property Services should re-assess risks with Arc and the Risk & Insurance Team to consider whether additional, security arrangements are warranted to limit the Council's exposure to potential insurance liabilities.</p>	<p>Initial meetings are to be held between Risk and Insurance, Arc, corporate procurement and the property commissioning team to establish effective and agreed insurance arrangements and for all projects, and ensure insurance provisions are reviewed and incorporated into contract documents as appropriate.</p> <p>Corporate property management group, comprising senior operational managers from service departments, Health and Safety and Risk and Insurance to be established and meet on a quarterly basis to share information, issues, and best practice.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>Options for insurance vary between contracts. For example a new-build, refurbishment or remodel will need tailored insurance arrangements. The decision is determined by whether the client wishes to insure or jointly insure.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 12 – Priority 2 - Informing the insurer</p> <p>NCC Property Services and Insurance should ensure that all break-ins and site incidents for vacant properties are reported to the insurers to ensure the terms and conditions of the insurance policy remain valid.</p>	<p>Corporate Property Management Group, comprising senior operational managers from service departments, Health and Safety and Risk and Insurance to be established and meet on a quarterly basis to share information, issues, and best practice.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>An interim Head of Property has been recruited into the Council. This action has not yet been completed but work is now underway to establish the CPMG whilst the Property Transformation Programme is implemented.</p> <p>Current practice has been improved and communication has been strengthened between Property and Risk & Insurance teams. The County Council's insurers, the Zurich Insurance Group, have been consulted on this particular matter and a response is awaited.</p>
<p>Recommendation 13 – Priority 2 - Review of joint venture approach to managing significant issues</p> <p>Once the immediate issues with the Grove Leisure Centre works have been resolved, Property Services should initiate a review with Arc of how the incident was managed through the joint venture arrangement, and any agreed improvements are put in place.</p>	<p>Arc and NCC Property to review the actions undertaken to manage the two incidents and produce a "Lessons Learnt" paper. This will be used to review procedures to be utilised by all parties in the event of future similar incidents.</p> <p><i>Date for implementation</i> By 31 March 2018</p> <p><i>Officer responsible for implementation</i> Group Manager Place Commissioning & Managing Director - Arc</p>	<p>The audit report has further been used to inform the workstreams in the Property Transformation Programme.</p>

Recommendation	Management Response	Progress Update
<p>Priority 1 Recommendations - (essential for effective internal control, must implement recommendations to improve existing control arrangements)</p> <p>Priority 2 Recommendations - (highly desirable for effective internal control, should implements recommendations to improve existing control arrangements)</p>		
<p>Recommendation 14 – Priority 2 - Vacant property inspections</p> <p>Property Services should ensure that adequate resources are employed to deliver the approved frequency of vacant property visits, and the inspection record should include consideration of internal inspection, where safe to do so, and the containment of ACM contamination. Where appropriate this should include input from the Health and Safety Team.</p>	<p>An additional dedicated staff resource has now been appointed within property to undertake more frequent and more detailed routine inspections. Corporate Property Management Group, comprising senior operational managers from service departments, Health and Safety and Risk and Insurance to be established and meet on a quarterly basis to share information, issues, and best practice.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Group Manager Place Commissioning & Team Manager – Property – Strategy, Compliance and Performance</p>	<p>Complete. Regular inspections are taking place and a report is published on P2 and the relevant property file. Details of any Works Orders raised following the inspections are noted on the report before it is published.</p>
<p>Recommendation 15 – Priority 2 - Temporary use of empty buildings</p> <p>Property Services should develop a policy for the temporary use of vacant properties, and especially consider whether enhanced security arrangements are warranted to protect both the stored assets and the premises themselves.</p>	<p>A new procedure for managing and monitoring vacant properties, complete with responsibilities of service departments and stakeholders will be produced and shared with affected parties. This will include an assessment of risk (trespass, vandalism, fire, etc.) and detail utility provision and management (including ensuring disconnections and certification where appropriate).</p> <p>Documents to be available on clearly identified shared drive.</p> <p><i>Date for implementation</i> By 28 February 2018</p> <p><i>Officer responsible for implementation</i> Team Manager – Property – Strategy, Compliance and Performance & Property and Estates Technician</p>	<p>Temporary use is no longer permitted. Longer term policies on this matter are being considered as part of the review of strategy, plans and policies in the Property Transformation Programme.</p>

Appendix B

22 No. SURPLUS PROPERTIES –all risk rated

Very High Risk : 1 No. – 24 hour static security guards on site along with cctv cameras monitored 24/7

High Risk : 5 No. – cctv cameras monitored 24/7. Properties inspected on a monthly basis by a member of the Property & Estates Team

Medium/Low Risk : 16 No. – Regular inspections made by a member of the Property & Estates Team from monthly to quarterly depending on risk rating

28 No. SURPLUS SITES (LAND) - all risk rated

Regular inspections by a member of the Property & Estates Team from monthly to quarterly depending on risk rating. The majority of these sites are either protected by fencing/gates or have concrete blocks placed at the entrance etc. to protect them from possible illegal traveller encampments

13 No. VACANT PROPERTIES – all risk rated

High Risk : 2 No. – cctv cameras monitored 24/7 & inspected on a monthly basis by a member of the Property & Estates Team

Medium/Low Risk : 11 No. – regular inspections by a member of the Property & Estates Team from monthly to quarterly depending on risk rating

2 No. VACANT SITES (LAND) – all risk rated

Both Low Risk & inspected on a quarterly basis by a member of the Property & Estates Team

25 July 2018

Agenda Item: 7

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT AND SECTION 151 OFFICER

INTERNAL AUDIT PLAN - TERM 2

Purpose of the Report

1. To consult with Members on the Internal Audit Plan for Term 2 of the 2018/19 financial year

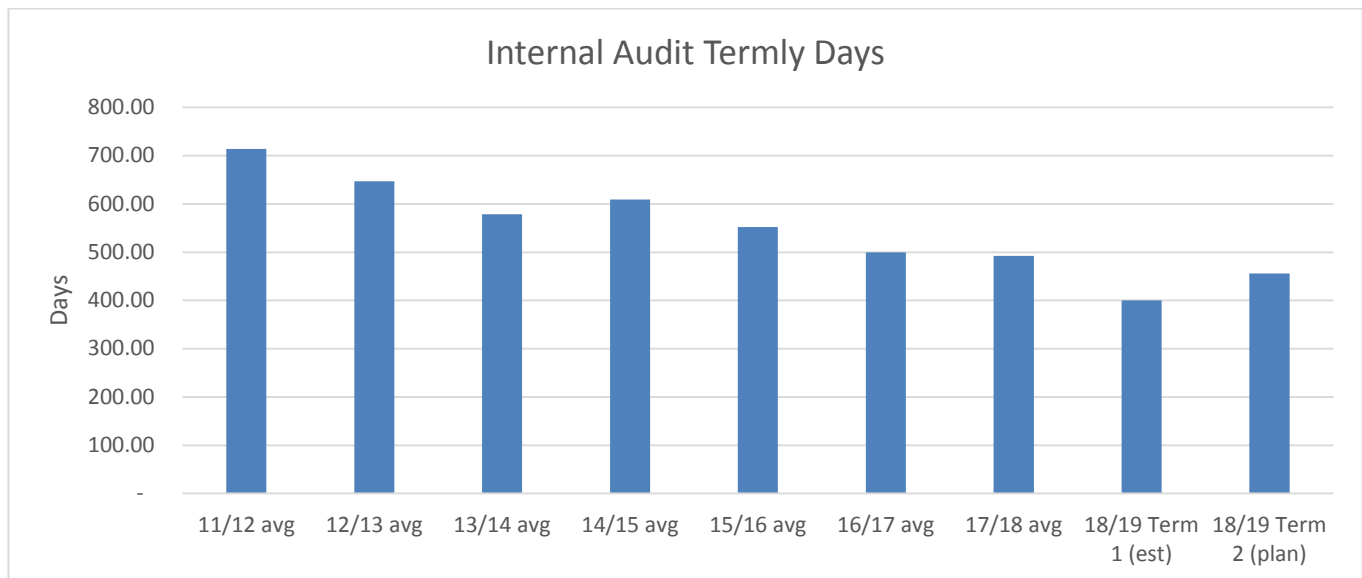
Information

2. An Annual Internal Audit Plan for 2018/19 was agreed by the Governance & Ethics Committee at its meeting in March 2018, but it was also agreed to consider alternatives to the annual approach. At the previous meeting in June 2018, Committee agreed to implement a rolling, 4-monthly plan, to be known as a Termly Plan.
3. There will be three Termly Plans in each financial year, covering the following periods:
 - Term 1: April to July
 - Term 2: August to November
 - Term 3: December to March
4. Since April 2018, and pending approval of the revised approach, the Internal Audit service has been working on the audits in the Annual Plan agreed in March 2018. Term 1 of 2018/19 will need to be viewed as a period of transition, with the revised approach commencing formally from August 2018 for Term 2. The outcomes from the work carried out in Term 1 (April to July 2018) will be included in the next scheduled Internal Audit update in November 2018.
5. As the revised approach becomes embedded, Members should see a settled approach to the update reports brought through to Committee. These will be presented three times a year (July, November and March), in accordance with the schedule agreed at the previous meeting. The format of future reports will be split between the following elements:
 - The outcomes from the work carried out in the preceding Term
 - The coverage planned for the forthcoming Term.
6. Internal Audit has carried out updated consultations with senior managers (through the Corporate Leadership Team and the Departmental Senior Leadership Teams). Regular slots at these meetings are booked in on a rolling basis to coincide with the schedule agreed for the termly arrangement.

7. Audit plans are determined on a risk basis, as required by the Public Sector Internal Audit Standards (PSIAS). As part of the planning process, account is taken of external sources of assurance, including the work of external inspectorates. Where audits are planned, pre-audit work will also include discussion with managers over sources of assurance that can be relied upon, to prevent duplication. Members are also aware of the pilot approach to assurance mapping in 2018/19, and an update on progress with this is included on today's agenda. This will be an important source of information for future Internal Audit plans. As this pilot progresses, any significant implications for Internal Audit's planned coverage in future Terms will be identified.
8. Plans are compiled in accordance with PSIAS and they represent the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. The Section's aim is to complete sufficient work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control systems. The annual opinion for 2018/19 will be expressed in the scheduled update report in July 2019 and will take account of assurance delivered from all of Internal Audit's work over the three Terms in 2018/19, along with assurances available from other sources.
9. The Annual Plan is based on an Audit Risk Assessment to identify the priorities for audit coverage. Each area of activity in the Council is assessed in terms of the following factors:
- Value and volume of transactions involved with the activity
 - The known level of internal control in place (from previous audits)
 - The value of cash and bank transactions
 - The relative complexity of the activity
 - Whether the activity is stable or subject to change
 - How sensitive the activity is for the Council among its key stakeholders
 - The number of sites where the activity is carried out.
- Using an established system of scoring and weighting the above factors, the Needs Assessment arrives at a high/medium/low risk-rating for each area of activity.
10. The **Appendix 1** sets out details of the proposed coverage by Internal Audit for Term 2, and it is summarised in the following table.

Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	175	14	-	1	15
Children & Families	36	1	1	2	4
Adult Social Care & Health	71	5	-	2	7
Place	50	2	-	3	5
Chief Executive's	61	5	2	-	7
Total County Council (excl. schools)	393	27	3	8	38
Schools	63	-	-	18	18
Total County Council	456	27	3	26	56
External Clients (Notts Fire & Rescue Service)	50				
Grand Total	506				

11. As can be seen from the table, a total of 506 days are planned for Term 2 of which 456 (90%) will be spent on the Authority's systems and procedures. The remaining 50 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service. The costs incurred in delivering external contracts are fully recovered.
12. With regard to schools, Nottinghamshire's Scheme for Financing Schools requires all local authority maintained schools to have an internal audit once every five years. The Council's Internal Audit Service offers to deliver these audits on a buy-back basis; at the time of compiling this report, a total of 36 schools had bought back the service. This includes a small number for which an alternative audit approach will be trialled in 2018/19, designed to focus on the most significant areas of risk at each school and thereby reduce the time inputs needed.
13. The chart below shows the trend in the number of actual days delivered in recent years. The figures for past years are expressed as the average coverage per termly period in those years, in order to provide a meaningful comparison with the plan for Term 2 in 2018/19. This shows that:
- the number of planned days for Term 2 in 2018/19 is similar to the average number of days delivered per term in the previous two financial years. Internal Audit's staffing resources were reduced from April 2016, which explains the higher number of days delivered prior to that time.
 - The estimated number of days to be delivered in Term 1 of 2018/19 (the current term) is low due to issues with sickness absence and vacancies. A recruitment process has commenced and the Term 2 Plan is based on fresh resources being secured part-way through the term.



14. The latest benchmarking data for internal audit was presented in the report in March 2018. In addition to the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services, the Head of Internal Audit intends to work with members of a regional network, the Midland Counties' Heads of Internal Audit Group (MCHIAG), to progress benchmarking in 2018/19. This will hopefully address a concern that the number of participants in the CIPFA club has declined and there are now few comparable authorities taking part. Further benchmarking updates will be reported as they become available.

Other Options Considered

15. The Council is required under statute to maintain an adequate and effective internal audit service. The production of a risk-based plan is an important element of PSIAS. The standards and statutes are not prescriptive in terms of the content of the plan. The proposal in this report represents the Head of Internal Audit's assessment of the required coverage for the Council in Term 2 of 2018/19.

Reason/s for Recommendation/s

16. To propose the planned coverage of Internal Audit's work in Term 2 of 2018/19 and to provide Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Individual audits in the proposed Audit Plan may potentially have a positive impact on many of the above considerations.

RECOMMENDATION/S

1) That Members consider whether the planned coverage of Internal Audit's work in Term 2 will deliver assurance to the Committee in priority areas.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (SLB 12/07/18)

18. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/18)

19. There are no specific financial implications arising directly from this report

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Appendix 1

Council-wide areas (i.e. across departments)

Area of activity	Priority Level	Job count	Days planned and nature of audit coverage				Likely scope
			Assurance	Advice/ Consultancy	Counter-Fraud	Certification	
Commissioning	H	1	15				Completion of audit commenced in 2017/18
Ethics	H	1	2				Completion of audit commenced in 2017/18
Sickness absence	H	1	15				Assess approaches to workforce planning to meet projected needs, and compliance with the Council's EPDR scheme
Contract management	H	1	30				Assurance review to ensure effective monitoring. Ensure ongoing risk assessment of supplier resilience and supplier failure plans.
Budgetary control	H	1	20				Following previous reviews of the MTFS and budgetary control mechanisms, this audit will use data analytics to identify volatile budgets for a deep-dive review of forecasting and control approaches
Information Governance/GDPR project assurance	H	1	15				Compliance with strategic aims of projects and commitments that have been identified. Delivery of projects against the original aims and business cases.
Payment Card Industry standards compliance	H	1	15				Income collection, credit card income & PCI compliance, banking. Deep dive into risk areas from Data Analytics.
Travel expenses	H	1	15				Compliance with council policy, using data analytics to identify potentially higher risk areas of service
Action tracking	H	1	10				Quarterly updates to the Governance & Ethics Committee on progress with implementing agreed actions
<i>Counter Fraud</i>	H						
Pro-active counter-fraud – training & Team Talk		1			3		Monitoring of e-learning package following launch and publication of a further counter-fraud article in the Council's 'Team Talk' staff communication bulletin.
Pro-active counter-fraud – Cartels vulnerability assessment		1			5		Work with the Group Manager – Procurement to assess the Council's vulnerability to cartels in the tendering process.
Pro-active counter-fraud – civil prosecutions protocol		1			3		Leading on the development and agreement of a formal protocol for the Council around the pursuit of civil prosecutions.
Pro-active counter-fraud – Re-Check pilot review		1			3		Review of the outcomes and benefits of the pilot exercise.
Fraud alerts		1			1		Review and dissemination of fraud alerts from national counter-fraud agencies

<i>Governance & Scrutiny</i>							
Assurance mapping & Statutory Officer updates		1	10				Leading and co-ordinating the assurance mapping pilot for 2018/19
<i>Advisory & support</i>							
Governance & Ethics Committee				10			Preparation of planning and progress reports, attendance at Committee meetings
Risk, Safety & Emergency Management Board				1			Head of Internal Audit attendance at RSEMB meetings
Client management				2			Planning and quarterly progress reports to Corporate Leadership Team
Sub-Totals			147	13	15	0	
Grand Total		15	175				

Children and Families

Area of activity	Priority Level	Job count	Days planned and nature of audit coverage				Likely scope
Assurance	Advice/ Consultancy	Counter-Fraud	Certification				
Secure unit - staff additional hours claims	n/a	1	5				Review of controls following irregularity enquiry
Recoupment from other local authorities	M	1	12				Recoupment of special needs funding by the Council, on behalf of schools, where the responsibility rests with another LA, encompassing data input to Capita and subsequent efficacy of administration and recovery.
School swimming safeguarding	H	1	15				Assurance about safeguarding controls in Schools' Swimming Service, plus possibly scoping pricing the offer to schools, buy-back rates, pool contracts, payments and budgetary control.
Beeston Youth & Community Centre	n/a	1				2	Certification of annual accounts.
Client management				2			Planning with, and quarterly progress reports to, Senior Leadership Team.
Sub-Totals			32	2	0	2	
Grand Total		4	36				

Adult Social Care and Health

Area of activity	Priority Level	Job count	Days planned and nature of audit coverage				Likely scope
			Assurance	Advice/ Consultancy	Counter-Fraud	Certification	
Mosaic – unallocated cases	H	1	3				Data input and output controls, notably as they affect commissioning, payments, charging, and forecasting. Possible inclusion of case allocation and management.
Ollerton Day Centre	n/a	1	1				Review of controls following irregularity enquiry
Direct Payment Support Services	H	1	15				Control environment under which DPSS organisations are permitted to provide services to direct payment holders.
Accountable Care Systems (formerly Sustainability & Transformation Plans)	H	1	15				Overview that ACSs have been set up and developed in accordance with national guidance and local agreements, and NCC's interests are being protected and served.
Resource Allocation System and supported assessments	H	1	15				Review of options for current RAS in relation to care needs
Care home providers	H	1	15				Review of quality assurance processes
Client monies accounts	n/a	1	5				Review of controls over client monies and management of bank accounts following a whistleblower investigation.
Client management				2			Planning with, and quarterly progress reports to, Senior Leadership Team.
Sub-Totals			69	2	0	0	
Grand Total		7	71				

Place

Area of activity	Priority Level	Job count	Days planned and nature of audit coverage				Likely scope
			Assurance	Advice/ Consultancy	Counter-Fraud	Certification	
Strategic management of property estate	H	1	20				Review delivery of strategic property plans including the use of assets to generate income and the expected level of capital receipts. Controls in place to deliver effective asset utilisation and management including the projection of vacant properties.
Concessionary fares	H	1	15				Review controls in place for the administration of the concessionary fares scheme. Develop the use of data analytics to identify risk areas for specific deep dive work and follow up intelligence from the NFI exercise.
Counter-fraud investigation contingency		1			10		Contingency to continue with an investigation into a whistleblower allegation.
Bus Services Operating Grant		1				2	Complete the certification of annual buss services operating grants
Platt Lane Playing Fields account		1				1	Complete the independent auditor work in relation to the completion of the annual accounts.
Client management				2			Planning with, and quarterly progress reports to, Senior Leadership Team.
Sub-Totals			35	2	10	3	
Grand Total		5	50				

Chief Executive's

Area of activity	Priority Level	Job count	Days planned and nature of audit coverage				Likely scope
Assurance	Advice/ Consultancy	Counter-Fraud	Certification				
Payroll	H	1	10				Key control review. Deep dive into specific areas following Data Analytical review.
Pensions – investments	H	1	15				Review of processes for Investment of Pension Fund assets and the return in investments. Performance monitoring of fund managers.
Elections	M	1	1				Completion of review of expenditure on the administration of elections
Complaints	M	1	1				Completion of review of procedures for the receipt and handling of complaints
ICT:							
Cloud computing	H	1		2			Review controls in place for contracting cloud services, contract monitoring arrangements and for continued service delivery and security.
ICT applications - Mosaic	H	1	15				Review specific access controls to departmental and corporate ICT applications, linked to assurance audits, to ensure data quality, business continuity and application maintenance.
Networks	H	1	15				Review of contracted arrangement for monitoring the delivery, security and availability across the network including wireless networks and voice networks.
Client management				2			Planning with, and quarterly progress reports to, Senior Leadership Team.
Sub-Totals			57	4	0	0	
Grand Total		7	61				

25 July 2018**Agenda Item: 8****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT AND SECTION 151 OFFICER****INTERNAL AUDIT CHARTER REFRESH****Purpose of the Report**

1. To review and approve an updated version of the Internal Audit Charter.

Information

2. The charter is a formal document defining the Internal Audit Section's purpose, authority and responsibility. It establishes the Section's position within the Council, including the nature of the Head of Internal Audit's functional reporting relationship with the Governance & Ethics Committee. It authorises access to records, personnel and physical properties relevant to the performance of audit engagements, and it defines the scope of Internal Audit's activities. Final approval of the charter rests with the Governance & Ethics Committee.
3. The charter should be reviewed periodically, to ensure it remains relevant and up-to-date. A refreshed version is presented at this time to implement recommended changes proposed by the external quality assessors of the Council's Internal Audit Section. The recommendations were made to ensure full compliance with the Public Sector Internal Audit Standards (PSIAS).
4. The proposed changes were brought to the Committee's attention as part of the Head of Internal Audit's Annual Report, presented at the June 2018 meeting. The Annual Report incorporates an improvement programme for the forthcoming year, and this included the following actions in relation to the charter. Also indicated below are follow-up actions to be taken by the Head of Internal Audit to ensure that these changes are followed through by members of the team:
 - a) Charter to incorporate a statement that the Head of Internal Audit has unrestricted access to senior management and members, particularly the Leader of the Council, the Chair of the Governance and Ethics Committee/ Chief Executive, Directors and Heads of Service, and maintains segregation from operations. Further the Head of Internal Audit reports in his/her own name.

No additional actions are necessary, as this change is being made to make explicit in the charter the arrangements already in place.

- b) Audit Charter to be refreshed to incorporate, “Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.”

The opportunity will be taken at a forthcoming Internal Audit Team Meeting to bring the changes in the charter to the attention of the Internal Audit staff and to remind them of the above principles.

- c) Audit Charter to be reflective of The Accounts and Audit Regulations 2015 and not 2011.

The updated Regulations in 2015 introduced relatively minor changes in the requirement to maintain an effective internal audit service, as follows:

- The focus of the internal audit service to be on risk management, control and governance. This widens out the former definition of the internal auditor's focus on the adequacy and effectiveness of the organisation's accounting records and system of internal control. No additional actions are required in this respect, as the Internal Audit Service's risk assessment process already embraces all risks to the achievement of the Council's objectives, and not just financial risks.
- Introduces the requirement to conduct internal audit in compliance with the PSIAS. No further actions are required, as demonstrated by the outcome of the external quality assessment of the in-house service's compliance with these standards.
- Removal of the requirement to conduct an annual review of the effectiveness of the internal audit service. The PSIAS require a formal, external assessment once every five years, in addition to ongoing and periodic internal assessments of the service. In the intervening years between external assessments, the Head of Internal Audit conducts a self-assessment of compliance against the standards and captures required actions in an annual Quality Assurance and Improvement Programme. Consequently, no additional actions are required to implement this update to the charter.

- d) Consideration of a section in the Charter relating to consultancy which is reflective of the point that, due to its detailed knowledge of the County Council's systems and processes, Internal Audit is well placed to provide advice and support to services on issues of value for money and process re-engineering. Consideration should also be given to including the PSIAS definition of consulting as follows:

“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

No additional actions are considered to be necessary, as the service has a strong record of being engaged by Council departments to provide advisory and consultancy input to developmental projects.

5. Appendix 1 presents a refreshed version of the charter, incorporating the above changes highlighted.

Other Options Considered

6. The establishment and maintenance of a formal internal audit charter is a requirement of the PSIAS.

Reason/s for Recommendation/s

7. To ensure that this Council's Internal Audit Charter remains up-to-date and relevant to the developing needs of the authority from its internal audit service.

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

9. The activities of the Internal Audit service are a key element in the governance framework within the Council. The formal Internal Audit Charter is a key document in ensuring the Council receives an effective service from the resources it deploys on this area of activity.

RECOMMENDATION/S

- 1) That the revised Internal Audit Charter be approved.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Rob Disney, Head of Internal Audit

Constitutional Comments (SLB 12/07/18)

10. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/18)

11. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All



Nottinghamshire County Council

Internal Audit Charter

1. **INTRODUCTION**

- 1.1 This Charter defines Internal Audit's role within the County Council. The Charter complies with the Public Sector Internal Audit Standards, the Accounts and Audit Regulations ~~2014~~ 2015, and the County Council's Financial Regulations. This Charter has been approved by Nottinghamshire County Council's Governance & Ethics Committee, acting as the 'Board' in respect of Internal Audit.

2 **MISSION OF INTERNAL AUDIT**

- 2.1 To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3 **CORE PRINCIPLES**

- 3.1 The Internal Audit Section strives for compliance with the following 10 core principles for the professional practice of internal auditing, as set out in the Public Sector Internal Audit Standards:
- Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement.

4 **PURPOSE, AUTHORITY AND RESPONSIBILITY**

- 4.1 The purpose of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 4.2 It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

In particular it:

- (a) carries out a risk based review and evaluation of the County's financial and other systems and procedures
 - (b) provides management and Members with advice and assurance to assist them in the effective discharge of their responsibilities
 - (c) plans audit work having regard to the Authority's corporate plans.
- 4.3 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, from this Charter and from Nottinghamshire County Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that:

'The Section 151 Officer is responsible for arranging the continuous independent internal audit of the Council. The Internal Audit Service will be provided in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.

Internal Audit focuses on the Authority's control environment and independently appraises the internal controls present in financial and other systems. The arrangements made by Corporate Directors for securing economic, efficient and effective use of resources are also reviewed. Internal Audit reports are produced containing recommendations which should be responded to formally in writing. The results of Internal Audit work contribute to the Authority's Annual Governance Statement.

Internal Audit staff have the right of access to such records, assets, premises and personnel, and are entitled to receive such information and explanation, as they think necessary for the proper fulfilment of their duties.

If an irregularity occurs or is suspected, which may involve financial loss, it must be reported immediately to the Section 151 Officer who may investigate and report to the Monitoring Officer and the relevant Corporate Director. The Section 151 Officer and the Monitoring Officer will jointly determine what further action to take, in consultation with the Corporate Director.

The Internal Audit Service reports on relevant audit issues on a regular basis to the Authority's Audit Committee. Frequent liaison also occurs between Internal Audit and the Authority's External Auditors who rely upon the work of Internal Audit when forming their opinion on the Authority's key financial and other systems.'

- 4.4 The role of the 'board' is fulfilled by the Governance & Ethics Committee.
- 4.5 The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Corporate Directors of the Authority.

- 4.6 The role of the chief audit executive is fulfilled by the Head of Internal Audit, and s/he is responsible for meeting the requirements of the Internal Audit Charter and complying with the Public Sector Internal Audit Standards. The Head of Internal Audit reports directly to the Section 151 officer, but also has ~~responsibilities to senior management and the Governance & Ethics Committee. unrestricted access to senior management and members, particularly the Leader of the Council, the Chair of the Governance and Ethics Committee, the Chief Executive, Corporate Directors and Service Directors. Furthermore, the Head of Internal Audit maintains segregation from operations and reports in his/her own name.~~
- 4.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Head of Internal Audit. The resource requirements are brought into sharp focus during discussions and agreement on the Internal Audit Strategy and Annual Plan. Further details are set out in Section 8.
- 4.8 In addition, the Section undertakes internal consultancy work, carries out suspected irregularity investigations and provides an audit service, on a contract basis, to specific external clients. The nature and extent of work for external clients is kept under review to ensure: a) it does not impinge on the audit work carried out for the Council, and; b) there is no conflict of interest or impairment of independence arising from this work.
- 4.9 In carrying out consultancy work, the Internal Audit role is to assist management in the achievement of the Authority's objectives. The work involved may cover facilitation, process design, training, advisory services and investigatory work. For most assignments, specific terms of reference will be drawn up to define the scope and limits of the work involved. In overall terms, in order to ensure it can deliver its assurance work, Internal Audit aims to limit its consultancy and irregularity work to approximately 10% of its available resource.

5 **INDEPENDENCE AND OBJECTIVITY**

- 5.1 The Internal Audit Section is organised so that it is independent of the activities that it audits. Because of this, the Section can provide impartial and unbiased professional opinions and recommendations. Internal Audit is free to plan, undertake and report on its work, as the Head of Internal Audit deems appropriate.
- 5.2 The status of the Head of Internal Audit is sufficient to allow the effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation.
- 5.3 Internal Audit is accountable to the Section 151 Officer and the Authority's Governance & Ethics Committee, both being involved in determining its priorities. It reviews the resources available to it on a regular basis to ensure that it has sufficient resources to fulfil its responsibilities, reporting the results of the review to the Governance & Ethics Committee, as part of its annual planning process.

- 5.4 The Head of Internal Audit meets quarterly with the Authority's three statutory officers: the Chief Executive, the Section 151 Officer and the Monitoring Officer. Key issues concerning the governance of the Authority are discussed and the Annual Governance Statement is kept under ongoing review.
 - 5.5 The Head of Internal Audit is required to confirm annually the organisational independence of the internal audit activity. The Head of Internal Audit has the right to direct and unrestricted access to senior management and the Board.
 - 5.6 Individual internal auditors are also required to have an impartial, unbiased attitude and avoid any conflict of interest. To meet this requirement, each auditor is required to declare any interests they have that could have an impact on their audit work, and to confirm they have read the Authority's Code of Conduct for employees. The Head of Internal Audit will not assign work to an auditor where a conflict of interest may arise. If independence or objectivity is impaired, either in fact or appearance, the details of the impairment must be disclosed to the relevant parties.
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| 5.7 | Internal Auditors also have due regard to the Seven Principles of Public Life (the Nolan Principles) – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership. |
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6 **PROFICIENCY AND DUE PROFESSIONAL CARE**

- 6.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. Compliance with the Standards is reviewed annually by the Head of Internal Audit.
- 6.2 A thorough recruitment process, in accordance with the Authority's procedures, applies to the appointment of Internal Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its objectives. The Head of Internal Audit is appointed by the Section 151 Officer and must be a qualified accountant with at least 5 years' audit and managerial experience. Similarly, the Audit Managers should be qualified accountants with at least 3 years' audit and managerial experience. The qualifications and skills required for all posts are detailed in job descriptions and person specifications maintained by the Head of Internal Audit.
- 6.3 Internal Auditors have an annual review of their performance and development needs. They are provided with the appropriate training to fulfil their responsibilities and to maintain their professional development and competence.

7 **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

- 7.1 The Head of Internal Audit reviews the work of the Section on an annual basis to provide assurance that it conforms to the relevant standards and requirements of the Internal Audit Charter.
- 7.2 The Internal Audit Section takes the following actions to provide a professional service:

- Adopts a flexible, risk driven approach
 - Works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control
 - Continually seeks to improve the effectiveness and efficiency of its services in consultation with managers from across the Authority
 - Maintains an effective Audit Manual and regularly reviews its procedures to ensure they remain appropriate
 - Monitors and reports on specific performance indicators and targets.
- 7.3 The Public Sector Internal Audit Standards require that an external assessment of Internal Audit be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Head of Internal Audit will raise this periodically with the Governance & Ethics Committee to determine the form of external assessment, the required qualifications and independence of the assessor and the frequency of the assessment.
- 7.4 Arising from the internal review, external assessments and the annual review of Internal Auditors' performance and development, the Head of Internal Audit will, in discussion with senior management and the Governance & Ethics Committee, develop an Improvement Programme.
- 7.5 Where non-conformance to the Public Sector Internal Audit Standards impacts on the overall scope or operation of the internal audit activity, the Head of Internal Audit must disclose the non-conformance to senior management and the Governance & Ethics Committee.

8 **MANAGEMENT OF INTERNAL AUDIT ACTIVITY**

- 8.1 Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources in meeting the Internal Audit Charter.
- 8.2 The Head of Internal Audit produces an Internal Audit Strategy consisting of a three year plan and an annual plan. The plans are developed in consultation with the Corporate Directors, Section 151 Officer and Senior Managers. The Strategy details how the assurance for the opinion on the overall adequacy and effectiveness of the organisation's control environment will be demonstrated.
- 8.3 The Internal Audit plans are subject to annual revision and approval by the Section 151 Officer for reporting to the Governance & Ethics Committee. These plans include an element of contingency to allow Internal Audit to be responsive to changes in conditions and to requests for assistance from managers. They also take account of the Authority's risk management process with the aim of identifying and evaluating any residual risks, not covered by appropriate control mechanisms, which need to be included in the Internal Audit Plan. The Plan process also involves assessing, through ongoing liaison with management and External Audit, any new developments or significant changes in the Authority's responsibilities.
- 8.4 Objectives are prepared for each routine Internal Audit assignment and are normally discussed with relevant line managers before the work is started.

Internal Audit will usually give reasonable notice to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the area under review. However, Internal Audit reserves the right to make unannounced visits where the Head of Internal Audit considers it necessary.

- 8.5 The Section adopts a structured approach to all its work including the use of a risk-based, systematic approach, where appropriate, for opinion audits.

9 **GOVERNANCE & ETHICS COMMITTEE RESPONSIBILITIES**

- 9.1 Internal Audit has a responsibility to report to the Authority's Governance & Ethics Committee. The Committee is chaired by a member of the majority party and consists of 11 members. The Committee meets on a six-weekly basis and has clear terms of reference. It reviews both Internal and External Audit work throughout the Authority and contributes to the organisation's overall process for ensuring that the Authority has good governance.

- 9.2 The Committee reviews and comments upon:
- Internal Audit Charter
 - Internal Audit's Annual Report (including the opinion of the Authority's control environment)
 - Internal Audit's Strategy, Annual Plan and Progress against the Plan (including key findings and recommendations)
 - External Audit's Annual Audit Letter and Annual Plan
 - Reports on the implementation of Internal Audit recommendations
 - Reports on relevant public sector publications concerning general audit developments
 - Any significant audit issues that may arise within the Authority.

- 9.3 The Head of Internal Audit attends every meeting and presents Internal Audit reports to the Committee.

10	<u>ADVISORY AND CONSULTANCY SERVICES</u>
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| 10.1 | Internal Audit offers an advisory and consultancy service to provide support and assistance to the Council in the development of its systems and procedures. Internal auditors are well positioned to offer this type of input, due to their detailed knowledge of the Council's activities, and due to their expertise in assessing value for money and options for process re-engineering. |
| 10.2 | The nature and scope of consultancy engagements are agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes. Consultancy input may take the form of counsel, advice, facilitation and training. This type of input is beneficial to both clients and internal auditors alike; clients receive timely advice whilst systems and processes are being designed, and internal auditors have the opportunity to influence the developing control framework in the Council. |

11 **SUSPECTED IRREGULARITY INVESTIGATIONS**

- 11.1 In accordance with the Authority's Financial Regulations, Internal Auditors carry out investigations into suspected financial irregularities. All managers in the Authority have an obligation to maintain an effective internal control system within their areas of work, and this includes a responsibility for the prevention and detection of fraud, corruption and other irregularities, as well as managing the risks of fraud or corruption.
- 11.2 When conducting audit engagements, Internal Auditors are alert to circumstances, such as control weaknesses, that could allow fraud. If any evidence of fraud or other irregularity is discovered the relevant line manager is informed.
- 11.3 Managers are required to inform Internal Audit immediately if a fraud or other irregularity is suspected. In such cases, they should ensure that:
- Any supporting information or other evidence is secured
 - Confidentiality is maintained so as not to prejudice any subsequent investigation.
- 11.4 Internal Audit will consider each suspected fraud or irregularity and determine whether to investigate it itself or to resolve it by another means, for example, referral to the Police, as appropriate. Internal Audit's role in tackling suspected cases of fraud or irregularity is set out in the Council's Fraud Response Plan
- 11.5 The Head of Internal Audit may carry out other special investigations at the request of the Section 151 Officer or other senior managers.




12 **INTERNAL AUDIT REPORTING**

- 12.1 Internal Audit reports its findings to appropriate managers, who have a responsibility to respond promptly to the reports' recommendations. Recommendations are priority ranked, as follows:

Priority Level	Description	Recommended action timescales
Priority 1	Essential for effective internal control, must implement recommendations to improve existing control arrangements	Immediate
Priority 2	Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements	Within two months

'Low priority' recommendations are not made in Internal Audit reports. Instead, advisory recommendations are raised in feedback meetings with managers at the close of the fieldwork.

- 12.2 Reports on assurance work contain an audit opinion on the area reviewed. One of the following three audit opinions of the level of assurance is provided:

	LIMITED ASSURANCE	Risk levels are high
	REASONABLE ASSURANCE	Risk levels are acceptable
	SUBSTANTIAL ASSURANCE	Risk levels are low

The spread of Internal Audit opinions each year is one factor used to inform the Authority's Annual Governance Statement.

- 12.3 Management responses to Internal Audit's draft reports are sought in accordance with the protocol set out in Appendix 1.
- 12.4 All Internal Audit recommendations are followed up to confirm the agreed management actions are taken. Two levels of assurance are applied to confirm implementation, as detailed below:

Priority rating of recommendation	Management assurance	Internal Audit assurance
Priority 1	Assurance is sought from management that all agreed actions have been taken	Compliance testing scheduled to confirm all agreed actions relating to Priority 1 recommendations are carried out consistently.
Priority 2		Compliance testing is scheduled for selected Priority 2 actions

- 12.5 Quarterly progress on the implementation of agreed management actions is reported to senior management and to the Governance & Ethics Committee. The Governance & Ethics Committee determines whether it wishes to receive an update from senior managers at its next meeting to provide further assurance regarding actions to improve the internal controls in a specific area of activity.
- 12.6 Internal Audit reports are circulated to the relevant Committee Chairmen/Chairwomen and Opposition Members so that they are aware of audit findings in their areas of portfolio responsibility. Members can raise queries on reports as appropriate by contacting the Head of Internal Audit or Audit Managers direct on issues which concern them. This direct access by Members to Internal Audit applies in any situation where Members wish to raise issues of concern with Internal Audit.

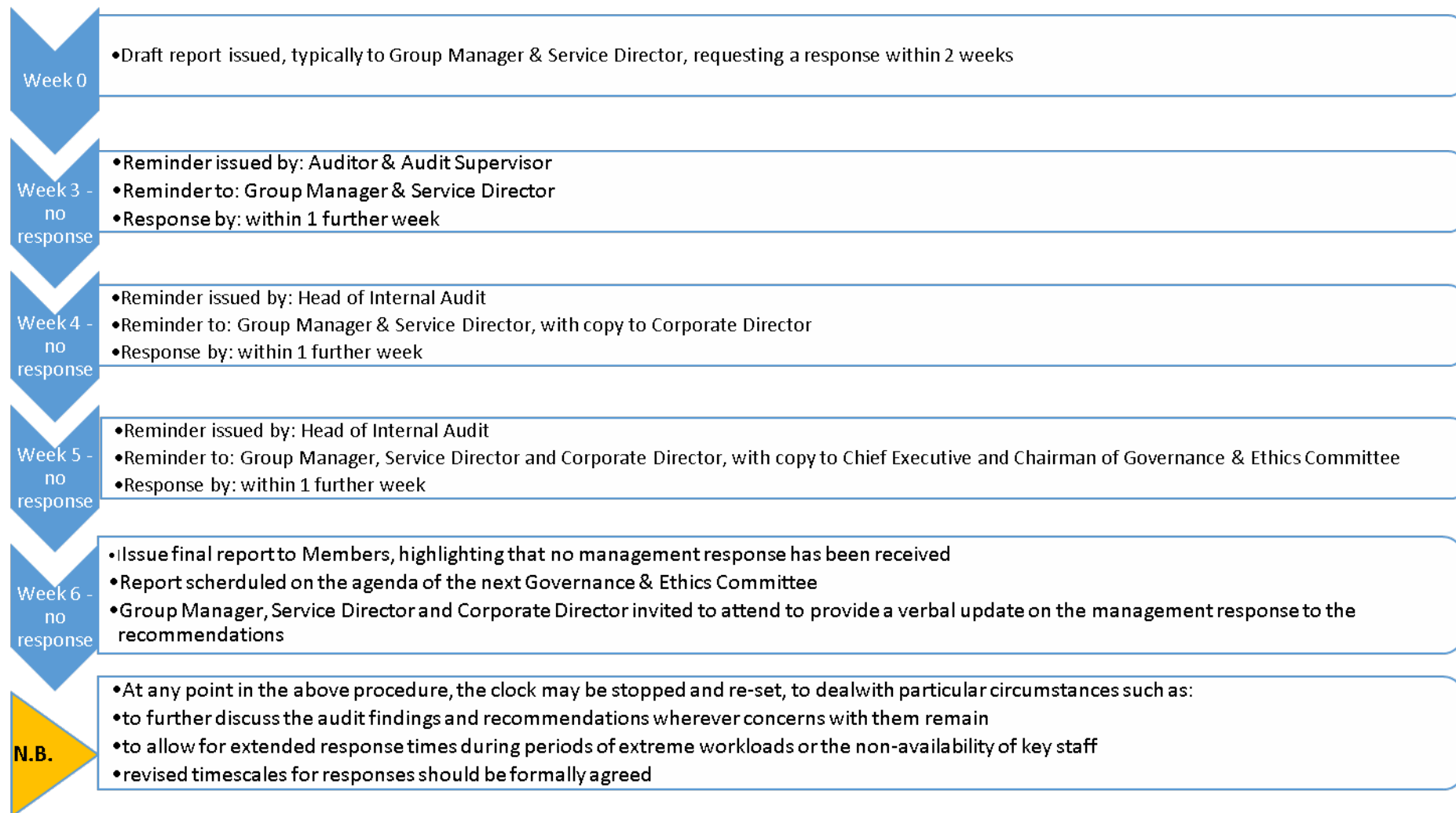
13 **COORDINATION OF AUDIT ASSURANCE**

- 13.1 The Head of Internal Audit co-ordinates Internal Audit Plans and activities with other internal and external providers of assurance, including the External Auditors, to ensure the most efficient use of the total resources devoted to audit work. Regular liaison meetings take place during the course of the year as appropriate.

- 13.2 Internal Auditors foster constructive relationships with Members, the managers and others involved in the areas being audited, and also with other review and specialist agencies that it may encounter as part of its work.
- 13.3 Liaison with managers takes place at key stages of the audit process, namely: planning; undertaking; reporting; and responding to audits. The guiding principle adopted throughout is one of assistance in the achievement of the Authority's objectives.
-

Protocol for chasing responses to Internal Audit's Draft Reports

APPENDIX 1



25 July 2018**Agenda Item: 9****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT AND SECTION 151 OFFICER****ASSURANCE MAPPING UPDATE****Purpose of the Report**

1. To update Members on the progress being made with the pilot approach to assurance mapping in 2018/19, and to invite feedback to influence its implementation over the rest of the year.

Information

2. Members will recall approving a pilot approach to assurance mapping at the meeting on 1 February 2018. As a reminder, the approach is set out in Appendix 1, and both Corporate Leadership Team (CLT) and the Governance & Ethics Committee agreed that the pilot should be trialled with three aspects of governance: financial management; performance management; and risk management. The pilot process has been designed following research and consultations with other authorities and internal audit service providers, notably Assurance Lincolnshire and the South West Audit Partnership.
3. As indicated in Appendix 1, the pilot is being delivered in four phases. The first phase, and the primary subject of this update, is to identify the Key Lines of Enquiry (KLOEs) for each of the three aspects of governance. The KLOEs should represent what assurances Members and senior officers wish to receive annually about finance, performance and risk management. It is an important stage in the procedure, therefore, as it will shape the direction of the following stages.
4. Set out below is a proposed set of KLOEs to be used in the pilot; these were discussed and agreed with CLT in May 2018. It is suggested that Members and senior officers may wish to receive assurances in respect of the following two dimensions:
 - Assurance that key elements of control are being applied consistently across the organisation, i.e. there are good governance procedures in place
 - Assurance that the desired outcomes in these areas of governance are being achieved, i.e. the application of the controls is delivering the expected results.

Aspect of Governance	KLOEs to deliver assurance about controls	KLOEs to deliver assurance about outcomes
Financial Management	Budgetary control <ul style="list-style-type: none"> ➤ Corporate, departmental and service plans are congruent, achievable and will deliver the Council's strategic plan ➤ Effective monitoring and reporting is in place ➤ Strong arrangements for determining and implementing corrective actions 	Budgetary control <ul style="list-style-type: none"> ➤ Budget pressures are captured, assessed and prioritised ➤ In-year forecasts are reliable ➤ Income streams are maximised ➤ Overspending is minimised ➤ Underspends are re-directed to areas of budget pressure
	Financial compliance <ul style="list-style-type: none"> ➤ Accountability framework – compliance with budget holder duties 	Financial compliance <ul style="list-style-type: none"> ➤ Financial regulations are complied with
	Financial prudence <ul style="list-style-type: none"> ➤ Treasury management framework is complied with ➤ Investment strategy is complied with 	Financial prudence <ul style="list-style-type: none"> ➤ Finance charges are avoided or minimised ➤ Returns on investments perform well in comparison with relevant benchmarks
	Value for Money <ul style="list-style-type: none"> ➤ Ongoing review of service provision in priority areas of service ➤ Use of benchmarking and other relevant comparisons to inform priority review areas ➤ Well researched options for change are routinely proposed 	Value for Money <ul style="list-style-type: none"> ➤ Value for Money is achieved ➤ The transformation programme is delivering change in priority areas of service
Performance Management	<ul style="list-style-type: none"> ➤ Compliance with the key elements of the performance management framework ➤ Target performance levels are congruent, achievable and will deliver the Council's strategic plan 	<ul style="list-style-type: none"> ➤ Performance targets are achieved ➤ The transformation programme is delivering change in priority areas of service

Aspect of Governance	KLOEs to deliver assurance about controls	KLOEs to deliver assurance about outcomes
	<ul style="list-style-type: none"> ➤ Effective monitoring and reporting is in place ➤ Senior managers are held accountable for the levels of service they achieve ➤ Use of benchmarking and other relevant comparisons to inform priority review areas 	
Risk Management	<ul style="list-style-type: none"> ➤ An effective risk management strategy and framework are in place ➤ National, regional and local horizon scanning informs risk assessments ➤ The Council's risk appetite is established and applied consistently ➤ Risk registers are maintained and updated appropriately ➤ Effective monitoring and reporting is in place – mitigating actions are complied with and insurance provisions are in place 	<ul style="list-style-type: none"> ➤ Risk management informs key decision-making in the Council ➤ Exposure to significant risks is minimised ➤ There is a clear focus on high priority risks ➤ Prompt actions are taken where risks materialise

5. Members' views and feedback on the suitability of the above KLOEs for use in the remainder of the pilot exercise are invited.
6. In order to illustrate the benefits that assurance mapping should bring to the Council, Appendix 2 sets out a worked example. This relates to the area of financial management and, in particular, budgetary control. The example works through the 'three lines of defence' control framework to show how assurance may be picked up and reported in a co-ordinated manner. The example is theoretical at this stage, pending confirmation as part of the next phase of the pilot, but it is considered to be a likely aspect of the Council's control framework in which it will prove possible to deliver co-ordinated assurance.
7. The benefit from this worked example should be that:
 - The outcomes from routine checks carried out at the 2nd line of defence will be summarised for inclusion in the year-end assurance report. This will contribute towards the comprehensive assessment of how well governance processes are operating in this core area of activity.
 - The outcomes from the routine checks will be used to inform the checks carried out at the 3rd line of defence, by the internal audit service, as follows:

- Should the 2nd line outcomes show a high level of assurance that budgetary controls are being applied consistently, Internal Audit should be able to rely on this assurance and direct its resources to focus on risk priorities in other areas of the Council's activities;
- Should the 2nd line outcomes identify significant concerns, the input of Internal Audit may be beneficial in targeted areas as part of the next termly Audit Plan.

8. It is anticipated that similarly co-ordinated sources of assurance will be gathered by the assurance mapping process across all of the KLOEs, thereby building a comprehensive picture of how well the Council's governance arrangements are operating, along with an informed view of where greater assurance is required in the coming year.

Other Options Considered

9. The pilot approach to assurance mapping was agreed by the Governance & Ethics Committee in February 2018. Regular updates on progress with the pilot are providing the opportunity to consider whether amendments to the approach are needed.

Reason/s for Recommendation/s

10. To provide timely feedback on whether the pilot approach is likely to deliver the assurances that Members wish to receive as part of the annual report.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

The assurance map aims to deliver a comprehensive assessment of the effectiveness of the Council's governance, risk and control framework. This will provide assurance relating to many of the considerations listed above.

RECOMMENDATION/S

- 1) Members approve the Key Lines of Enquiry for each of the pilot areas in the assurance mapping process.
- 2) Members agree that the Committee receives a further update following completion of the second phase of the review.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (SLB 12/7/18)

12. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/18)

13. There are no specific financial implications arising directly from this report.

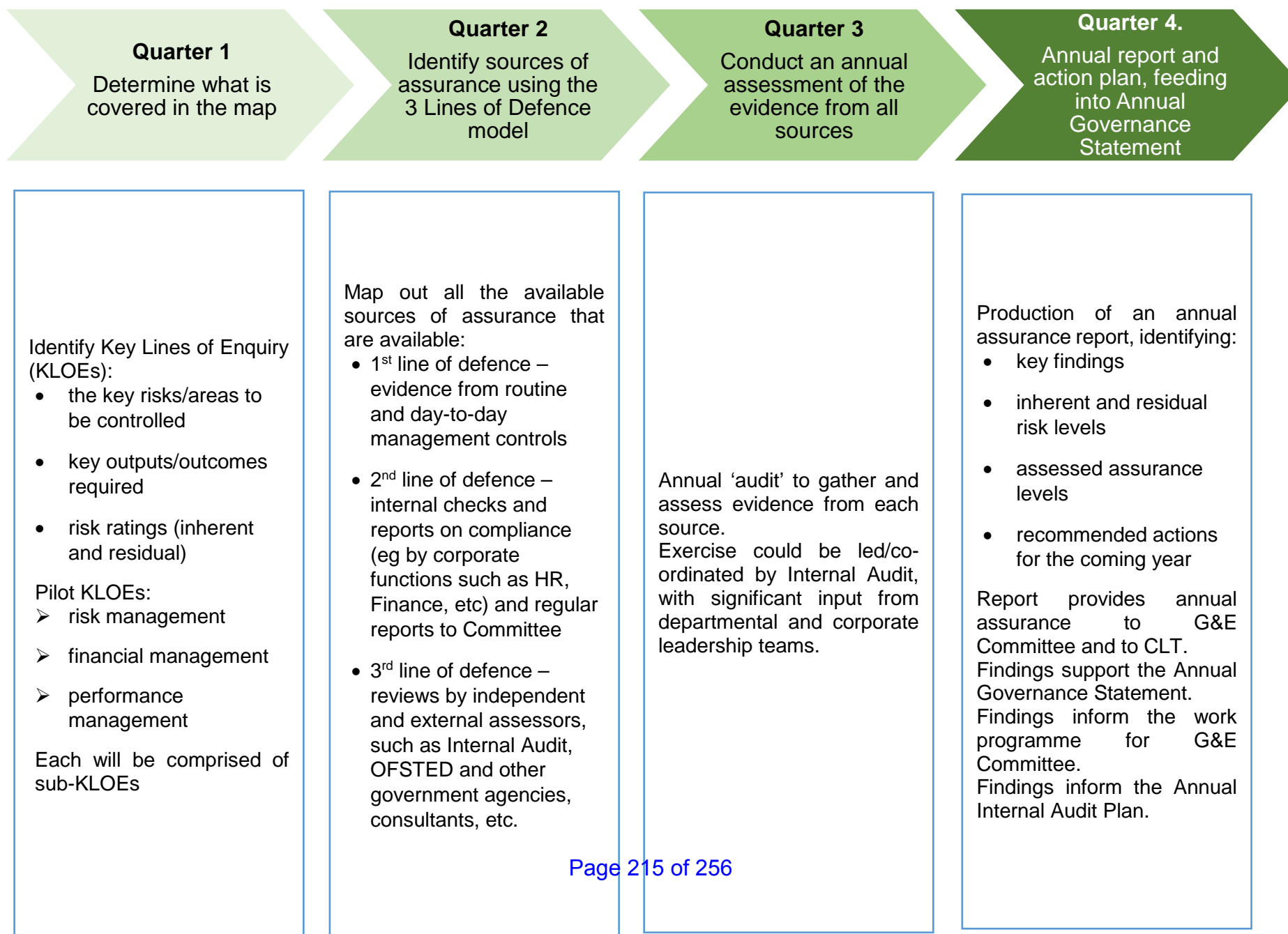
Background Papers and Published Documents

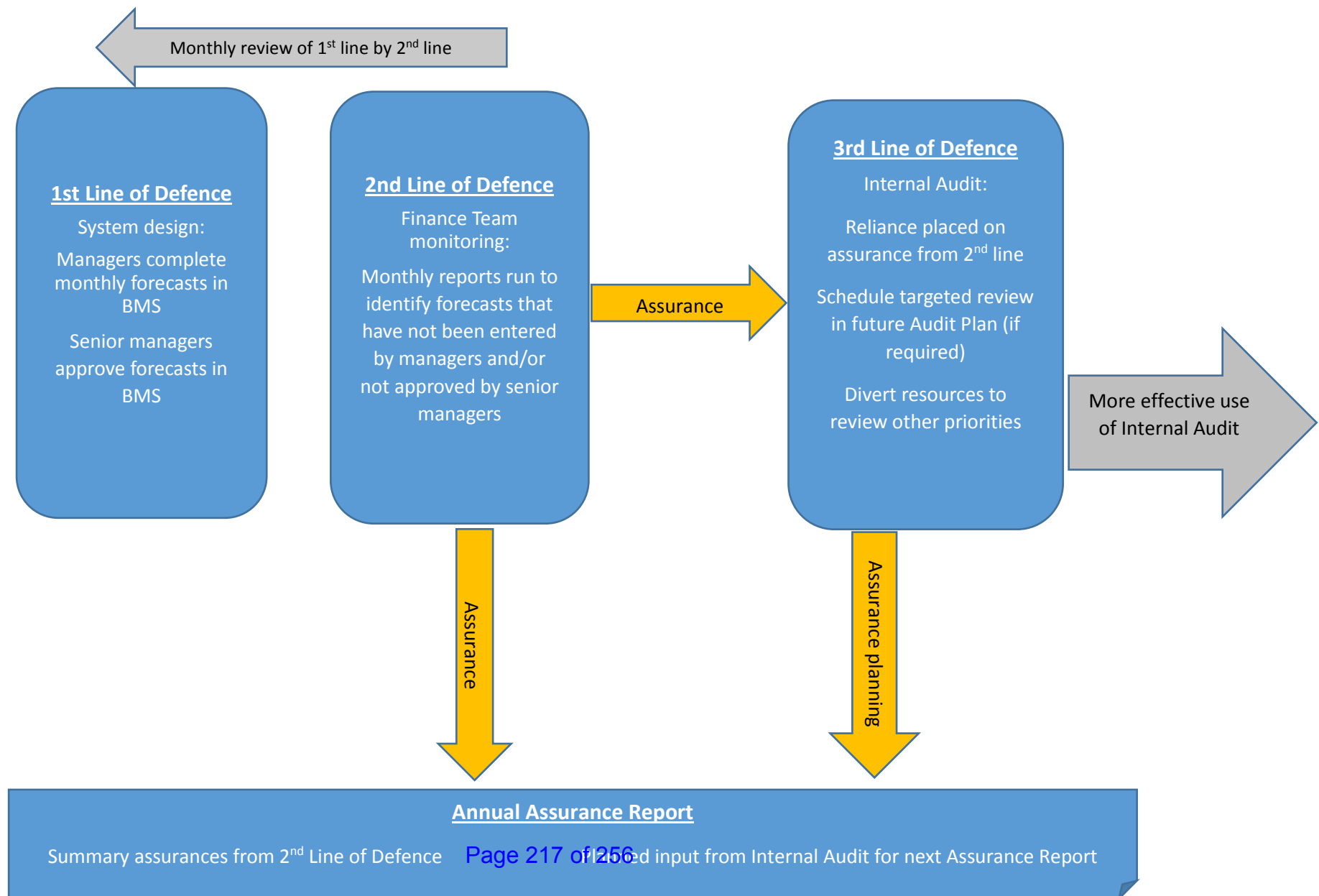
Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All





25 July 2018**Agenda Item: 10****REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT****FRAUD RESPONSE PLAN****Purpose of the Report**

1. To propose a refreshed version of the Council's Fraud Response Plan.

Information

2. Under the Council's approved policy and strategy for countering fraud and corruption, a Fraud Response Plan is maintained to guide staff and stakeholders in the actions to be taken whenever genuine concerns arise. It is good practice to review the Plan periodically, to ensure it remains up to date and fit for purpose.
3. The Internal Audit Team benefits from the experience and knowledge of its CIPFA accredited fraud lead. He has reviewed the current Plan and, whilst concluding that it is fundamentally sound, relatively minor updates are proposed to take account of the following:
 - Developments over the past year to improve liaison with Nottinghamshire Police, through the establishment of a Single Point of Contact (SPOC).
 - Updates for changes in key staffing postholders
 - Miscellaneous amendments to wording to more fully reflect best practice in counter-fraud approaches.
4. Once approved, the refreshed Fraud Response Plan will be launched within the Council through the established communications channel for staff, Team Talk. The article will highlight a number of counter-fraud messages, with links to the following:
 - a) The Annual Fraud Report, which was presented to the Governance & Ethics Committee in June 2018.
 - b) A short, counter-fraud e-learning course, which has been developed jointly by Internal Audit and Human Resources.
 - c) The refreshed Fraud Response Plan, to provide guidance for staff should they come across suspicions that a fraud is taking place.

5. The updated Plan will also be posted on the Council's public website and advice taken from the Communications Team on the most appropriate means of bringing it to the attention of the wider public.

Other Options Considered

6. No other options were considered, as it is considered best practice to keep the Fraud Response Plan up to date.

Reason/s for Recommendation/s

7. To agree required changes to the Fraud Response Plan prior to its promotion within the Council, and to the wider public, so that any suspicions can be raised in line with the agreed procedures.

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Use/delete the following headings as appropriate – font size unchanged:-

Crime and Disorder Implications

The Council relies on the vigilance of staff and other stakeholders to bring potentially criminal acts to its attention for appropriate and prompt investigation.

Data Protection and Information Governance

Data and information collected in the reporting and investigation of suspected fraud is handled in accordance with the requirements of the General Data Protection Regulations. Information assets of this nature are recognised within Internal Audit's Information Asset Register.

Financial Implications

Any amounts lost to fraud is money that cannot be spent on the delivery of essential services to Nottinghamshire residents. By taking pro-active measures to minimise fraud losses, the Council will be in a better financial position to maximise the extent of services it is able to deliver.

Human Resources Implications

The Fraud Response Plan is designed to apply the Council's zero-tolerance approach to fraud, therefore all staff should be aware that strong actions will be taken where suspected cases are proven.

RECOMMENDATION/S

- 1) Members approve the refreshed Fraud Response Plan.

Nigel Stevenson

Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (SLB 12/07/18)

9. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/18)

10. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All



Fraud Response Plan

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1. INTRODUCTION

- 1.1. The Counter Fraud and Corruption Policy and Strategy make it clear that NCC has a zero-tolerance approach to fraud and corruption. Wherever there are genuine suspicions, staff are encouraged to raise their concerns at the earliest opportunity.
- 1.2. This Fraud Response Plan provides guidance to staff on the procedures that should be followed where a fraud is suspected or discovered. It should be read in conjunction with the Counter Fraud & Counter Corruption Policy & Strategy and the Council's Whistleblowing Policy. A summary of this plan is attached as a flowchart at Appendix 1.
- 1.3. All staff should be aware that, if an allegation is found to have been made maliciously or for personal gain, then disciplinary action may be taken against the person making the allegation.

2. DISCOVERY

- 2.1. There are a number of ways in which a fraud may come to light:
 - Discoveries by managers or other employees, usually arising from standard controls being broken or from employee suspicions.
 - Specific fraud detection exercises such as data matching or data analytics.
 - A "tip-off" from a third party; either a member of staff or an external party.
 - Routine systems audit checks or specific audit checks on high risk areas.
- 2.2. The scope of suspected fraud might range from internal incidents (e.g. involving petty cash or employee claims for travelling expenses) to circumstances affecting third parties (e.g. suppliers submitting duplicate invoices). A list of common examples of fraud is attached as Appendix 2.

3. ACTION TO BE TAKEN WHEN SUSPICION ARISES

Employees

- 3.1. If an employee becomes aware of a suspected fraud they must report the matter to their line manager as quickly as possible. This must be done in a way that ensures confidentiality is maintained at all times as the initial suspicions may turn out to be unfounded or the perpetrator may be alerted to your suspicions.
- 3.2. If an employee feels unable to discuss their concerns with their line manager, for whatever reasons, they can instead raise their concerns with their Team or Group Manager as they feel is appropriate or may contact the Head of Internal Audit directly.
- 3.3. Employees should not contact the Police regarding suspicions. The referral decision will be taken jointly by the Council's Section 151 Officer (or his/her nominated representative) and the Monitoring Officer (or his/her nominated representative).

- 3.4. Employees may choose to report their concerns anonymously or they may request anonymity. While total anonymity cannot be absolutely guaranteed, every endeavour will be made not to reveal the names of those who pass on information.

Managers

- 3.5. When told about a suspected fraud, the line manager should listen to the concerns raised and treat them seriously and sensitively.
- 3.6. The line manager should gather as much information as possible from the employee and any notes or evidence that are readily available to support the allegation. These should be held securely to ensure evidence is not destroyed or lost. Under no circumstances should line managers attempt to investigate the matter themselves or covertly obtain further evidence as this may adversely affect any internal investigation or Police enquiry.
- 3.7. The line manager should then immediately contact their Team or Group Manager to advise them of the situation as well as either:
- the S151 Officer
 - the Head of Internal Audit
 - a member of CLT

Councillors

- 3.8. Where there is suspicion that a councillor may be involved in fraudulent activity, managers should report the matter directly to the Monitoring Officer, or to the Head of Internal Audit. The Monitoring Officer will determine whether the matter should be reported to the relevant Group Leader for the councillor concerned.

4. REFERRAL TO POLICE

- 4.1. All matters involving suspected criminal activity will be referred to the Police at the earliest opportunity using the established Single Point of Contact (SPOC) established with the Police by the Head of Internal Audit. The referral decision will be taken jointly by the Council's Section 151 Officer (or his/her nominated representative) and the Monitoring Officer (or his/her nominated representative). The decision to accept a case for investigation rests fully with Police.
- 4.2. If it is determined that an internal investigation is needed before contacting the Police, the need for a referral should be reconsidered once the findings of the internal investigation have been reported (see 6.1 below).
- 4.3. When referring an investigation to the Police the Section 151 Officer (or his/her nominated representative) / Monitoring Officer (or his/her nominated representative) should ensure the following conditions should be met to improve the chances that the case will be accepted for investigation:

- It must be established that there are reasonable grounds to believe that a criminal offence has been committed.
- The points to prove for the offence need to be identified and considered. The fraud needs to be more than an error or omission.
- The allegations should concern recent events and should not have become stale by reason of age. Incidents that are over two years old before discovery need to be judged individually on their merits, including the availability of documentary evidence and the reliability of witness statements
- NCC must identify and preserve all original documents and other exhibits relating to the matter in accordance with PACE to assist subsequent Police referral.

4.4. NCC must be prepared to supply all original documents and exhibits to the Police if an investigation is expected and commenced. Such evidential material should be securely retained before handover to the investigating officer. Any movement of original documentation and exhibits for safeguard should be recorded for information to the investigating officer.

4.5. The Head of Internal Audit will advise the manager who reports the case whether further and immediate action is needed. This might be to secure evidence, to protect the council from further losses, or to safeguard a possible criminal or internal investigation.

5. INTERNAL INVESTIGATION

5.1. The Head of Internal Audit will review the concerns raised and any evidence that is initially available and will decide:

- If an investigation is required as concerns are valid
- If no investigation is required as concerns are not indicative of fraudulent activity, but also considering theft, computer misuse, money laundering etc.
- If an initial inquiry is required to gather more evidence to support or refute the concerns.

5.2. Following discussion of the case between the S151 Officer, Monitoring Officer, Head of Internal Audit, the Group Manager Legal Services, the following will be determined:

- whether an investigation is required as the concerns are deemed to be valid. It may be determined that a preliminary inquiry is required to gather more evidence to support or refute the concerns
- whether the employee under suspicion should be suspended, pending criminal and internal investigations
- who will carry out the internal investigation. In most cases, Internal Audit staff will be charged with investigating allegations of fraud and corruption. In some cases, however, it may be determined that the investigation may be carried out by a departmental manager, with the support and advice of Internal Audit.

- 5.3. Where it is decided to investigate, resources will be made available to ensure the investigation can be carried out as a matter of urgency. This is important to ensure that:
- Prompt action is taken to ensure facts, evidence and explanations can be captured while events remain current
 - Any on-going losses to fraud are minimised
 - The cost to the authority of suspended employees is minimised
 - The council's commitment to its zero-tolerance stance against fraud and corruption is clearly demonstrated.
- 5.4. Where a case has been accepted by the Police for investigation, it is most important that the internal investigation team maintains close liaison with the investigating police officer. This is to ensure that the internal investigation does not in any way hinder or compromise the criminal investigation.
- 5.5. On conclusion of the internal investigation, two reports will be produced and issued to the S151 Officer, the Monitoring Officer, the Group Manager Legal Services and the relevant Corporate Director:
- the primary report will detail the facts determined as a result of the investigation. This report will enable a decision to be made concerning the need for disciplinary action (see 6.1 below)
 - the secondary report will highlight any procedural weaknesses identified during the investigation, and it will make recommendations for improved internal controls (see 7.3 below).

6. DISCIPLINARY PROCEDURE

- 6.1. On receipt of the internal investigation report, the following shall be considered:
- if the case had not already been referred to the police, the need for a referral shall be reconsidered in light of the findings of the internal investigation. The decision to make a referral to the police at this stage shall be taken by the officers listed above, at 4.1
 - the S151 Officer, the Monitoring Officer, the Group Manager Legal Services and the relevant Corporate Director will determine whether any disciplinary action is warranted against any council officers.

7. REDRESS AND FOLLOW-UP ACTIONS

- 7.1. The internal investigation report will quantify the extent of any losses incurred by the council. The S151 Officer, the Monitoring Officer, the Group Manager Legal Services and the relevant Corporate Director will consider all options available to seek recovery of the losses.

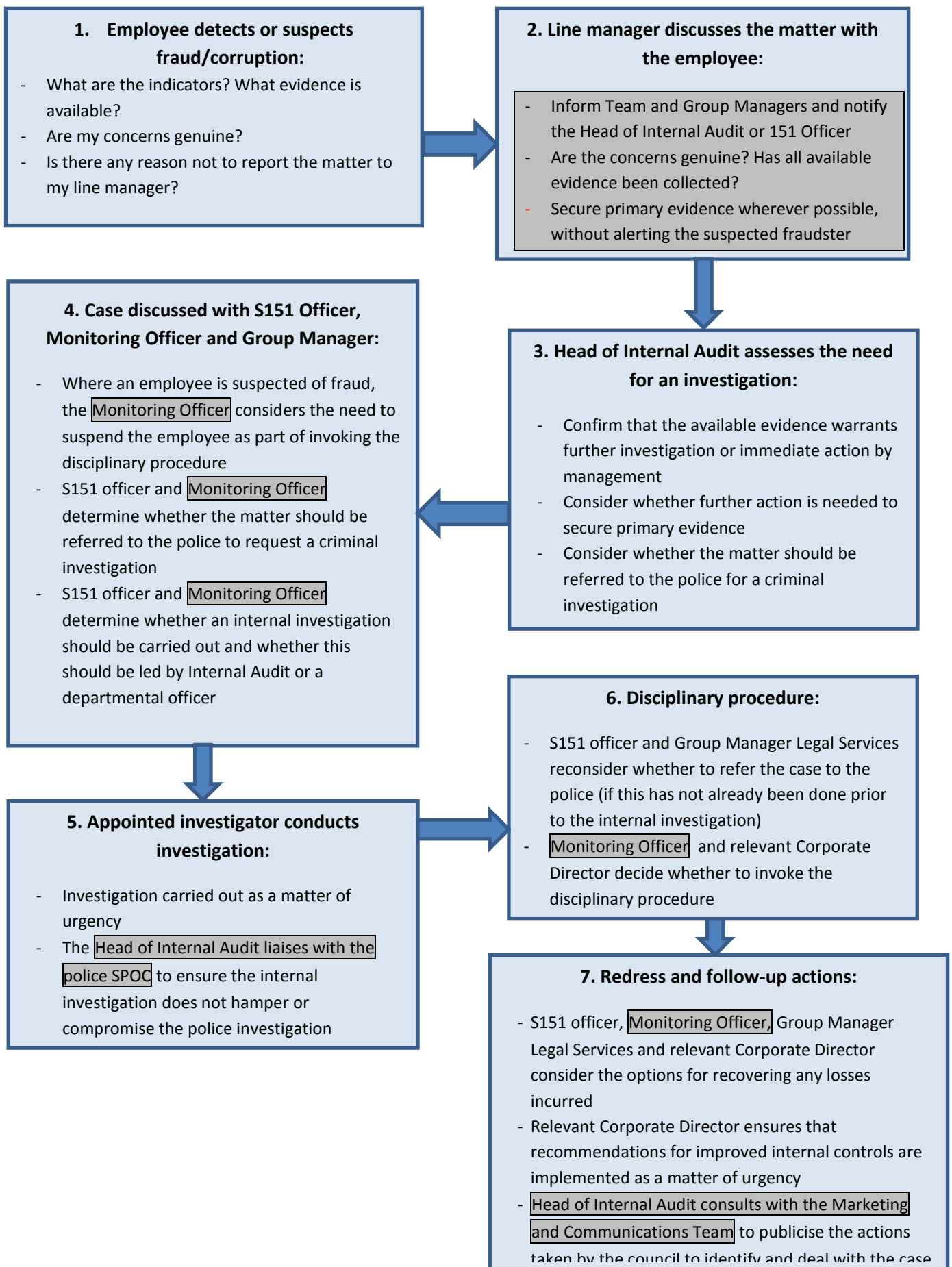
- 7.2. Where the Police do not accept the case, or the Crown Prosecution Service do not seek a criminal prosecution, the Group Manager Legal Services should advise on the prospects for recovering losses through a private prosecution through the civil court. NCC should seek to recover costs in addition to any losses.
- 7.3. The relevant Corporate Director will be responsible for implementing the recommendations made for improved controls in the secondary report following the internal investigation. Where agreed, the recommendations should be implemented as a matter of urgency to ensure protection against recurring cases. The recommended changes will be set out in an action plan identifying the staff involved and the relevant completion dates. Subsequently, the Head of Internal Audit may initiate a follow-up audit of the relevant areas to ensure the revised procedures are operating effectively.
- 7.4. The Head of Internal Audit will co-ordinate with the Marketing and Communications Team regarding the content and timing for communicating the outcome of the investigation to internal staff and to the wider public, as considered appropriate.
- 7.5. The Head of Internal Audit will advise and update the Governance and Ethics Committee on suspected and actual fraud cases as part of its routine reporting arrangements. This will include the extent of losses, and the key outcomes in terms of sanctions taken, recoveries achieved and procedural improvements implemented.

8. KEY CONTACTS

Post	Post holder	Contact
Head of Internal Audit	Rob Disney	0115 97 72224 rob.disney@nottsc.gov.uk
S151 Officer	Nigel Stevenson	0115 97 73033 nigel.stevenson@nottsc.gov.uk
Monitoring Officer	Marjorie Toward	0115 97 74404 marjorie.toward@nottsc.gov.uk
Group Manager Legal Services	Heather Dickinson	0115 97 74835 heather.dickinson@nottsc.gov.uk

Fraud Response Plan – Key Stages

Appendix 1



There are many ways people may try to defraud NCC. This could be carried out by employees or people from outside the organisation. The most common of these include:

Fraud from internal sources

- Theft of cash, stocks or assets and attempts to disguise this
- Over-claiming expenses
- Claiming for overtime not worked
- Selling waste and scrap
- Bogus employees on the payroll
- Forging signatures or altering amounts on documents
- Writing off recoverable debts
- Running a private business with NCC assets

Fraud from external sources

- Submitting invoices for goods or services not delivered or submitting multiple invoices for the same goods and services
- Claiming for expenses not incurred, or claiming the same expenses multiple times
- Changing bank details of existing suppliers
- Collusive bidding
- False compensation and insurance claims
- Bribing employees or councillors
- False, official identification used

25 July 2018**Agenda Item: 11****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT AND SECTION 151 OFFICER****CIPFA GUIDANCE FOR LOCAL AUTHORITY AUDIT COMMITTEES****Purpose of the Report**

1. To consider guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) for the effective operation of audit committees in local authorities, and to assess developmental opportunities for this committee.

Information

2. CIPFA's publication, 'audit committees – Practical Guidance for Local Authorities and Police', has been updated for 2018. It represents CIPFA's position statement on audit committees, and it goes on to provide guidance around the following:
 - The purpose of an audit committee
 - The core functions of an audit committee
 - The arrangements for an audit committee's independence and accountability
 - Membership of an audit committee to ensure its effectiveness.
3. The guidance represents best practice for audit committees in local authorities throughout the UK, as well as for police audit committees in England and Wales. It recognises scenarios where audit committees have wider functions beyond the pure audit committee role, for example in relation to ethics as is the case with this Council's Governance & Ethics Committee.
4. An initial assessment of the guidance has been carried out by the Head of Internal Audit and discussed with the Chairman of the Governance & Ethics Committee in the course of their regular update meetings. The Head of Internal Audit's assessment is that the Governance & Ethics Committee is largely compliant with the guidance. The remit and activities of the Committee since its formation are addressing most of the aspects of governance in which the guidance recommends audit committees should be seeking assurance.
5. Nonetheless, the initial assessment has identified some opportunities for development, which the Chairman requested be brought to the Committee's attention for consideration. The most

significant of these are set out below, along with draft proposals for how these might be taken forward:

a) Annual Report

Best practice guidance: *‘An audit committee should report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.’*

Current practice: The Governance & Ethics Committee does not currently produce an annual report on its work to Full Council.

Proposed action: The CIPFA Guidance incorporates a template to self-assess against best practice (see Appendix 1). All Members of the Committee might be asked to complete this template to identify collective views on how well the Governance & Ethics Committee is delivering its audit committee role and to capture suggested areas for improvement. This could then be used as a basis for an annual report.

b) Knowledge and skills of Committee members

Best practice guidance: *‘Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis.’*

Current practice: There are no formal arrangements in place to capture Committee Members’ assessments of their training needs relative to their role on the Governance & Ethics Committee.

Proposed action: The CIPFA Guidance includes a knowledge and skills framework (see Appendix 2). Members should be encouraged to review this when completing the self-assessment template referred to in a) above, and make known any areas in which they feel training and development would be welcome.

c) Value for Money (VfM) assurance

Best practice guidance: *‘Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.’*

The role of the audit committee is most likely to focus on whether the authority’s overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.’

Current practice: The guidance goes on to identify a specific role to consider the external auditors’ annual assessment of VfM. Whilst this is in place, the Governance & Ethics Committee does not receive structured and routine assurance on VfM as part of its annual programme.

Proposed action: Members are aware of the current assurance mapping pilot that is in progress and that this incorporates assurance around financial management.. The Committee is receiving a first update on progress with the pilot in a separate item on today's agenda. This sets out proposals for the Key Lines of Enquiry (KLOEs) for each of the aspects of governance included in the pilot. The financial management strand incorporates the following with regard to VFM:

Aspect of Governance	KLOEs to deliver assurance about controls	KLOEs to deliver assurance about outcomes
Financial Management	Value for Money <ul style="list-style-type: none"> ➤ Ongoing review of service provision in priority areas of service ➤ Use of benchmarking and other relevant comparisons to inform priority review areas ➤ Well researched options for change are routinely proposed 	Value for Money <ul style="list-style-type: none"> ➤ Value for Money is achieved ➤ The transformation programme is delivering change in priority areas of service

Consequently, it is proposed that this issue is kept under review pending the outcome of the assurance mapping process and any recommended actions for improved assurance over VFM.

- Coincidental with this report, the Head of Internal Audit has received an invitation from the Head of Assurance Lincolnshire for this Council to attend the next scheduled meeting of the Lincolnshire Audit Committee Forum. This is a networking group which enables the sharing of good practice, emerging governance and risk issues and 'hot topics' for public sector audit committees. It is designed to help and support the effectiveness of audit committees. The invitation is for the Chairman, Vice-Chairman and the Head of Internal Audit. At the last meeting in June 2018, Committee recommended that the Policy Committee approve a proposal for this Council's Internal Audit Team to enter into a collaboration partnership with Assurance Lincolnshire; the Policy Committee is due to consider this proposal at its meeting in July 2018.

Other Options Considered

- CIPFA guidance represents best practice for local authorities' audit committees. No other source of guidance has been considered.

Reason/s for Recommendation/s

- To identify opportunities to further develop the effectiveness with which the Governance & Ethics Committee delivers its audit committee function.

Statutory and Policy Implications

- This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human

rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required. The audit committee role is a key component of the Council's governance framework, therefore it should have a direct influence in ensuring effective arrangements for the above areas.

RECOMMENDATION/S

That Members approve:

- 1) The completion of the self-assessment template by each of the Committee's Members.
- 2) The development and implementation of an annual public report on the effectiveness of the Governance & Ethics Committee's discharge of its audit committee role.
- 3) Each Member of the Committee to consider the knowledge and skills framework and highlight targeted areas for training and development when returning the self-assessment template.
- 4) Reliance on the assurance mapping pilot to deliver proposals regarding assurances the Committee should receive about VFM.
- 5) Attendance of the Chairman, Vice-Chairman and Head of Internal Audit at the next meeting of the Lincolnshire Audit Forum in October 2018.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact:

Rob Disney,
Head of Internal Audit

Constitutional Comments (SLB 12/7/18)

10. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/018)

11. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Full CIPFA publication: 'audit committees – Practical Guidance for Local Authorities and Police, 2018 Edition'

Electoral Division(s) and Member(s) Affected

- All

Evaluating the effectiveness of the audit committee

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> ■ Professional qualification in accountancy 	<ul style="list-style-type: none"> ■ More able to engage with the review of the accounts and financial management issues coming before the committee ■ Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues ■ More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> ■ Professional qualification in internal audit 	<ul style="list-style-type: none"> ■ This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing ■ The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> ■ Risk management qualification ■ Practical experience of applying risk management ■ Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> ■ Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice ■ Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> ■ Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> ■ Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> ■ Direct experience of managing or working in a service area similar to that operated by the authority ■ Previous scrutiny committee experience 	<ul style="list-style-type: none"> ■ Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	■ Project management qualifications or practical knowledge of project management principles	■ Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	■ Knowledge gained from management or development work in IT	■ Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	■ Able to focus on material issues and overall position, rather than being side tracked by detail	■ When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> ■ Able to frame questions that draw out relevant facts and explanations ■ Challenging performance and seeking explanations while avoiding hostility or grandstanding 	■ The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	■ Ensuring there is a clear plan of action and allocation of responsibility	<ul style="list-style-type: none"> ■ The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities ■ Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	■ Able to understand the practical implications of recommendations to understand how they might work in practice	■ The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

25 July 2018**Agenda Item: 12****REPORT OF THE SERVICE DIRECTOR CUSTOMERS, GOVERNANCE AND
EMPLOYEES****LEGAL SERVICES' LEXCEL ACCREDITATION****Purpose of the Report**

1. To inform Committee of the success of Legal Services in retaining the respected Lexcel accreditation thereby providing further assurance in relation to regulatory compliance by Legal Services.

Information

2. Lexcel is the Law Society's legal practice quality mark for excellence in practice management and client care. It provides a supportive management framework to help in-house legal departments enhance the services it provides to the wider organisation and any external clients. This not only supports regulatory compliance but also includes developing and maintaining consistent operational efficiencies, client services, managing risk effectively whilst reducing costs.
3. In order to achieve accreditation, legal teams are assessed in seven different areas of practice: structure and strategy, financial management, information management, people management, risk management, client care, and file and case management. Successful independent assessment demonstrates a legal team's commitment to consistently delivering services that meet client expectations, improve overall satisfaction and assist regulatory compliance.
4. Lexcel Accreditation is awarded for three years, with annual reaccreditation and monitoring to ensure continued compliance. The Council's Legal Service undertook its second annual maintenance assessment on the 26th and 27th June. The service has since received confirmation that the service will maintain its accreditation for another year; meaning that Legal Services has now successfully retained this accreditation for 17 years.
5. The assessor's final conclusions were that the service had demonstrated a number of areas of good practice including :
 - a. the introduction of an online text messaging service which operates independently from the Council's ICT network and enables managers to communicate effectively with staff in cases of emergency;

- b. adopting remote working as the norm which has enabled other services to be accommodated in the same office space. The service now operates on a 4:10 desk ratio thereby contributing to savings in respect of office accommodation reductions;
 - c. Maintaining the successful EM Lawshare Consortium arrangements, including a 4 year framework contract of seven law firms offering high quality advice at very competitive rates for the benefit of EM lawshare members. This membership currently comprises of over 140 public sector bodies;
 - d. achieving 94% client satisfaction feedback demonstrating the services provided are valued;
 - e. conducting all child safeguarding cases in the Nottingham and Nottinghamshire Family Council using electronic court bundles;
 - f. operating an electronic case file management system in an excellent order which allows easy access for case file reviews and corrective action to be taken promptly;
 - g. maintaining comprehensive terms of engagement and service level agreements with clients;
6. The assessor also made a number of contributions for additional service improvements for best practice. The service will consider these areas and seek to adopt them provided it would be cost effective to do so and they are aligned with the Council's corporate policies and procedures.
7. In the independent assessor's overall summary comments, the assessor praised the service for maintaining high levels of commitment to maintain the LEXCEL standards. The assessor's report also acknowledged that the staff he had selected for interview were informative, receptive. This together with the ease of access to records (the majority of which were available electronically) ensured the assessment ran smoothly.
8. In his closing remarks, the assessor expressed his high regard for the service and that he continued to be impressed with the way in which the service operated.

Other Options Considered

- 9. None

Reason/s for Recommendation/s

- 10. To inform Governance and Ethics Committee of the quality standards maintained by Legal Services and to seek a view from Committee on whether it would wish to receive further annual reports.

Statutory and Policy Implications

- 11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of

children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That members acknowledge the successful outcome of Legal Services' Lexcel assessment and agree to receive an annual update report regarding Legal Services performance and that this be included in the work programme.

Marjory Toward
Service Director Governance, Customers and Employees

For any enquiries about this report please contact:
Sorriya Richeux, sorriya.richeux@nottsc.gov.uk 0115 9772945

Constitutional Comments (SLB 13.7.2018)

12. The decision falls within the scope of matters that may be approved by the Governance and Ethics Committee

Financial Comments (SES 13/07/18)

13. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Electoral Division(s) and Member(s) Affected

- All

25 July 2018**Agenda Item: 13****REPORT OF THE SERVICE DIRECTOR, CUSTOMERS, GOVERNANCE AND
EMPLOYEES****WORK PROGRAMME****Purpose of the Report**

1. To review the Committee's work programme for 2018.

Information and Advice

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the Committee's agenda, the scheduling of the Committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and Committee meeting. Any member of the Committee is able to suggest items for possible inclusion.
3. The attached work programme includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

Other Options Considered

4. None.

Reason/s for Recommendation/s

5. To assist the Committee in preparing and managing its work programme.

Statutory and Policy Implications

6. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That Committee considers whether any changes are required to the work programme.

Marjorie Toward
Service Director, Customers, Governance and Employees

For any enquiries about this report please contact:

Keith Ford, Team Manager, Democratic Services Tel. 0115 9772590

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Constitutional Comments (SLB)

The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

There are no financial implications arising directly from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None

Electoral Division(s) and Member(s) Affected

All

GOVERNANCE & ETHICS COMMITTEE - WORK PROGRAMME (AS AT 17 JULY 2018)

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>Lead Officer</u>	<u>Report Author</u>
26 September 2018			
Risk Management Update	Periodic update on Risk Management issues.	Derek Higton	Robert Fisher
Ombudsman Annual Review Letter	To share the Annual Review Letter from the Local Government and Social Care Ombudsman.		Jo Kirkby
Member Development and Training	Update report on Member Development and Training undertaken and planned.	Anthony May	Keith Ford
Petitions Scheme	To review the Council's Petitions Scheme	Anthony May	Sara Allmond
6 November 2018			
External Placements of Looked After Children and Young People	Outcomes of audit (to include specific update on off-contract spend as agreed by the Committee on 14 March 2018)	Rob Disney	Rob Disney / Laurence Jones / Jon Hawketts
Update on Councillors' Divisional Fund	Six Monthly Update on the Fund.	Anthony May	Keith Ford / Sarah Ashton
12 December 2018			
Update on Councillors' Divisional Fund	Six Monthly Update		
Information Governance Improvement Programme	To report progress of the Information Governance Improvement Programme	Marjorie Toward	Caroline Agnew

