



## **Statement of Accounts**

**2015/16**

**For the year ending 31<sup>st</sup> March 2016**

# Contents

Note No	Contents	Page No
	<b>Narrative Report</b>	
1	Introduction	1
2	Financial Performance	2
3	Non-Financial Performance	9
4	Content of the Accounts	12
	<b>Statement of Auditors Opinion</b>	14
	<b>Statement of Responsibilities</b>	17
	<b>Accounting Policies</b>	18
	<b>Core Financial Statements</b>	
1	Movement in Reserves Statement	41
2	Comprehensive Income and Expenditure Statement	43
3	Balance Sheet	44
4	Cash Flow Statement	45
	<b>Notes to the Accounts</b>	
1	Accounting Standards that have been issued but not yet adopted	46
2	Assumptions about the future, other major sources of estimation uncertainty and critical judgements in applying Accounting Policies.	47
3	Material Items of Income and Expense	49
4	Material Events after the Balance Sheet Date	49
5	Adjustments between Accounting Basis and Funding Basis under Regulations	50
6	Transfers to/from Earmarked Reserves	56
7	Trading Operations	58
8	Agency Services	58
9	Councillors' Allowances	58
10	External Audit Costs	59
11	Road Charging Schemes under the Transport Act 2000	59
12	Pooled Budgets	60
13	Officers Remuneration	62
14	Dedicated Schools Grants	63
15	Grant Income	64
16	Property, Plant and Equipment	65
	~ Depreciation	67
	~ Capital Commitments	67
	~ Valuation of Non-Current Assets	68
	~ Revaluation of Assets	69
	~ Foundation School Asset Values	70
	~ Effects of Changes in Estimates	70
	~ Material Impairment Losses	70
17	Investment Properties	70
18	Capital Expenditure and Capital Financing	71
19	Debtors	72
20	Creditors	73
21	Borrowing Repayable	73
22	Provisions	74

## Contents

23	Contingent Gains and Losses	75
24	Reserves	76
	~ Capital Adjustment Account	76
	~ Revaluation Reserve	78
	~ Pension Reserve	78
	~ Collection Fund Adjustment Account	79
25	Cash and Cash Equivalents	79
26	Net Cash Flow from Operating Activities	80
27	Amounts Reported for Resource Allocation Decisions	80
28	Financial Instruments	86
29	Leases	94
30	Related Party Transactions	95
31	Group Accounts	96
32	Trust Funds	97
33	Retirement Benefits	98
34	Pension Schemes Accounted for as Defined Contribution Schemes	102
	<b>Supplementary Financial Statements:</b>	
	<i>Housing Revenue Account</i>	
1	Housing Revenue Account Income and Expenditure Statement	103
2	Movement on the Housing Revenue Account Statement	104
3	Analysis of the adjustment between accounting basis and funding basis under regulation	104
4	Transfer to/from Earmarked Reserves	105
5	Housing Stock	105
6	Asset Values	106
7	Major Repairs Reserve	106
8	Capital Expenditure	107
9	Capital Receipts	107
10	Depreciation	108
11	Impairment	108
12	Pension Reserve	108
13	Rent Arrears	109
14	Subsidy Limitation Transfer to the General Fund	109
	<i>Collection Fund:</i>	
15	Collection Fund	109
16	Rateable Value	110
17	Write Offs	111
18	Tax Base	111
19	Collection Fund Balance Apportionment	111
20	Precepts and Demands on the Collection Fund	112
	<b>Group Accounts</b>	
	Introduction	114
	Group Movement in Reserves Statement	116
	Group Comprehensive Income and Expenditure Statement	118
	Group Balance Sheet	119
	Group Cash Flow Statement	120
	<b>Notes to the Group Accounts</b>	
1	Accounting Policies	121

## Contents

---

2	Summary of Subsidiaries transactions included in the Group Balance Sheet	121
3	Investment Properties	122
4	Debtors	122
5	Creditors	123
6	Provisions	123
7	Reserves	123
8	Net Cashflow from Operating Activities	125
	<b>Glossary</b>	126

# Narrative Report

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## 1. INTRODUCTION

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This document presents the statutory financial statements for Milton Keynes Council (the council) for the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 and presents an overall true and fair view of the financial position of the council.

The accounts are presented in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) in the format recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report will also provide information on the council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year in line with regulation 8(2) of the Accounts and Audit Regulations 2015.

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Milton Keynes Council operated through 2015/16 in line with the priorities set out in the 2012/2016 Corporate Plan. The Corporate Plan sets out a vision and desired outcomes for Milton Keynes, together with a series of priority actions to provide a shared framework for both the council and its partner organisations.

Milton Keynes has grown from a collection of small towns and villages into a significant sub-regional centre in less than 40 years. Outside the 'city', the surrounding rural area has attractive countryside with a range of villages and small towns, which provide contrast to the urban area.

Urban Milton Keynes has been built with future growth in mind and is regarded as the largest and most successful British New Town. It has a distinctive grid system and extensive green public space. It is a place fuelled by change and strong aspirations. Nothing has ever stood still in Milton Keynes; this is what makes us different. The ability to create our own future and manage change allows us to pursue new strategies and respond to the needs of investors and changing economic and social circumstances faster than older, more established cities in the UK and Europe. We have a strong track record of planning and delivery; we can do, have done and will do.

The key themes detailed in the Corporate Plan are:

**World Class MK** – we aim to increase the international and national standing of Milton Keynes by building on our strengths and unique qualities so that businesses and people are attracted to live and work here as well as stay.

**Living in MK** – our aim is that all those living in Milton Keynes should enjoy happy and fulfilled lives, and be safe from harm and neglect and achieve their full potential. We aim to have strong communities with a sense of pride and to strive to meet the ambitions and needs of local citizens.

**Working in MK** – we aim to bring people, jobs and industries to Milton Keynes to improve the strength and resilience of the local economy. We also aim to improve the skills and opportunities of all people in Milton Keynes and help them into work.

# Narrative Report

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**Visiting MK** – we aim to make Milton Keynes a premier visitor destination with a safe and effective transport system which is accessible regionally, nationally and internationally.

**Cleaner, Greener, Safer and Healthier MK** – we aim to improve health and well-being, reduce health inequalities and work with partners to reduce crime and disorder to improve the quality of life in Milton Keynes. We will also aim to improve the range and quality of housing and embrace the open green spaces.

These priorities need to be achieved against a background of tough economic conditions, mainly due to increases in demographic pressures and continued, significant reductions in local government funding, which has resulted in the council needing to identify £21,000,000 of savings in 2015/16, with a further savings requirement of £63,000,000 between the years 2016/17 and 2019/20.

## 2. Financial Performance

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### a) Service Expenditure – General Fund

The service expenditure comprises the day-to-day service running expenses and general income of the council and includes expenses such as salaries, heating, lighting, rent, rates, stationery and depreciation, plus income relating to the services provided.

The council has a net budget of £185,940,000 at the end of the 31<sup>st</sup> March 2016. This is shown against a spend of £188,537,000 and additional one-off funding of (£100,000) giving an overall overspend of £2,497,000 or 1.3% of the net council budget.

This overspend is largely caused by the increased demand for children's social care and homelessness. These have been partially reduced by one-off funding and management actions through the year. The exceptional increases in demand are a concern for the medium term financial position of the council. Work is continuing in these areas and a number of others, to manage demand as far as possible and to reduce the costs of services.

The budget for 2016/17 considered the majority of the issues and outstanding risks in the 2015/16 outturn, at present the 2016/17 budget, along with the risk reserve is adequate, but this will be monitored through the coming financial year.

# Narrative Report

	Revised Budget £'000	Outturn £'000	(Under)/Overspends £'000	%
Adult Social Care and Health	60,295	60,354	59	0.1%
Children Services	50,666	52,350	1,684	3.3%
Public Health	10,254	10,254	0	0.0%
<b>Total People</b>	<b>121,215</b>	<b>122,958</b>	<b>1,743</b>	<b>1.4%</b>
Housing and Community	952	1,959	1,007	105.8%
Planning	1,798	1,768	(30)	(0.4%)
Public Realm	38,039	37,903	(136)	(0.4%)
Community Facilities	7,196	7,352	156	2.2%
<b>Total Place</b>	<b>47,985</b>	<b>48,982</b>	<b>997</b>	<b>2.1%</b>
<b>Total Resources</b>	<b>6,369</b>	<b>6,685</b>	<b>316</b>	<b>5.0%</b>
<b>Total Corporate Core</b>	<b>890</b>	<b>1,072</b>	<b>182</b>	<b>20.4%</b>
<b>Net Operating Expenditure</b>	<b>176,459</b>	<b>179,697</b>	<b>3,238</b>	
Debt Financing	18,313	17,488	(825)	(4.5%)
Sustainability Items, levies and one off pressures	7,424	7,608	184	2.5%
Asset Rentals	(16,256)	(16,256)	0	0.0%
<b>Outturn position</b>	<b>185,940</b>	<b>188,537</b>	<b>2,597</b>	
<b>Resources:</b>				
Revenue Support Grant and rolled in grants	(36,959)	(36,959)	0	0.0%
Retained Business Rates	(45,296)	(45,185)	111	(0.2%)
Council Tax (incl Council Tax Freeze Grant)	(90,450)	(90,450)	0	0.0%
Public Health Grant	(10,194)	(10,225)	(31)	0.3%
Central Education Grant	(3,041)	(3,221)	(180)	5.9%
<b>Total Resources available</b>	<b>(185,940)</b>	<b>(186,040)</b>	<b>(100)</b>	
<b>(Additional)/Reduction in General Fund</b>	<b>0</b>	<b>2,497</b>	<b>2,497</b>	
<b>General Fund Balance as at 31st March 2015</b>			<b>(8,877)</b>	
Overspend in 2015/16			2,497	
Reinstatement of one-off pressures (approved by Council on 17th February 2016 OP14 & OP32)			189	
Drawdown from Risk Reserves (approved as part of 2015/16 budget process)			(809)	
<b>General Fund Balance at 31<sup>st</sup> March 2016</b>			<b>(7,000)</b>	

## b) Service expenditure - Debt Financing

There is an underspend of (£825,000) on debt financing due to better investment returns and lower debt costs as well as reducing borrowing costs. There is also a reduction of £3,600,000 due to a change in Minimum Revenue Provision (MRP) calculation for the repayment of pre-April 2008 historic debt liability from 2% reducing balance to 4% straight-line basis, which was approved in October 2015. This benefit has been committed to the one-off pressures reserve to fund pressures in the 2016/17 Budget.

## c) Service Expenditure – Savings

The 2015/16 Council Budget included £21,186,000 of savings and £1,531,000 of saving brought forward from 2014/15, which were also to be delivered. The council has achieved 84% (£19,130,000) of its budgeted savings. The remaining 16% (£3,587,000) of savings will either be achieved in future years or mitigated within the service areas (only £903,000 of savings, less than 4%, is undeliverable). The main saving which was undeliverable was the £400,000 from reducing the demand for Bed and Breakfast. However, the demand for

# Narrative Report

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this service has increased and supply of council housing has fallen. Overall, the outturn shows a strong position in terms of delivery, but the major issue is the growth in demand for services.

## **d) Service Expenditure – Housing Revenue Account**

The Housing Revenue Account is reporting a surplus of (£911,000) at the end of March 2016. This is, largely owing to an underspend in repairs and maintenance and following a contribution to reserves. The resulting balance at the end of March 2016 is £5,480,000 which exceeds the Prudent Minimum HRA level of £4,500,000.

There are a number of future risks relating to the HRA including;

- The continuing reduction in social housing rents in England by 1% a year for a further three years. There will be a very significant negative impact on the HRA Business Plan and resources for regeneration – a potential loss of £2,000,000 per year, cumulative. This will materially reduce the council's ability to invest in regeneration and new council housing. There is little scope to mitigate this loss.
- The continuing roll-out of Universal Credit is likely to lead to increased rent arrears and bad debts but the impact is expected to increase in stages from 2016/17 through to the final transition in 2019/20. The risk is mitigated by phased increases in provisions for bad debt.

## **e) Service expenditure – Capital**

The 2015/16 outturn on the capital programme was £105,095,000 compared to £72,541,000 in 2014/15. The main area of expenditure was £64,672,000 within People Services where the most significant projects were a new secondary school in the Eastern Expansion Area, £18,503,000, and 5 new Primary schools, totalling £21,554,000 these were all to meet increased pupil demand. There is a further commitment of £17,195,000 to complete these projects in the financial year 2016/17.

Other expenditure in year was investment in Housing of £10,000,000 with a commitment of £4,500,000 for temporary accommodation for the homeless, investment in Highways Infrastructure of £13,347,000 and £7,751,000 for the completion of the A421 pinch point project improving access from the M1 Junction 13.

The programme has been funded from various sources, the major elements being Government Grants £52,858,000, Third party contributions £32,121,000 and Major Repairs Reserve £15,540,000.

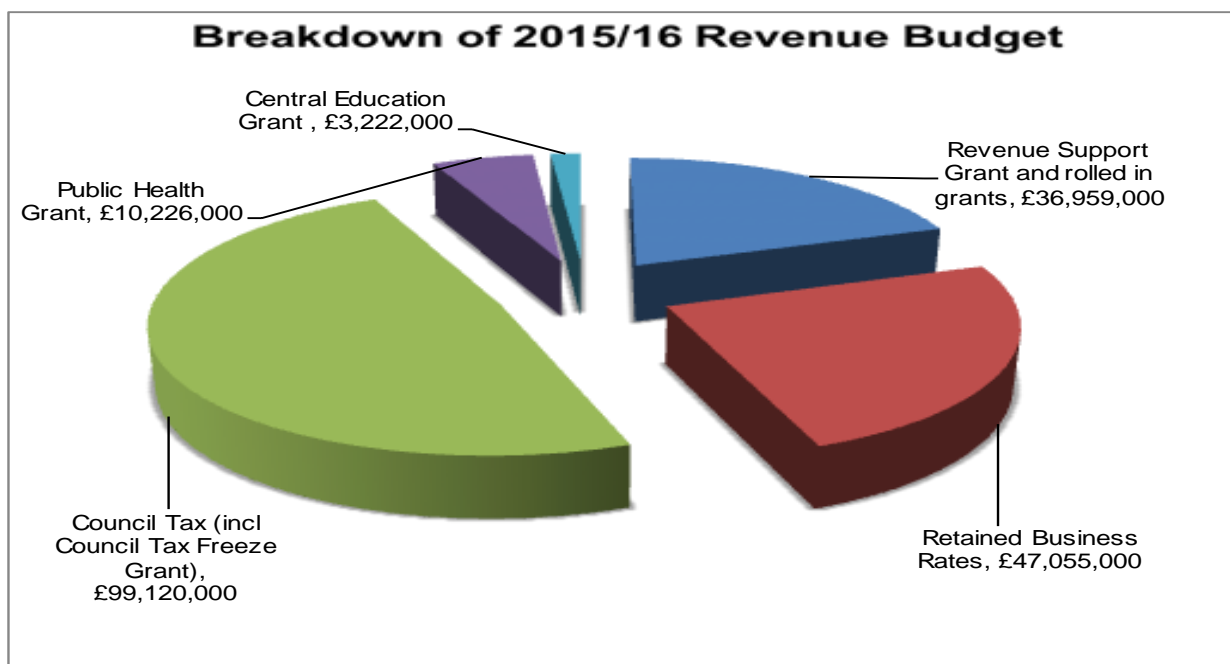
There were no major disposals made during the year

## **f) Income from Grants, Local Tax Payers and other sources**

Following table demonstrates how the budget requirement has been financed.



# Narrative Report



In addition, some services receive specific grants, which are included in their separate budgets. There are conditions attached to many specific grants, which set out how, when and on what service or activity the grant may be spent.

A list of the grants received by the council in 2015/16 can be found at note 15 to the Financial Statements.

## **g) Pension Liability**

The council's financial statements in accordance with the proper accounting practice show a net pension liability at 31<sup>st</sup> March 2016 of (£326,401,000) which is a decrease of (£10,240,000) since 31<sup>st</sup> March 2015. This is due to a change in financial assumptions, including an increase in RPI and CPI and the transfer of staff from MKSP LLP to the council. At the 30<sup>th</sup> November 2016, the staff transferred from Milton Keynes Council's subsidiary MKSP LLP to the council. A cessation report was completed for MKSP LLP and the pension liability transferred back to the council along with the staff at that point.

In practice, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be funded through reassessment of employer's contributions as a result of the three-yearly fund valuations by the actuary. This is done in accordance with the appropriate International Financial Reporting Standard (IAS 19).

Full details of the Local Government Pension Scheme can be found in note 33 to the Financial Statements.

## **h) Borrowing Facilities**

During 2015/16, three existing long term loans (£11,150,000) were repaid upon maturity along with principal repayments on annuity loans (£2,383,000), all to the Public Works Loan Board.

# Narrative Report

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In January 2013 the council completed the transfer of planning powers and Milton Keynes Tariff from the Homes and Community Agency. As part of the forward funding arrangements set out in the Tariff Business Plan, the Homes and Community Agency provided cash flow loans to the council without interest or fees. The Financial Instruments Adjustment Account holds the difference between cash received and fair value at inception, with annual adjustments made over the life of the loans to reinstate the cash sum held on the balance sheet by the time of maturity.

At the end of the financial year the council had outstanding borrowing totalling £495,492,000; in respect of the funding of capital projects of £488,211,000 (including accrued interest of £2,338,000) and £7,281,000 other loans mentioned above. Further details of the composition of this sum can be found in the note 21 to the Financial Statements.

It was not necessary during the year for the council to borrow temporary funds for cash flow purposes. Consequently, there were no temporary loans outstanding at 31<sup>st</sup> March 2016.

At the 31<sup>st</sup> March 2016, the council held £262,373,000 invested with various financial institutions (including accrued interest of £896,000); of this amount £13,701,000 has been classified as cash equivalents (including £31,000 of accrued interest previously stated) in accordance with Accounting Policy note 6.

## **i) Borrowing and Investments**

During 2015/16, there were no new loans to fund expenditure on capital projects.

Two major capital investments funded through prudential borrowing are detailed in the medium-term financial strategy as follows:

- A new Residual Waste Treatment Facility (2016/17)
- An investment programme for Highways Infrastructure (phased over five years)

The timing of external borrowing is a treasury management decision dependent on cash-flow analysis and market conditions, and loans are not directly associated with any particular items of expenditure (in line with legislation). In July 2014, the council undertook additional long-term borrowing of £95,000,000 from the Public Works Loan Board (PWLb) to protect against the major risk of interest rate rises on such a significant impending borrowing requirement. The additional cash resources continue to be invested in line with the council's approved Treasury Management Strategy until required to meet the expenditure demands.

## **j) Adequacy of Reserves**

A general risk assessment carried out alongside the development of the budget, showed that the minimum prudent level of reserves remains at £7,000,000.

However, due to the 2015/16 overspend position, the significant risks identified in the Budget Risk Register, and risks in the timing and delivery of a number of 2016/17 savings

# Narrative Report

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proposals there is a need to also earmark £3,000,000 of resources in a Budget Risk Reserve which form part of the one-off Expenditure Reserve above this minimum prudent level.

The council holds other earmarked reserves to address specific risks. The total General Fund and HRA other earmarked reserves (excluding capital and schools) total £81,581,000 as at 31<sup>st</sup> March 2016, details of which can be found in note 24 to the financial statements. Some of these reserves can only be used for specific purposes, but others could be called upon if necessary and so provide additional flexibility (for example the demand led reserves for children's and adult services). The earmarked reserves will be used for highway improvements, the residual waste treatment facility and for developer contributions.

## **k) Significant Provisions and Contingencies**

The council has one significant provision held on the Balance Sheet as at 31<sup>st</sup> March 2016:

- Appeals provision - This provision represents the council's share of the estimated costs of notified and statutory appeals for reductions to business rates values (£16,287,000).

Further details of all the provisions can be found in note 22 to the Financial Statements.

The council discloses significant contingent gains and losses in note 23 to the financial statements. The most significant disclosure relates to:

- The liability for any Tariff deficit in excess of the risk share agreement with the HCA and Department of Communities and Local Government, for the funding of local and strategic Infrastructure.

## **l) Significant Write-offs**

There was one significant write-off, approved in the December 2015 Cabinet Report, for £135,000. This relates to the council's costs of decontaminating a piece of land in North Crawley in 2002. Under the statutory process by which the decontamination took place, (s.80 of EPA 1990) the costs were meant to have been secured by a charge on the land but the council's ability to put the charge in place and/or enforce payment of the costs is hampered: in law, by a longstanding appeal against the notice which originally sought to impose the charge. A settlement has now been agreed for an amount of (£40,000).

## **m) New and Amended Accounting Standards**

The council has adopted the following standards within the 2015/16 Statement of Accounts, where relevant:

- IFRS 13 - Fair Value Measurement – This has not had a material impact on the value of Investment Properties and Financial Instruments however the disclosure requirements have been changed and this is reflected in Notes 17 and 28 respectively
- IFRIC 21 - Levies
- IFRS 3 - Business Combination

## Narrative Report

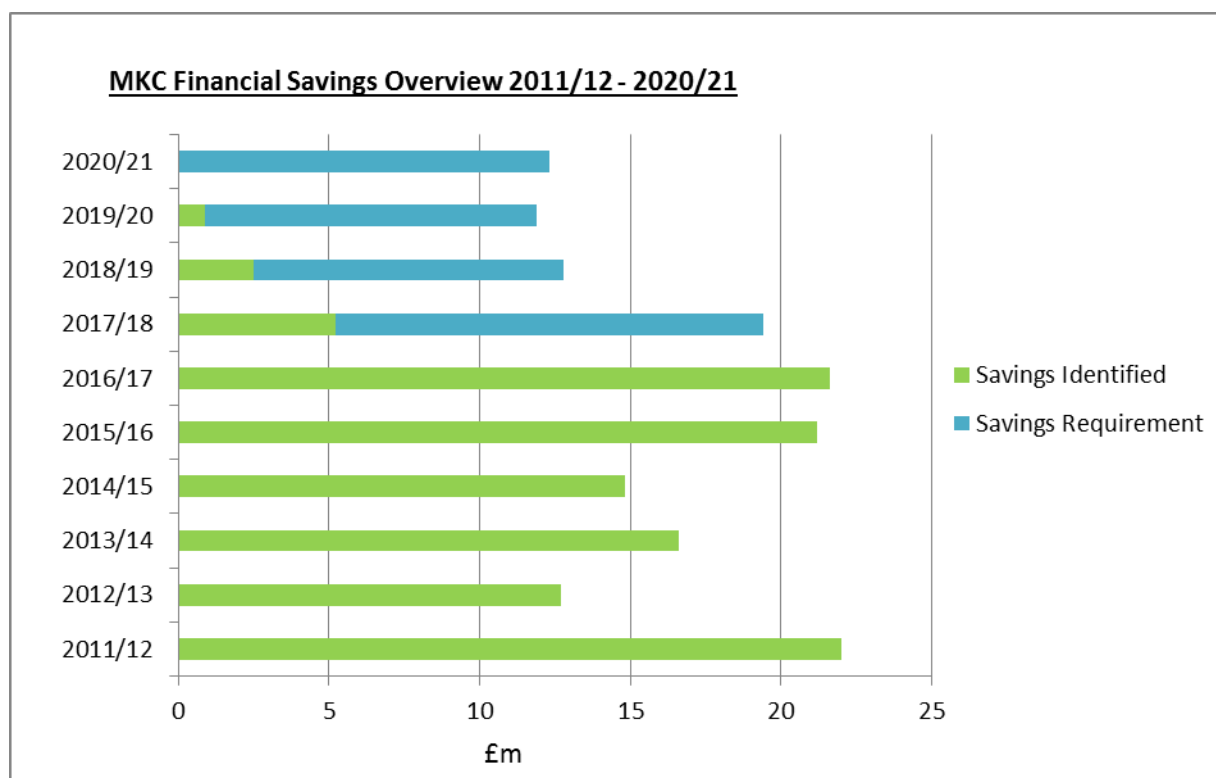
- IAS 40 – Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property.

There have been no material impacts on the accounts for this year as a result of the adoption of these standards.

### n) Impact of the Current Economic Climate

The UK continues to face a prolonged period of austerity. The Chancellor's Autumn Statement announced that policing, health, international aid and defence budgets would be protected from further funding reductions. This means the remaining unprotected public services, including local government, will continue to receive significant funding reductions. By 2020, unprotected Government departments will have their funding reduced by a total of £20bn.

The chart below shows the saving levels required to counter the impact of reductions in government funding and increased demand pressures for the last few years and also provisionally going forward.



### o) Key Financial Risks

Given the reductions in government grant levels, the growing demand pressures and the scale of savings required, the council's budget will inevitably contain a degree of risk. The key risks include:

- **Achievability of Budget Savings** – the council has a good track record of successfully delivering significant savings including the delivery of £19,130,000 of

# Narrative Report

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£22,717,000 savings in 2015/16. Further budget reductions are required in the Medium Term Financial Strategy (£63,000,000 over the next 4 years).

- **Demand Led Budgets** – Milton Keynes has an ageing population and an increasing birth rate. This has resulted in demand pressures in adult and children's social care services in 2015/16. In addition there has also been a significant increase in the demand for temporary accommodation. Although best efforts have been made to accurately forecast budget requirements, there will always be a degree of uncertainty to future demand. Demand led reserves have been retained to support these high risk areas.
- **Future Uncertainties** – there are number of uncertainties that may impact upon the council's financial position post 2016. These include the loss of New Homes Bonus, the impact of business rate appeals and changes to business rate retention, and the impact of the increases in the National Living Wage.

## 3. Non-Financial Performance

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### a) Corporate Risks

Milton Keynes Council has the following Corporate Risks which are aligned with the Corporate Plan priorities:

- **Medium Term Financial Challenge** – Risk is the reductions in Central Government funding combined with an increased demand on services. This is mitigated by Budget Monitoring, Development and Accountability for delivery.
- **Organisational Capacity** – Risk is a lack of clarity on the long term vision and role of the council. This is controlled by focusing on what future services will look like and the staff needed to provide that service.
- **Planning for Cohesive Growth** – Risk of piecemeal growth and poor returns on investment (time or cash). There is a coherent vision/strategy in place: The Plan MK process was voted for on 7th May 2015.
- **Protecting and Caring for Vulnerable People** – Failure to safeguard Adult/Children's Social Care. This is mitigated by development of new & innovative models of service delivery, a sustained culture of openness & transparency and effective performance reporting and management information.

All risks are monitored and the Audit Committee receive updates on risks and their management actions on a quarterly basis.

### b) People

Following a review commissioned by the council during 2015, it was determined that the Milton Keynes Service Partnership (MKSP) LLP would be dissolved and that all partnership activity would transfer back to the council with effect from 31<sup>st</sup> December 2015. On this date 764.54 FTE (855 headcount) TUPE transferred back to the Resources and Housing departments of the council, allowing all non-private sector trading activity to be directly managed by the council itself. All trading with the public sector is now undertaken by the council. Trading with private sector organisations is undertaken through MK Business Excel (MKBE) Ltd which is the new name for MKSP Direct Ltd. The ownership of MKBE also transferred to the council from MKSP LLP.

# Narrative Report

Following this transfer, Milton Keynes Council has a total establishment of 2,752.71 (FTE). The table on the following page shows the FTE by service area:

Service Group	Mar 16 FTE
Adult Social Care and Health	701.43
Children and Families: Education, Effectiveness and Participation	245.00
Children and Families: Integrated Support and Social Care	484.24
Corporate Core	47.83
Corporate Director	9.00
Housing and Community	211.42
Public Realm	270.31
Planning & Strategic Transport	86.21
Resources: Finance & HR	665.68
Public Health	31.60
<b>TOTAL Milton Keynes Council</b>	<b>2,752.72</b>

## c) Local Government Shared Services

In line with the council's financial strategy, which looks for difference approaches to deliver cost reduction and efficiency, the decision was made to join the Local Government Shared Services (LGSS) shared service partnership from the 1<sup>st</sup> April 2016. LGSS is a public sector shared services venture wholly owned by Cambridgeshire and Northamptonshire county councils. Milton Keynes has joined as a full Joint Committee partner. This means that Milton Keynes has appointed three councillors to represent the council on the Joint Committee and the chief executive officer will join the other chief executive officers to advise the Joint Committee.

The services included in the LGSS arrangement are:

- Human Resources
- Finance
- ICT including delivering a new ERP system across all the partners
- Revenues and Benefits
- Insurance
- Internal Audit, Risk Management and Fraud
- Democratic Services

The benefits are:

- Delivery of base budget savings of £3,145,000 from all services excluding Revenues and Benefits, and £1,300,000 from Revenues and Benefits over the next four years. These benefits will be shared between Milton Keynes Council and LGSS.
- The services included will reduce costs by 7% per year which will offset costs of pay inflation.

# Narrative Report

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- Maintaining specialist roles – greater capacity to retain specialist roles which is becoming increasingly difficult.
- Resilience and flexibility in service delivery - a shared service operation will create resilience, which reduces the risk of loss of key individuals.
- Sharing Best Practice – opportunity to learn and improve from the other organisations.

## d) Accomplishments in 2015/16

- **CMK Neighbourhood Plan** - In the May 2015 elections there was an overwhelming 'Yes' vote for the Central Milton Keynes (CMK) Neighbourhood Plan from both citizens and businesses. This pioneering plan will guide new development, public transport and parking in central Milton Keynes and aims to make CMK more relevant to today's needs while respecting its unique design.
- **Rugby World Cup - *Being*** part of RWC 2015 has put Milton Keynes on the map internationally. Stadium MK's attendance record was broken three times, more than 36,000 people attended the Fanzone in Campbell Park and 12,000 saw the world class spectacle Clash of Drums. Transport planning went extremely well, and over 50,000 trips were taken on the shuttle buses. Milton Keynes Council's contribution to the programme of events was around £700,000 – and experts estimate that Milton Keynes' overall economic benefit could exceed £50,000,000.
- **Milton Keynes Waste Recovery Park** - Creation of the Park is on schedule. The tallest section of the Park was installed in June 2015, A 55 meter high, 47 tonne steel stack that will help turn waste into gas, which in turn will generate renewable electricity. State-of-the-art technologies will cut the amount of Milton Keynes waste sent to landfill by 95%. The Park will be fully operational in September 2016.
- **Living wage** - Milton Keynes Council has been officially accredited as a Living Wage Employer, having paid the Living Wage or above to colleagues and employees of contractors who fit the criteria from April 2015.

## e) Looking forward

- **Regeneration MK** - This is a significant council programme to provide priority neighbourhoods with improved housing and public space, and empower communities through increased skills and access to employment. In December, after a thorough process, Cabinet selected Mears Group plc to be the council's partner in this long term venture. The partnership called Your MK, will be engaging communities in proposals for regeneration so everyone can feel involved. More immediately, Mears took on the repairs and maintenance of all 11,289 council homes from 1<sup>st</sup> April 2016.
- **MK Futures 2050 Commission** - Milton Keynes Council initiated a group of independent experts chaired by Sir Peter Gregson; Vice Chancellor at Cranfield University to explore what could make Milton Keynes greater in the future. The group members are drawn from a variety of backgrounds, with either strong local connections or as specialists in key topics that can give a wide range of knowledge and viewpoints to feed into the debate. The Commission has already started work to engage stakeholders in a series of meetings, workshops and events.
- **European Capital of Culture** - In July 2015 councillors unanimously agreed to initiate a process to take forward a bid for Milton Keynes to secure shortlisting to

# Narrative Report

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become European Capital of Culture 2023. There will only be five opportunities this century for a UK city to bid. Former 'capitals' have used arts as a driver for change across many areas, from regeneration to economic development.

## f) Better Care Fund

In 2015/16 a single pooled budget known as the Better Care Fund (BCF) was created by Milton Keynes Council (MKC) in partnership with Milton Keynes Clinical Commissioning Group (MKCCG). The fund is comprised of revenue and capital. The purpose of the BCF is to improve the lives of some of the most vulnerable people in our society, placing them at the center of their care and support, and providing them with 'wraparound' fully integrated health and social care, resulting in an improved experience and better quality of life. In 2015/16 the fund received £14.45 million to spend across various Adult Social Care and Health projects which were evaluated and monitored by the partners throughout the year to ensure their desired objectives were achieved and to agree the reallocation of funds if required.

## 4. Content of the Accounts

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The financial performance for 2015/16 for the activities undertaken by the council is set out in the Financial Statements as reported in the Statement of Accounts. The Statement of Accounts contains the following:

### a. Accounting Policies

- Details the legislation and principles against which the Statement of Accounts has been prepared.

### b. Financial Statements

- The Movement in Reserves Statement, incorporating the movement in year on the reserves held by the council;
- The council's Comprehensive Income and Expenditure Statement which summarises resources which have been applied and generated in providing services and managing the council during the last year;
- The Balance Sheet which sets out the assets and liabilities recognised by the council as at 31<sup>st</sup> March 2016, and;
- The Cash Flow Statement, which summarises the changes in cash and cash equivalents of the council during the reporting period.

### c. Notes to the Financial Statements

The notes to support the financial statements have three main purposes:

- To present information about the basis of preparation of the financial statements and the specific accounting policies used;



## Narrative Report

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- To disclose the information required by the International Financial Reporting Standards Code of Practice that is not presented elsewhere in the financial statements, and;
- To provide information that is not presented elsewhere in the financial statements, but is relevant.

### **d. Supplementary Financial Statements**

The Housing Revenue Account Income and Expenditure Statement and Movement on the Housing Revenue Account Statement shows the economic costs in the year of providing housing services in accordance with generally accepted accounting practices. The transactions of the billing authority are shown on the Collection Fund Statement in accordance with the code of accounting practice.

### **e. Group Accounts**

The financial statements and notes to support the activity of the two council-owned Limited Liability Partnerships are incorporated into the single entity accounts of the council.

# Statement of Auditors Opinion

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILTON KEYNES COUNCIL

### Opinion on the Authority's financial statements

We have audited the financial statements of Milton Keynes Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Authority and Group Statements of Accounting Policies, the related notes 1 to 34 of the Authority financial statements and the related notes 1 to 8 of the Group financial statements,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Milton Keynes Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 17, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and the overall presentation of the financial statements. In addition, we read all the financial

# Statement of Auditors Opinion

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and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Milton Keynes Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

### **Authority's responsibilities**

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.

### **Auditor's responsibilities**

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. The Code of Audit Practice issued by

## Statement of Auditors Opinion

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the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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.

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

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 2015, as to whether the Milton Keynes 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 Milton Keynes Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Milton Keynes Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are satisfied that, in all significant respects, Milton Keynes Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

### **Delay in certification of completion of the audit**

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.

**Maria Grindley (senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Appointed Auditor**  
**Reading**  
*Date 28<sup>th</sup> September 2016*

# Statement of Responsibilities

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## THE COUNCIL'S RESPONSIBILITIES

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The council is required:

- a) to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Chief Finance Officer;
- b) to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- c) to approve a Statement of Accounts.



Chair of the Audit Committee  
Date: 28th September 2016

## THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER

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The Chief Finance Officer is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Chief Finance Officer has:

- a) selected suitable accounting policies and then applied them consistently;
- b) made judgements and estimates that were reasonable and prudent;
- c) complied with the Local Authority Code.

The Chief Finance Officer has also:

- a) kept proper accounting records which are up to date;
- b) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts provides a true and fair view of the council's financial position of the authority at the reporting date, and of its income and expenditure for the year ended 31<sup>st</sup> March 2016.



pp Corporate Director – Resources  
Date: 28<sup>th</sup> September 2016

# Accounting Policies

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## 1. GENERAL PRINCIPLES

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The Statement of Accounts summarises the council's transactions for the 2015/16 financial year and its position at the year-end of 31<sup>st</sup> March 2016. The authority is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 which require the Accounts 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 2015/16 and the Service Reporting Code of Practice (SeRCOP) 2015/16 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21 of the 2003 Act.

The accounting policies have been applied consistently in dealing with items considered material to present a true and fair view of the financial position and transactions of the council.

Milton Keynes Council does not have transactions which will be subsequently reclassified to the surplus/deficit on the Provision of Services and so the Comprehensive Income and Expenditure statement is not grouped in to those transactions which can be reclassified and those that cannot.

## 2. ACCRUALS OF INCOME AND EXPENDITURE

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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;
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet;
- Interest payable on borrowings and receivable on investments is accounted for 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 income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected;

## Accounting Policies

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- Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year;
- Annual leave and flexi-time that has not been taken at 31<sup>st</sup> March is accrued and full details can be found in Accounting Policy note 8 – Employee Benefits.

### 3. FAIR VALUE MEASUREMENT

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The council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value 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 council 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 council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council 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 that the authority can access at the measurement date.
- 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.

### 4. ACQUIRED AND DISCONTINUED OPERATIONS

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IFRS5 defines a discontinued operation as a component of an entity that either has been disposed of or is classified as held for sale, and:

- represents either a separate major line of business or a geographical area of operations, and;

## Accounting Policies

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- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or;
- is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

The surplus or deficit on discontinuing the operation is presented as a single amount on the face of the Comprehensive Income and Expenditure Statement where applicable.

In October 2015, Milton Keynes Council became responsible for the Children's Public Health Service with expenditure of around £2m. This is not considered material to disclose as a separate acquired operation on the councils Comprehensive Income and Expenditure Statement.

### 5. CAPITAL RECEIPTS

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The treatment and usage of capital receipts is accounted for in accordance with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

Milton Keynes Council has entered into an agreement in accordance with Section 11(6) of the Local Government Act 2003; this enables the council to retain additional Capital Receipts which must be used towards the provision of new affordable housing. A maximum of 30% of the expenditure incurred on new affordable housing can be funded using these receipts.

### 6. CASH AND CASH EQUIVALENTS

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Cash is represented by cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments held for cash flow purposes that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### 7. CHARGES TO REVENUE FOR THE USE OF NON-CURRENT ASSETS

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Service revenue accounts and support services 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 assets attributable to the service.



# Accounting Policies

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The charge made to the Housing Revenue Account is calculated in accordance with the Item 8 Credit and Item 8 Debit (General) Determination from April 2012 (Item 8 Determination). Depreciation is charged in line with the five-year period transitional arrangements specified in the CIPFA Code of Practice on Local Authority Accounting 2015/16.

External interest payable is charged to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.

The council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement calculated in accordance with accounting policy 11 (Minimum Revenue Provision or MRP). Depreciation, revaluation and impairment losses and amortisation are adjusted through the Capital Adjustment Account in the Movement in Reserves Statement in order that there is no impact on the level of council tax.

## 8. EMPLOYEE BENEFITS

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### Benefits Payable during Employment

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. car) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of 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 are permitted to carry forward into the next financial year. The accrual is made at the wage and salary rate 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 the holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Untaken leave is accrued on the basis of actual leave untaken at 31<sup>st</sup> March 2016 for non-school staff and a calculation of the accrued benefit for schools staff based on the number of days in each term.

Employees are also entitled to flexi-time and any accrued hours at 31<sup>st</sup> March have been reflected in the accounts on the basis of actual hours accumulated by each employee.

### 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. Benefits are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of:

## Accounting Policies

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- a) when the authority can no longer withdraw the offer of those benefit, or
- b) when the authority recognises costs of restructuring and involves the payment of termination benefits.

### Post-Employment Benefits

Employees of the council are entitled to become members of one of two separate pension schemes according to the terms of their employment:

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

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

On 1<sup>st</sup> April 2013 the statutory responsibility for Public Health activities transferred to the council from the NHS primary care trusts. There were 7 members of staff that transferred along with their pensions in the NHS pension's scheme to the council. This scheme is not available for current Milton Keynes Council staff to participate in. The pension contributions are included within the Comprehensive Income and expenditure Statement, but full disclosure is not considered to be material to include in note 33 to the Financial Statements.

### Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Buckinghamshire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees).

Liabilities are discounted to their value at current prices using a discount rate of 3.3% (0.1% real). The discount rate for pension's liabilities is calculated using the AA Corporate Bond Rate.

The assets of the Local Government Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

- Quoted Securities – Current Bid Price;
- Unquoted Securities – Professional Estimate;
- Unitised Securities – Current Bid Price;
- Property – Market Value.

## Accounting Policies

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The change in the net pension liability is analysed into the following components:

- Current Service Cost – the increase in liabilities as result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past Service Cost – the increase or decrease in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Any gain or loss on settlement – arising when an authority enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.
- 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 at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the 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 actuary has updated its assumptions – charged to the Pensions Reserve as other Comprehensive Income and Expenditure.

Administrative expenses are now accounted for within the Comprehensive Income and Expenditure Statement; previously the actuary made a deduction to the actual and expected return on assets.

Contributions paid to the Buckinghamshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities / any not accounted for as an expense.

The accounting treatment for pension's benefits is in accordance with International Financing Reporting Standard (IAS) 19. This is a complex accounting standard, but it is based on a simple principle – that the council has to account for accumulated retirement benefits earned at the Balance Sheet date, even if the actual benefits are paid out over many years into the future.

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balance to be charged with the amount payable by the council

## Accounting Policies

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

Full disclosures in respect of the Local Government Pension Scheme can be found in note 33 to the Financial Statements.

### Discretionary Benefits

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

## 9. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

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Events after the Balance Sheet date are defined as events, which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the Financial Statements are authorised for issue.

Events can be classified as adjusting or non-adjusting, with definitions as follows:

- Adjusting - An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the council is not appropriate;
- Non-Adjusting - An event which takes place after the reporting period that is indicative of a condition that arose after the end of the reporting period.

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

The council discloses details of any such events at note 4 to the Financial Statements.

## 10. EXCEPTIONAL ITEMS AND PRIOR PERIOD ADJUSTMENTS

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Exceptional items are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if such a degree of prominence is required for a fair view of the accounts. A disclosure note is provided where the authority has any exceptional items in the Accounts.

Prior period adjustments that are the result of corrections and adjustments arising from the use of estimates inherent in the accounting process are adjusted in the accounts in the

# Accounting Policies

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year that they are identified. However, prior period adjustments arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and by adjusting the opening balance of reserves for the cumulative effect. Details of any Prior Period Adjustments are fully explained as a note to the accounts where applicable.

## 11. FINANCIAL INSTRUMENTS

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### **Financial Liabilities:**

Financial liabilities are recognised on the Balance Sheet when the authority becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at 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 interest rate 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 council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and any accrued interest and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. Where a repurchase has taken place as part of the 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 and Housing Revenue Account Balance to be spread over future years. The council 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 and Housing Revenue Account Balance is managed by a transfer to or from the Movement in Reserves Statement, taken to or from the Financial Instrument Adjustment Account.

### **Soft Loan:**

A soft loan is a loan which carries a favourable rate of interest compared to market rates. The council has historic soft loans received from the Homes and Community Agency (which carry a nil interest rate) pursuant to the council taking on management of the Milton

## Accounting Policies

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Keynes Tariff. The fair value of soft loans is determined as the net present value of the future cash payments discounted using the prevailing market rate of interest at which the council could borrow for a loan with similar terms – the Public Works Loan Board (PWLB) rate is considered appropriate. Subsequent accounting requires the loan's effective interest rate to be used which is then reversed to the Financial Instruments Adjustment Account.

### **Debt Redemption:**

The council sets aside a statutory amount each year from its General Fund revenue account for debt redemption, in the form of a Minimum Revenue Provision (MRP), as required by the Local Authority (Capital Finance and Accounting) regulations.

### **Minimum Revenue Provision:**

In line with Regulations implemented under the Local Government Act 2003, supplemented by statutory guidance issued alongside the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, a duty is placed upon local authorities to make a prudent provision for debt redemption. Four primary options are set out to council's with the first two being available only for supported expenditure, and the remaining two options set out the methods for accounting for self-financed borrowing. However this does not preclude other options so long as there is a prudent provision.

From 2015/16, for capital expenditure incurred before 1<sup>st</sup> April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis (inclusive of 'Adjustment A'). This ensures that the debt will be repaid within 50 years. Previously, the council charged MRP in line with former CLG Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (Capital Financing Requirement (CFR)) each year. MRP for self-financed capital expenditure incurred in 2008/09 and beyond is calculated in accordance with option 3 under which MRP is made in equal instalments over the expected life of the asset.

The MRP calculation also provides for:

- the repayment of capitalisation directions issued by the Secretary of State in respect of expenditure incurred at Local Government Reorganisation; and
- an adjustment in respect of commuted payments made to or for the benefit of the council in 1992-1993.

The one exception to this is that where assets are purchased for confirmed future development and it is anticipated that future sale proceeds will offset the cost, the repayment of debt will be funded from future capital receipts. In such cases MRP will not be applied. This approach will be reviewed on an annual basis to ensure that anticipated sales proceeds continue to offset the cost of debt.

The council has entered into an agreement to invest in the Real Lettings Property Fund managed by Resonance UK (a Social Investment Company) to provide up to 70 property units to address the urgent need for suitable temporary accommodation in Milton Keynes. Although the council expects its investment to be returned in full with surpluses accruing from capital growth, the risk of the investment not being returned in full will be provided for

## Accounting Policies

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through setting aside a Minimum Revenue Provision over the expected life of the underlying property assets. The values of the fund and the underlying assets will be kept under review

### **Additional Debt Redemption:**

In accordance with the Local Government Act 2003, the council may also choose to further redeem its outstanding loan debt by means of:

- additional revenue contributions;
- use of capital receipts.

### **Debt Restructuring:**

The council has, on occasions when satisfactory market conditions prevail, restructured certain long term loans with the Public Works Loan Board. This results in either a premium being paid or a discount received and these are written down in accordance with current legislation - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

### **Financial Assets:**

Financial Assets are classified as:

- 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;
- Financial assets at fair value through profit or loss (assets classed as derivatives) – the council does not hold any assets of this class.

### **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 and carried at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and any accrued interest and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Where interest relates to 2015/16 which has not been paid by the 31<sup>st</sup> March 2016 this amount has been accrued and can be seen as part of the borrowing repayment on demand or within excess of 12 months.

# Accounting Policies

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## Available for sale asset:

Available for sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

The council holds investments where there are no fixed or determinable payments and therefore income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the authority. The investment relates to financial instruments with a quoted market price and therefore held in the Balance Sheet at fair value.

Changes in fair value are balanced by an entry in the Available For Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

## Impairment of Financial Assets:

Where assets are identified as being impaired because of a likelihood arising from a past event then the payment due under contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains or losses that arise on the derecognising of the asset are credited or debited to the Comprehensive Income and Expenditure Statement.

## 12. GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

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

- The authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of 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 short term or long term receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (for attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income line (for non-ring fenced 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 and Housing Revenue Account Balance in the Movement in Reserves Statement. Where the grant has yet to be used to



## Accounting Policies

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finance capital expenditure, it is posted to the Capital Grant 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.

### 13. HOUSING REVENUE ACCOUNT SELF-FINANCING

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Following the introduction of the Housing Self-Financing regime, this council adopted a single pool approach to managing external borrowing. Interest costs are apportioned between the General Fund and Housing Revenue Account in proportion to debt held by each, based upon the respective mid-year Capital Financing Requirement, at a consolidated rate of interest. This approach is in effect a continuation of the Item 8 determination calculations.

### 14. INSURANCE

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To obtain insurance cover in the most cost effective manner the council arranges its insurance with a system of internal financing of claims (a substantial policy excess applies) and external cover with a recognised insurance market. Internal funds have been maintained to cover those claims that fall below the policy excess. These funds are based on the total potential liability that could accrue up to the 31<sup>st</sup> March 2016. Some risks carry a lower policy excess and claims that fall below this amount are met from revenue as they arise.

External cover is provided by way of premiums paid to the council's insurers. The nature of risks covered by the internal arrangements and the amounts in excess of the figures detailed are covered externally and shown below:

<b>Risk</b>	<b>Maximum Cover per Claim</b>
Employers Liability	£50,000
Third Party	£50,000
Fire Damage	£50,000
Loss of School Contents	£50,000
Cash Loss	The first £100 is met by the service concerned
Loss of Computers	The first £100 is met by the service concerned.

### 15. INTEREST IN COMPANIES

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The Comprehensive Income and Expenditure Statement reflect all of the council's revenue activities. The Balance Sheet has been prepared by aggregating the account balances of all of the council's services and funds.

The council is invited to appoint Councillors too many entities of local, regional and national significance. These appointments have been examined; together with Councillors' own declarations of interest and also those of the Corporate Management Team. No

## Accounting Policies

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material reportable interests were identified. Minority interests in companies are detailed in note 30 to the Financial Statements.

Group Accounts have been prepared to reflect the council's ownership of two Limited Liability Partnerships which were incorporated during 2012/13, and can be found on page 114. Further details on this can be found in Note 31.

### 16. INVESTMENT PROPERTY

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Investment property is property (land or a building, or part of a building, or both) that is held solely to earn rentals or for capital appreciation or both.

An investment property is recognised as an asset when and only when:

- It is probable that the future economic benefits that are associated with the investment property will flow to the entity, and;
- The cost or fair value of the investment property can be measured reliably.

Investment properties are measured at cost initially. The cost of an investment property includes its purchase price, transaction costs and directly attributable expenditure. After initial recognition, investment properties are measured at fair value. The fair value of an investment property reflects market conditions at the Balance Sheet date. Investment properties are not depreciated but are revalued annually according to market conditions at the end of each year. See accounting policy note 3 on Fair Value Measurement for a more detailed explanation of the valuation techniques adopted.

### 17. LEASES

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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 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. This 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.

For Academy Schools, where finance leases have been granted at peppercorn rents, no long term debtors are created.

# Accounting Policies

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## 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 appropriate service area on a straight line basis over the life of the lease and included in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

## **18. NON DOMESTIC RATES**

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The Local Government Finance Act 2012 amended the 1988 Local Government Finance Act to give local authorities the power to retain a proportion of funds obtained from business rates in their area.

The changes under the 'Localisation of Business Rates' mean that from April 2013, local authorities retain a share of the income they collect from business rates as funding to meet the cost of service provision. Previous to this date, all business rates collected in England were paid to Central Government from the billing authorities, and a proportion was then paid back to each authority as Formula Grant.

The Department for Communities and Local Government guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline will be the authority's estimate of the business rates it forecasts to collect in the following financial year, net of any reductions such as reliefs and estimated cost of appeals.

As such, the business rates the council collected and retained need to be adjusted for the anticipated outcome of the on-going national backlog of Business Rate appeals cases, which are still currently being assessed by the Valuation Office and in some instances are up to five years old.

The provision was calculated using a combination of specific rating information and market intelligence from a commissioned industry expert and in-house local knowledge. The end to end process and assumptions used were then tested and approved by CIPFA.

In 2015/16 it was decided to account for all backdated appeals in that year, this was judged to be the accounting treatment which provided the best value for money for the council.

## **19. OVERHEADS**

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The costs of both centrally and departmentally provided overheads (i.e. management and administration costs) and support services are fully recharged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the authorities status as a multi-functional, democratic organisation.

# Accounting Policies

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- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable to Assets Held for Sale.

The basis of allocations and apportionment of Support Services are as detailed on the table below. The remaining areas were calculated on a time recording basis.

<b>Support Service</b>	<b>Apportionment basis</b>
Milton Keynes Service Partnership (MKSP)	Allocated to support services, then allocated as set out below.
Communications	20% Corporate & Democratic Core, 80% Adjusted headcount
Policy and performance	20% Corporate & Democratic Core, 80% Adjusted headcount
IT	Headcount
HR & Payroll	Headcount
Health & safety	Headcount
Customer Services	Headcount
Finance	Time allocation of finance staff
MKSP Business Support	FTEs assigned to service areas
Facilities	Headcount
Property management	Time allocation of property staff
Internal audit	Budgeted income plus expenditure
Procurement	Budgeted non-payroll expenditure
Fleet	Use of vehicle
Legal	Time allocation
Insurance	Headcount

## 20. PROPERTY, PLANT AND EQUIPMENT

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Property, Plant and Equipment (PPE) are assets that have physical substance and are held for use in the provision of services, or for administrative purposes, and are expected to be used for more than one financial year.

### **Recognition:**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides last for more than one financial year. Expenditure that secures but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

The total foundation school's assets are not included within Milton Keynes Council's Property, Plant and Equipment.

### **Measurement:**

Assets are carried in the Balance Sheet using the following measurement bases and with a guideline de-minimis level of £10,000:

## Accounting Policies

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- Infrastructure and community assets (excluding investment property) - depreciated historical cost.
- Assets under construction – historical cost.
- Council dwellings – current value is determined using the basis of existing use value for social housing.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use.
- School buildings – current value, because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other classes of asset – current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value. Assets included in the Balance Sheet at carrying amount are revalued where there have been material changes in the value, but as a minimum every five years.

### **Estimation Techniques:**

The accounting policy specifies the basis on which an item is measured. However, where there is uncertainty over the monetary amounts corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves the amount is arrived at using an estimation technique that most closely reflects the economic reality of the transaction.

### **Disposals:**

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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 as part of the gain or loss on disposal (i.e. netted off against the carrying amount of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals are categorised as capital receipts. The usable proportion of housing capital receipts is net of amounts subject to the pooling arrangements under the Local Government Act 2003. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the General Fund and Housing Revenue Account Balance in the Movement in Reserves Statement.

The net cost 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 and Housing Revenue Account Balance in the Movement in Reserves Statement.

# Accounting Policies

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## **Impairment:**

At the end of each reporting period an assessment is undertaken to determine whether there is any indication that assets may be impaired.

If any indication exists, the recoverable amount is estimated having regard to the concept of materiality in identifying whether the recoverable amount of any specific asset needs to be estimated.

All impairment losses on re-valued assets are recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset. Any excess is charged to the relevant Cost of Service in the Comprehensive Income and Expenditure Statement.

## **Impairment Losses and Revaluation Losses:**

A clear distinction is made between impairment losses and revaluation losses. Impairment losses are losses attributable to consumption of economic benefit or a fall in prices that are specific to an asset.

Revaluation losses are any related losses attributable to a general fall in prices that are not specific to an asset.

As with impairment losses, the relevant service revenue account will be charged when the balance on the Revaluation Reserve for any specific asset has been used in full against the relevant revaluation loss.

## **Depreciation:**

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is provided in accordance with the following policy on all assets (except for investment properties) where, at the time of acquisition or revaluation, a finite useful life can be determined:

- a. Newly acquired assets are depreciated from the year following acquisition. Assets in the course of construction are not depreciated until they are brought into use;
- b. Depreciation is calculated by allocating the costs (or re-valued amounts), less the estimated residual value of the relevant assets, on a straight line basis over their useful economic lives. This is deemed to be the most appropriate method given the nature of the assets held by the council;
- c. Depreciation is calculated on the opening balances. Transactions in year including additions and revaluations are not charged depreciation until the following year.
- d. The bases for calculating the lives of different classes of assets at acquisition are as follows:

## Accounting Policies

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Property, Plant & Equipment: Other Buildings, Community Assets and Surplus Assets	60 years life from the completion date.
Property, Plant & Equipment: Council Dwellings	Actual life of Right To Buy council dwelling. Shared Ownership Dwellings not depreciated
Property, Plant & Equipment: Vehicles, Plant and Equipment	Varies from 3 to 40 years according to the estimated life of each asset.
Property, Plant & Equipment: Infrastructure	40 years in respect of highways, 20 years for other assets.
Investment Properties	Not depreciated.
Assets Held for Sale	Not depreciated.
Land	Not depreciated.

- e. The useful lives of assets are reviewed regularly. Where necessary, the life of an asset is revised and the carrying amount of the asset is then depreciated over the remaining useful life;
- f. Council dwellings – for Right to Buy council dwellings depreciation is calculated on an actual life basis. No depreciation is charged on shared ownership dwellings.
- g. Revaluation gains are also depreciated. An amount equal to the difference between current value depreciation actually charged on assets and the depreciation that would have been charged based on their historical cost is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation on the Housing Revenue Account properties is charged in accordance with the five-year period transitional arrangements specified in the Item 8 Determination from April 2012. The Determination permits the council to charge the difference between a notional Major Repairs Allowance (MRA) and depreciation (where depreciation is greater than the MRA) to the Major Repairs Reserve (MRR), such that the notional MRA becomes the effective charge against the Housing Revenue Account balance. The notional MRA is intended to reflect the cost of maintaining housing stock in its current condition.

The council can use the notional MRA as a proxy for depreciation on Housing Revenue Account dwellings where the actual depreciation based on asset lives does not materially differ from the notional MRA calculated for the financial year. Other operational Housing Revenue Account assets are depreciated on a straight-line basis over the remaining expected life of the asset. The council is also assessing component based depreciation for Housing Revenue Account properties in line with the Determination five-year period transitional arrangements.

# Accounting Policies

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## Revaluation Reserve:

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation when it was created with a zero balance. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Componentisation:

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

Asset groups have been identified for property (building) assets which categorise assets with similar characteristics into relevant groups for their potential impact on depreciation calculations.

The average net book value (NBV) of each property (building) asset group has been used to set the de-minimis threshold level as illustrated on the materiality table for componentisation below:

<b>Average NBV of Asset Group</b>	<b>De-minimis Threshold for Componentisation</b>
Under £0.5m	£0.5m
Between £0.5m - £1.0m	£1.0m
Between £1.0m - £1.5m	£1.5m
Between £1.5m - £2.0m	£2.0m

The average NBV of each asset group has been compared with a materiality table to identify the relevant de-minimis level. The de-minimis level of each asset group will be reviewed annually.

Some specialist property sites have been assessed by using their individual net book values as their materiality level.

Property assets which are identified for review by the valuer are assessed in relation to three types of component with useful lives as follows:

<b>Type of Property Component</b>	<b>Component Useful Life</b>
Structure of Building	Normally 60 years
Mechanical and Electrical	25 years
Externals	Normally 60 years

A component is considered to be significant if it is more than 10% of the total cost of the property asset (building).

The componentisation policy may be altered to fit individual circumstances where the valuer deems it to be a better representation of the asset.



# Accounting Policies

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## Foundation Schools:

The value of foundation schools is not included in the Property, Plant and Equipment total in the council's Balance Sheet.

## 21. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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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 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.

### The Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in phase two, which ends on 31<sup>st</sup> March 2019. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

### 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

## Accounting Policies

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probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

### Contingent Assets

A contingent asset arises where an event has taken place that gives the 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 disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 22. RESERVES

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The council 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 and Housing Revenue Account Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account 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 and Housing Revenue Account 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 (Revaluation Reserve and Capital Adjustment Account), financial instruments, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies and note 24 to the Financial Statements.

## 23. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council 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 and Housing Revenue Account Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax. Types of expenditure in this category include improvement grants to owner-occupiers to improve the quality of the housing stock in the area.

# Accounting Policies

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## 24. VAT

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Income and expenditure excludes any amounts related to Value Added Tax (VAT), as all VAT collected is payable to Her Majesty's Revenue and Customs (HMRC) and all VAT paid is recoverable from it.

Where VAT is not recoverable, it is charged to the appropriate service within the Cost of Services in the Comprehensive Income and Expenditure Statement.

## 25. ACCOUNTING FOR SCHOOLS

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A maintained school is a school which is funded by the local education authority; these are divided into the following categories:

- Community Schools
- Foundation Schools
- Voluntary Schools
  - Voluntary Aided
  - Voluntary Controlled
- Community Special

Schools that are maintained by Milton Keynes Council are treated as follows:

- Income and Expenditure is taken through the Comprehensive Income and Expenditure Statement, and is reported against the Children and Education line within Cost of Services;
- Current assets and Liabilities are reported as part of the council's Balance Sheet;
- Reserves held by the maintained schools are included in the Net Worth on the Balance Sheet within the Local Management of School (LMS) Reserve.
- Maintained school non-current assets are reported as such on the council's Balance Sheet, however:
  - Voluntary schools are reported at nil value on the balance sheet, except for some pieces of land used as playing fields.
  - Foundation schools are reported at nil value on the balance sheet.
  - Information is reviewed from both voluntary and foundation schools on an ongoing basis to establish if assets should be recognised on the balance sheet.

Academy Schools are not included on the council's balance sheet and the Income and Expenditure is not taken through the Comprehensive Income and Expenditure Statement as they are not within the control of the council.

## 26. BETTER CARE FUND

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In 2015/16 a single pooled budget known as the Better Care Fund (BCF) was created by Milton Keynes Council (MKC) in partnership with Milton Keynes Clinical Commissioning Group (MKCCG). The fund is comprised of revenue and capital. The purpose of the BCF

## Accounting Policies

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is to improve the lives of some of the most vulnerable people in our society, placing them at the center of their care and support, and providing them with 'wraparound' fully integrated health and social care, resulting in an improved experience and better quality of life. In 2015/16 the fund received £14.45 million to spend across various Adult Social Care and Health projects which were evaluated and monitored by the partners throughout the year to ensure their desired objectives were achieved and to agree the reallocation of funds if required.

Milton Keynes Councils share of the Income and Expenditure are included within the Comprehensive Income and Expenditure Statement and the Assets & Liabilities in the Balance Sheet.

## 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 other reserves. The Surplus or (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 and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net Increase/Decrease before Transfers to or from Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the council.

2015/16	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Schools Balances Reserve £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	<b>Total Usable Reserves £'000</b>	Unusable Reserves £'000	<b>Total Authority Reserves £'000</b>
<b>Balance at 31 March 2015</b>	<b>(8,877)</b>	<b>(63,467)</b>	<b>(10,275)</b>	<b>(4,569)</b>	<b>(18,357)</b>	<b>(18,199)</b>	<b>(59,660)</b>	<b>(10,701)</b>	<b>(194,105)</b>	<b>(238,732)</b>	<b>(432,837)</b>
(Surplus) or Deficit on Provision of Services (Accounting Basis)	(56,955)	0	0	(93,457)	0	0	0	0	<b>(150,412)</b>	0	<b>(150,412)</b>
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	<b>0</b>	(67,415)	<b>(67,415)</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>(56,955)</b>	<b>0</b>	<b>0</b>	<b>(93,457)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(150,412)</b>	<b>(67,415)</b>	<b>(217,827)</b>
Adjustments between Accounting Basis & Funding Basis under Regulations (Note 5)	38,679	0	0	72,858	0	2,520	13,517	(3,282)	<b>124,292</b>	(122,330)	<b>1,962</b>
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(18,276)</b>	<b>0</b>	<b>0</b>	<b>(20,599)</b>	<b>0</b>	<b>2,520</b>	<b>13,517</b>	<b>(3,282)</b>	<b>(26,120)</b>	<b>(189,745)</b>	<b>(215,865)</b>
Transfers (to) / from Earmarked Reserves (Note 6)	20,153	(18,797)	(1,356)	19,690	(19,690)	0	0	0	<b>0</b>	0	<b>0</b>
Transfers (to) / from Other Reserves	0	0	0	0	0	0	0	0	<b>0</b>	0	<b>0</b>
<b>(Increase) / Decrease in Year</b>	<b>1,877</b>	<b>(18,797)</b>	<b>(1,356)</b>	<b>(909)</b>	<b>(19,690)</b>	<b>2,520</b>	<b>13,517</b>	<b>(3,282)</b>	<b>(26,120)</b>	<b>(189,745)</b>	<b>(215,865)</b>
<b>Balance at 31 March 2016</b>	<b>(7,000)</b>	<b>(82,264)</b>	<b>(11,631)</b>	<b>(5,478)</b>	<b>(38,047)</b>	<b>(15,679)</b>	<b>(46,143)</b>	<b>(13,983)</b>	<b>(220,225)</b>	<b>(428,477)</b>	<b>(648,702)</b>

## Movement in Reserves Statement

2014/15	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Schools Balances Reserve £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	<b>Total Usable Reserves £'000</b>	Unusable Reserves £'000	<b>Total Authority Reserves £'000</b>
<b>Balance at 31 March 2014</b>	<b>(9,853)</b>	<b>(54,574)</b>	<b>(10,150)</b>	<b>(4,641)</b>	<b>(14,289)</b>	<b>(10,549)</b>	<b>(51,699)</b>	<b>(10,715)</b>	<b>(166,470)</b>	(246,989)	<b>(413,459)</b>
(Surplus) or Deficit on Provision of Services (Accounting Basis)	(17,006)	0	0	(67,653)	0	0	0	0	<b>(84,659)</b>	0	<b>(84,659)</b>
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	<b>0</b>	63,325	<b>63,325</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>(17,006)</b>	<b>0</b>	<b>0</b>	<b>(67,653)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(84,659)</b>	<b>63,325</b>	<b>(21,334)</b>
Adjustments between Accounting Basis & Funding Basis under Regulations (Note 5)	8,964	0	0	63,657	0	(7,650)	(7,961)	14	<b>57,024</b>	(55,068)	<b>1,956</b>
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(8,042)</b>	<b>0</b>	<b>0</b>	<b>(3,996)</b>	<b>0</b>	<b>(7,650)</b>	<b>(7,961)</b>	<b>14</b>	<b>(27,635)</b>	<b>8,257</b>	<b>(19,378)</b>
Transfers (to) / from Earmarked Reserves (Note 6)	9,018	(8,893)	(125)	4,068	(4,068)	0	0	0	<b>0</b>	0	<b>0</b>
Transfers (to) / from Other Reserves	0	0	0	0	0	0	0	0	<b>0</b>	0	<b>0</b>
<b>(Increase) / Decrease in Year</b>	<b>976</b>	<b>(8,893)</b>	<b>(125)</b>	<b>72</b>	<b>(4,068)</b>	<b>(7,650)</b>	<b>(7,961)</b>	<b>14</b>	<b>(27,635)</b>	<b>8,257</b>	<b>(19,378)</b>
<b>Balance at 31 March 2015</b>	<b>(8,877)</b>	<b>(63,467)</b>	<b>(10,275)</b>	<b>(4,569)</b>	<b>(18,357)</b>	<b>(18,199)</b>	<b>(59,660)</b>	<b>(10,701)</b>	<b>(194,105)</b>	<b>(238,732)</b>	<b>(432,837)</b>

# 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. The council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 31 March 2015			31 March 2016				
Gross Exp £'000	Gross Income £'000	Net Exp £'000		Gross Exp £'000	Gross Income £'000	Net Exp £'000	Note
81,235	(22,774)	58,461	Adult Social Care	80,810	(19,750)	61,060	
10,603	(2,972)	7,631	Central Services to the Public	11,278	(3,105)	8,173	
251,082	(188,002)	63,080	Children & Education Services	278,852	(206,602)	72,250	
12,269	(1,700)	10,569	Culture & Related Services	15,939	(2,145)	13,794	
27,660	(4,577)	23,083	Environmental & Regulatory Services	26,915	(5,270)	21,645	
29,227	(17,342)	11,885	Highways and Transport Services	25,777	(18,197)	7,580	
114,350	(106,106)	8,244	Other Housing Services	117,501	(106,339)	11,162	
(18,642)	(57,238)	(75,880)	Housing Revenue Account*	(43,109)	(58,014)	(101,123)	
7,232	(12,845)	(5,613)	Planning Services	13,617	(15,484)	(1,867)	
8,550	(8,978)	(428)	Public Health	11,186	(10,373)	813	
<b>523,566</b>	<b>(422,534)</b>	<b>101,032</b>	<b>Cost of Services</b>	<b>538,766</b>	<b>(445,279)</b>	<b>93,487</b>	
			<b>Other Operating Expenditure</b>				
		5,838	Parish Precepts			5,992	
		443	Levies			446	
		756	Payment to the Government Housing Capital Receipt Pool			848	
		14,672	(Gain)/Loss on Disposal of Non-Current Assets			(1,452)	3
		<b>21,709</b>	<b>Total Other Operating Expenditure</b>			<b>5,834</b>	
			<b>Financing and Investment Income and Expenditure</b>				
		21,880	Interest Payable and Similar Charges			22,075	
		(1,363)	Interest Receivable and Similar Income			(2,769)	
		224	(Surplus)/Deficit on Trading Operations			283	7
		(8,822)	Income and Expenditure in relation to Investment Properties and Changes in their Fair Value			(37,449)	17
		10,848	Net Interest on the net defined benefit liability (asset)			10,675	33
		<b>22,767</b>	<b>Total Financing and Investment Income and Expenditure</b>			<b>(7,185)</b>	
			<b>Taxation and Non-Specific Grant Income</b>				
		(94,759)	Council Tax Income**			(99,120)	15
		(43,668)	Non-Domestic Rate Income**			(47,055)	15
		(36,837)	Capital Grants & Contributions			(56,115)	15
		(54,903)	Non-Ringfenced Government Grants			(40,258)	15
		<b>(230,167)</b>	<b>Total Taxation and Non-Specific Grant Income</b>			<b>(242,548)</b>	
		<b>(84,659)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(150,412)</b>	
		(10,321)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment			(16,728)	24b
		544	(Surplus) or deficit on revaluation of available-for-sale financial asset.			(281)	
		73,102	Remeasurements of the net benefit liability (asset)			(50,406)	33
		<b>63,325</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(67,415)</b>	
		<b>(21,334)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(217,827)</b>	

\* The Housing Revenue Account's gross expenditure includes the impairment charge on Council Dwellings on Council Dwellings. See HRA note 11 for further details.

\*\*Council Tax and NDR income for 2014/15 has been corrected for an identified misclassification on the Collection Fund Agency.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date 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 are 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 (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that 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 are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015 £'000		Note	31 March 2016 £'000
1,057,246	Property, Plant & Equipment	16	1,200,755
784	Heritage Assets		784
29,044	Investment Property	17	69,878
317	Intangible Assets		110
47,735	Long Term Investments	28	45,842
43,558	Long Term Debtors	19	41,421
<b>1,178,684</b>	<b>Long Term Assets</b>		<b>1,358,790</b>
110,362	Short Term Investments	28	202,830
1,124	Assets Held for Sale		1,125
317	Inventories and Work in Progress		244
36,589	Short Term Debtors	19	34,784
98,782	Cash and Cash Equivalents	25	8,874
<b>247,174</b>	<b>Current Assets</b>		<b>247,857</b>
(30,990)	Short Term Borrowing	21	(9,811)
(69,985)	Short Term Creditors	20	(76,780)
(10,120)	Short Term Provisions	22	(1,076)
(18,372)	Short Term Capital Grants & Contributions Receipts in Advance	15	(5,340)
(12,064)	Short Term Revenue & Contributions Receipts in Advance	15	(4,177)
<b>(141,531)</b>	<b>Current Liabilities</b>		<b>(97,184)</b>
(4,192)	Long Term Provisions	22	(16,450)
(477,977)	Long Term Borrowing	21	(485,681)
(336,641)	Liability Related to Defined Benefit Pension Scheme	33	(326,401)
(825)	Long Term Capital Grants & Contributions Receipts in Advance	15	(6,424)
(31,855)	Long Term Revenue Grants & Contributions Receipts in Advance	15	(25,805)
<b>(851,490)</b>	<b>Long Term Liabilities</b>		<b>(860,761)</b>
<b>432,837</b>	<b>Net Assets</b>		<b>648,702</b>
(194,105)	Usable Reserves	24	(220,225)
(238,732)	Unusable Reserves	24	(428,477)
<b>(432,837)</b>	<b>Total Reserves</b>		<b>(648,702)</b>



## Cashflow 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.

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
<b>84,659</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>150,412</b>
(50,676)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(122,316)
1,336	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(5,356)
<b>35,319</b>	<b>Net Cash flow from Operating Activities (Note 26)</b>	<b>22,740</b>
	<b><u>Investing Activities</u></b>	
(51,817)	Purchase of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	(88,184)
(157,718)	Purchase of short-term and long-term investments	(247,849)
(756)	Other payments for investing activities	(848)
6,377	Proceeds of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	6,073
35,000	Proceeds of short-term and long-term investments	157,904
65,505	Other receipts from investing activities	68,292
<b>(103,409)</b>	<b>Net cash flows from investing activities</b>	<b>(104,612)</b>
	<b><u>Financing Activities</u></b>	
93,842	Cash receipts of short and long-term borrowing	0
10,954	Other receipts from financing activities	4,998
(20,000)	Repayment of short and long-term borrowing	(13,533)
527	Other payments for financing activities	499
<b>85,323</b>	<b>Net cash flows from financing activities</b>	<b>(8,036)</b>
<b>17,233</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(89,908)</b>
81,549	Cash and cash equivalents at the beginning of the reporting period	98,782
<b>98,782</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 25)</b>	<b>8,874</b>

## Notes to the Accounts

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### 1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

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The Code of Practice requires authorities 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.

1. IAS 19 – Employee Benefits (Defined Benefit Plans: Employee Contributions): The amendment clarifies the requirements as to how contributions from employees that are linked to service, should be attributed to periods of service.
2. IFRS 11 – Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations): This standard outlines the accounting for the acquisition of an interest in a joint operation as defined by IFRS 3 as a business combination.
3. Highways Network Asset – There will be an accounting policy change for Highways Network Asset in 2016/17 to reflect the revised definition of Highways Network Asset and subsequent disclosure and measurement.

The issues included in the annual Improvements to IFRS 2010-12 cycle are:

4. IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation): Where any accumulated depreciation/impairment has been proportionally restated due to revaluation, the amendment sets out the requirement that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount.
5. IFRS 8 – Operating Segments: The clarification covers both the Aggregation of operating segments and the reconciliation of the total of the reportable segments' assets to the entity's assets.
6. IAS 24 – Related Party Disclosures: clarification that a management entity that provides key management services to a reporting entity is deemed to be a related party of the reporting entity.
7. IFRS 1 – Presentation of Financial Statements (Disclosure initiative) – This amendment details the changes to the order and format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and Introduces the Expenditure and Funding Analysis. This is a result of the Telling the Story review of the presentation of the local authority financial statements.

The issues included in the annual Improvements to IFRS 2012-14 cycle are:

8. IFRS 7 – Financial Instruments (Servicing contracts): This amendment clarifies whether servicing contracts continuing involvement, is required to be disclosed.

The amendments in relation to the annual improvements are effective for annual periods beginning on or after 1<sup>st</sup> July 2015.

## Notes to the Accounts

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All changes set out above are effective for accounting periods beginning on or after 1<sup>st</sup> January 2016 and therefore do not affect the disclosures for 2015/16.

### **2. ASSUMPTIONS ABOUT THE FUTURE, OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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Applying the accounting policies requires management to make judgements, estimates and assumptions about complex transactions or those involving uncertainty about future events.

#### **Critical Judgements**

The following critical judgements have been made by the council:

- 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.
- Land & Buildings are valued on a 5 year rolling programme each year as at the 1st April. A full property review was also carried out as at the 31st March 2016 in order to identify any significant movements in the asset base during the year. The effect of the valuation methodology is to ensure that any changes in the asset base are reflected correctly in the accounts. More details are disclosed in Note 16 and Accounting Policy 20 Property, Plant & equipment.
- Properties are classed as Investment Properties when they are held solely to earn rental income or for capital appreciation. The value of the properties is calculated based on the fair value of the asset on a yearly basis, i.e. the price received to sell the asset or transfer the liability.
- Maintained schools are reported on the council's Balance Sheet and the total Foundation schools' assets are reported at nil value. However, capital expenditure incurred on academies, foundation and faith schools is treated as 'revenue expenditure funded from capital under statute' through the Comprehensive Income and Expenditure Account. Details of the schools accounting treatment can be found in Accounting Policy 25 Schools.
- In 2015/16 a single pooled budget known as the Better Care Fund (BCF) was created by Milton Keynes Council (MKC) in partnership with Milton Keynes Clinical Commissioning Group (MKCCG). The fund is comprised of revenue and capital. The purpose of the BCF is to improve the lives of some of the most vulnerable people in our society, placing them at the center of their care and support, and providing them with 'wraparound' fully integrated health and social care, resulting in an improved experience and better quality of life. In 2015/16 the fund received £14.45 million to spend across various Adult Social Care and Health projects which were evaluated and monitored by the partners throughout the year to ensure their desired objectives were achieved and to agree the reallocation of funds if required. Details of the Better Care Fund Accounting treatment can be found in Accounting Policy 26.

## Notes to the Accounts

### Estimation Uncertainty

The authority is required to disclose details of all key estimations and assumptions made within the accounts that could result in an uncertainty and could have a risk of causing an adjustment to the carrying amount of assets and liabilities within the next financial year. Estimates are made in line with the council's Financial Regulations and Procedures rules as well as historical experience, current trends and other relevant factors.

The main accounting estimates in application along with the degree of associated estimation uncertainty are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Defined Benefit Pension Scheme – Pension Liability.</b>	Pensions disclosures provided within the Statement of Accounts are taken from the annual Actuary report, provided by Barnett Waddingham. Key assumptions made are on RPI, CPI and salary increases.	The value of the liability may increase/decrease if the assumptions change. The present value of the total obligation is £805,176,000. An adjustment to the long term salary assumption by +1% would result in the present value of the total obligation increasing by £1,866,000. Sensitivity to some of the key assumptions is provided in Note 33. The carrying amount of the liability is £326,401,000.
<b>Provisions</b>	The most significant provision the council has disclosed is a provision of £16,287,000 for appeals on business rates where rate payers appeal against the valuation.	Rate payers have 5 years in which to appeal. It is impracticable to quantify increase in claimants against an increase in provision as claimants are not all appealing the same value. Full details of each provision including the basis of estimation applied are provided in note 22 to the Financial Statements.
<b>Allowance for Non-Payment of Debt</b>	The council maintains an allowance for the non-payment of debts in order to ensure that there are sufficient funds available to meet the future cost of any debt that is uncollectable. The current allowance for doubtful debts is £11,731,000.	The council evaluates each debt or category of debt by considering any significant financial difficulty for the debtor, any breach of contract or default, any concessions granted by the authority based on difficulty for the debtor, the likelihood of the debtor entering bankruptcy. The value of the allowance is calculated based on a review of all debts and a judgement of the probability of collection for each. Currently all NHS debts are deemed as fully recoverable, however if half those debts were deemed to be 10% recoverable then the provision would have to increase by £765,000.
<b>Property, Plant and Equipment -</b>	Depreciation is charged on a Useful Economic	As part of the total depreciation charge, Infrastructure assets are depreciated

## Notes to the Accounts

<b>Depreciation</b>	Life basis ranging from 3-85 years depending on the asset. In 2015/16 the charge is shown as £25,979,000	over 40 years. If it was depreciated over 50 years the depreciation charge for 2015/16 would decrease to £3,877,000, currently shown as £4,875,000 in the Financial Statements. Other Property, Plant and Equipment have varying useful lives depending on the type of asset. Full details on Depreciation for each asset type can be found in Accounting Policy note 20, and non-current asset values are provided in note 16 to the Financial Statements.
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### 3. MATERIAL ITEMS OF INCOME AND EXPENSE

The net gains and losses on disposals of Non-Current Assets reflected within the 2015/16 Comprehensive Income and Expenditure Statement total (£1,452,000). The significant items are as follows:

- Council Dwellings Main Stock (£1,801,000).
- Other disposals £349,000.

### 4. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 28<sup>th</sup> June 2016. Events taking place after this date are not reflected in the Financial Statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2016, the figures in the Financial Statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Financial Statements and notes have not been adjusted for the following material event, which took place after 31<sup>st</sup> March 2016, as it provides information that is relevant to an understanding of the authorities financial position but do not relate to conditions at that date:

#### Milton Keynes Service Partnership Reserves

The Milton Keynes Service Partnership (MKSP) ceased to trade from the 31<sup>st</sup> December 2015 at which point all services transferred from the partnership to the council. MKSP has a remaining reserves balance of £2,164,000. Approval was gained from the MKSP board on the 18<sup>th</sup> May 2016 to transfer this balance to the council in 2016/17.

#### Impact of Brexit

The potential impact of Brexit has been considered and the council will continue to monitor developments on the financial markets. The current situation does not pose significant risks to the investments disclosed in the Statement of Accounts.

## Notes to the Accounts

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### 5. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

The following sets out a description of the reserves that the adjustments are made against.

#### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid, out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. The balance is not available to be applied to funding Housing Revenue Account services.

#### **Housing Revenue Account Balance**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

#### **Major Repairs Reserve**

The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on Housing Revenue Account assets or the financing of historical capital expenditure by the Housing Revenue Account. The balance shows the capital resources that have yet to be applied at the year-end.

#### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

The Capital Receipts Reserve balance is broken down as follows:



## Notes to the Accounts

2015/16	Usable Reserves					
	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>						
Charges for depreciation and impairment of non-current assets	(16,006)	(10,563)	0	0	0	26,569
Revaluation Losses on Property, Plant and Equipment	(2,453)	77,182	0	0	0	(74,729)
Movements in the market value of Investment Properties	37,375	0	0	0	0	(37,375)
Amortisation of intangible fixed assets	(301)	0	0	0	0	301
Revenue Expenditure Funded from Capital Under Statute	(500)	2	0	0	0	498
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	(7,099)	2,722	0	0	0	4,377
HRA Self Financing	0	0	850	0	0	(850)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	6,440	0	0	0	0	(6,440)
Capital expenditure charged against the General Fund and HRA balance	1,091	(8,087)	0	0	0	6,996
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	56,115	0	0	0	(56,115)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	69,632	(69,632)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,829	0	(5,829)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	992	0	0	(992)
Additional Capital Receipts received in year relating to prior year non-current asset disposals	142	0	(142)	0	0	0
Write-off of mortgages	142	0	(142)	0	0	0
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(848)	0	848	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	5	0	(1)	0	0	(4)
Reversal of Voluntary set aside from 2001/02	(135)	0	0	0	0	135



## Notes to the Accounts

2015/16	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	(2,520)	0	2,520	0	0
Use of the Major Repairs Reserve to finance new capital expenditure		15,540				(15,540)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(183)	(22)	0	0	0	205
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 33)	(54,568)	(1,874)	0	0	0	56,442
Employers pensions contributions and direct payments to pensioners payable in year	15,736	540	0	0	0	(16,276)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	(3,079)	0	0	0	0	3,079
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(844)	(62)	0	0	0	906
<b>Adjustments in respect of Local Government Reorganisation:</b>						
Voluntary additional payment of LGR Debt	1,962	0	0	0	0	0
<b>Total Adjustments</b>	<b>38,679</b>	<b>72,858</b>	<b>(3,282)</b>	<b>2,520</b>	<b>13,517</b>	<b>(122,330)</b>

## Notes to the Accounts

2014/15	Usable Reserves					
	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>						
Charges for depreciation and impairment of non-current assets	(13,920)	1,894	0	0	0	12,026
Revaluation Losses on Property, Plant and Equipment	(1,595)	38,708	0	0	0	(37,113)
Movements in the market value of Investment Properties	9,181	0	0	0	0	(9,181)
Amortisation of intangible fixed assets	(334)	(1)	0	0	0	335
Revenue Expenditure Funded from Capital Under Statute	(9,100)	0	0	0	0	9,100
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	(18,014)	(3,006)	0	0	0	21,020
HRA Self Financing	0	0	1,124	0	0	(1,124)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	10,055	42	0	0	0	(10,097)
Capital expenditure charged against the General Fund and HRA balance	818	6,742	0	0	0	(7,560)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	36,631	207	0	0	(36,838)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	28,877	(28,877)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	707	5,642	(6,349)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,512	0	0	(4,512)
Additional Capital Receipts received in year relating to prior year non-current asset disposals	20	0	(20)	0	0	0
Write-off of mortgages	0	(26)	26	0	0	0
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(756)	0	756	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(35)	0	0	35

## Notes to the Accounts

2014/15	Usable Reserves					
	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	7,650	0	(7,650)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	6,220	0	0	0	(6,220)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(62)	(17)	0	0	0	79
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 33)	(26,174)	(857)	0	0	0	27,031
Employers pensions contributions and direct payments to pensioners payable in year	14,157	464	0	0	0	(14,621)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	5,349	0	0	0	0	(5,349)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	45	(5)	0	0	0	(40)
<b>Adjustments in respect of Local Government Reorganisation:</b>						
Voluntary additional payment of LGR Debt	1,956	0	0	0	0	0
<b>Total Adjustments</b>	<b>8,964</b>	<b>63,657</b>	<b>14</b>	<b>(7,650)</b>	<b>(7,961)</b>	<b>(55,068)</b>

## Notes to the Accounts

### 6. TRANSFERS TO/ FROM EARMARKED RESERVES

The table and notes which follow set out the amounts set aside from the General Fund and Housing Revenue Account balances in Earmarked Reserves to provide financing for future expenditure plans and the amounts transferred from Earmarked Reserves to meet General Fund and Housing Revenue Account expenditure in 2015/16.

The nature and purpose of the significant reserves is as follows:

	Balance at 31 March 2014 £'000	Transfers Out 2014/15 £'000	Transfers In 2014/15 £'000	Balance at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance at 31 March 2016 £'000
Adult Social Care Demand Led Reserves	(884)	1,100	(850)	(634)	0	(1,700)	(2,334)
Budget Rollovers Reserve	(3,793)	1,890	(889)	(2,792)	870	(1,203)	(3,125)
Capital Reserve - General Fund	(489)	821	(2,135)	(1,803)	13,139	(19,164)	(7,828)
Infrastructure Reserve	0	0	(3,598)	(3,598)	0	(2,786)	(6,384)
Local Government Reorganisation Debt Reserve	(650)	0	(2,101)	(2,751)	0	(2,163)	(4,914)
New Homes Bonus Reserve	(9,203)	5,098	(9,285)	(13,390)	11,232	(10,884)	(13,042)
NDR Funding Volatility Reserve	(6,020)	5,055	(1,518)	(2,483)	87	(4,837)	(7,233)
One-Off Expenditure Reserve	(8,759)	13,640	(15,233)	(10,352)	12,886	(14,815)	(12,281)
Other Earmarked Reserves	(22,746)	10,115	(8,922)	(21,553)	10,873	(9,252)	(19,932)
Tariff & HCA Risk Reserve	(2,031)	0	(580)	(2,611)	0	(580)	(3,191)
Waste Cashflow Reserve	0	0	(1,500)	(1,500)	0	(500)	(2,000)
<b>Total General Fund Earmarked Reserves</b>	<b>(54,575)</b>	<b>37,719</b>	<b>(46,611)</b>	<b>(63,467)</b>	<b>49,087</b>	<b>(67,884)</b>	<b>(82,264)</b>
Capital Reserve - HRA	(10,682)	6,742	(8,323)	(12,263)	0	(18,641)	(30,904)
Other Earmarked Reserves	(3,607)	628	(3,115)	(6,094)	2,069	(3,118)	(7,143)
<b>Total HRA Earmarked Reserves</b>	<b>(14,289)</b>	<b>7,370</b>	<b>(11,438)</b>	<b>(18,357)</b>	<b>2,069</b>	<b>(21,759)</b>	<b>(38,047)</b>
<b>Total Schools Balances</b>	<b>(10,150)</b>	<b>3,161</b>	<b>(3,286)</b>	<b>(10,275)</b>	<b>2,490</b>	<b>(3,846)</b>	<b>(11,631)</b>
<b>Total Earmarked Reserves</b>	<b>(79,014)</b>	<b>48,250</b>	<b>(61,335)</b>	<b>(92,099)</b>	<b>53,646</b>	<b>(93,489)</b>	<b>(131,942)</b>

#### Adult Social Care

The Adult Social Care reserve was created to fund future demand led pressures across Adult Social Care.

#### Budget Rollovers Reserve

This reserve represents monies which are rolled forward and set aside to fund specific projects in future years. They are assessed each year to ensure that the funding is necessary and that the relevant project is still required.

#### Capital Reserve

The General Fund and Housing Revenue Account Capital Reserve holds contributions from the Comprehensive Income and Expenditure Statement and Housing Revenue Account to fund capital expenditure.

## Notes to the Accounts

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### **Infrastructure Reserve**

This reserve is used to manage the difference in timing between the revenue contributions available to fund the costs of prudential borrowing for Highways improvement, and the costs being incurred. This is in line with the principles in the December 2014 Cabinet decision.

### **Local Government Reorganisation Debt Reserve**

This reserve has been created to enable the council to change the financing of the payment of the Local Government Reorganisation debt. Once the reserve reaches a sufficient level, it will be used to finance the final years of the debt payment, while the ongoing budget is reduced.

### **New Homes Bonus Reserve**

This reserve was set up in 2011/12 to hold the New Homes Bonus paid to the council. Cabinet agreed this funding would be used in a strategic manner to support growth in the borough. Use of this funding is agreed as part of the budget process. The majority of this reserve and forecast future receipts have been committed to fund the first five years of debt costs for the assets belonging to Milton Keynes Development Partnership or have been earmarked to deliver the medium term capital programme.

### **NDR Funding Volatility Reserve**

Government proposals may result in the council's funding from April 2013 being based on actual Business Rate income. While a safety net will operate for losses in income above 7.5%, this still creates a significant increase in the potential volatility in this funding stream. This reserve has been created to mitigate the increased risk.

### **One-Off Expenditure Reserve**

This reserve was set up to finance one-off expenditure items in future years. This reserve will hold funding for the one-off expenditure items agreed in the budget. Surplus reserves from previous years are used to contribute to the funding available for one-off costs in the budget.

### **Tariff & HCA Risk Reserve**

This reserve was created to mitigate against the council's liability under the risk sharing agreement on the Tariff.

### **Waste Cash flow Reserve**

This reserve has been created to mitigate against the potential risks from the Residual Waste Treatment Facility.

## Notes to the Accounts

### 7. TRADING OPERATIONS

The authority has established 13 ongoing trading units where the service is required to operate in a commercial environment and balance the budget by generating income from other parts of the authority or other organisations.

2014/15 (Surplus) / Deficit		2015/16 Expenditure	2015/16 Turnover	2015/16 (Surplus)/ Deficit
£'000		£'000	£'000	£'000
(659)	Commercial Properties	661	(1,269)	(608)
46	Small Building Maintenance Work	536	(612)	(76)
0	Commercial Services	129	0	129
(34)	Emberton Park	466	(260)	206
(42)	Hospitality Catering Services	19	(19)	0
232	Schools Broadband Service	0	0	0
635	Woughton Leisure Centre	1,184	(524)	660
23	Woughton on the Green Sports Ground	273	(280)	(7)
90	Windmill Hill Golf Centre	595	(439)	156
(82)	Sponsorship- Advertising space on roundabouts	52	(235)	(183)
15	Connect MK- Broadband to Residents and Businesses	2	60	62
0	Community Learning	523	(609)	(86)
0	IT Service Desk and Technical Support	66	(32)	34
0	HR Advisory and Payroll services	59	(63)	(4)
<b>224</b>	<b>Net (Surplus)/Deficit on Trading Accounts</b>	<b>4,565</b>	<b>(4,282)</b>	<b>283</b>

### 8. AGENCY SERVICES

The council acts as an agent for the Clinical Commissioning Group in respect of the provision of nursing care to residents in care homes and the payment for that care. Expenditure of £1,596,000 (2014/15 £1,675,000) was fully recovered during the year.

The council acts as an agent for the Clinical Commissioning Group in relation to the provision of the Child and Adolescent Mental Health Services. The cost of the service is £64,000 (£78,000 in 2014/15) and will be recovered. Therefore, the net cost to the council is nil.

### 9. COUNCILLOR'S ALLOWANCES

The authority paid the following amounts to councillors of the council during 2015/16:

2014/15 £'000		2015/16 £'000
557	Basic Allowances	567
219	Other Allowances	210
5	Expenses	7
<b>781</b>	<b>TOTAL</b>	<b>784</b>

## Notes to the Accounts

Details of each Councillor's individual payments are published annually on the council's website.

### 10. EXTERNAL AUDIT COSTS

The authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the authority's external auditors:

2014/15 £'000		2015/16 £'000
233	Fees payable with regard to external audit services carried out by the appointed Auditor	177
38	Fees payable for the certification of grant claims and returns	40
<b>271</b>		<b>217</b>

### 11. ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The council was designated a Permitted and Special Parking Area from 25th March 2002, and is required under Section 55 of the Road Traffic Regulation Act 1984 and the Traffic Management Act 2004 to keep an account of income and expenditure relating to these responsibilities.

2014/15 £'000		2015/16 £'000
	<b>Expenditure</b>	
1,555	Contractors Management Fee	1,592
97	Pay and Display Installation Costs	88
51	Staffing Cost	91
208	Supplies and Services	145
425	Support Costs	466
8	Surveys and Fees	12
39	Decriminalised Costs	36
10	Signing Costs	2
9	Landscaping	0
<b>2,402</b>	<b>Total Expenditure</b>	<b>2,432</b>
	<b>Income</b>	
(800)	Excess Charge/Penalty Charge Notices	(829)
(2,246)	Business Permits	(3,139)
(16)	Suspensions	(67)
(656)	Scratch Cards	(462)
(8,153)	Pay and Display Income	(9,077)
<b>(11,871)</b>	<b>Total Income</b>	<b>(13,574)</b>
<b>(9,469)</b>	<b>Surplus achieved in year</b>	<b>(11,142)</b>
323	Transfer to Special Parking Reserve	147
(150)	Transfer from Special Parking Reserve	(176)
150	Transfer to Capital Programme	176
<b>(9,146)</b>	<b>Surplus for the year</b>	<b>(10,995)</b>

## Notes to the Accounts

The surplus of (£10,995,000) has been fully spent during the year to fund a variety of traffic and transportation projects. Examples of such projects undertaken include Highway improvement design and project management £197,000, street lighting £89,000, highways inspections, gritting and gully emptying £48,000, off-street car parks £567,000, the passenger transport team, publicity, Routel, studies and project development, promotion, and bus infrastructure £1,041,000. This surplus has also contributed towards concessionary fares and bus subsidies. In total the council spends £4,395,000 on concessionary fares and £1,169,000 on bus subsidies. In addition to money being expended on these initiatives further investment £3,489,000 was also provided from council approved budgets.

### 12. POOLED BUDGETS

Section 75 of the National Health Act 2006 allows partnership arrangements between NHS bodies, local authorities and other agencies in order to improve and co-ordinate services. A pooled budget is established to which each partner contributes. The aim of the partnership is to provide a service to a target client group and allows the organisations to work in a more unified way.

The council has entered into three such arrangements with the NHS Milton Keynes Clinical Commissioning Group (CCG):

#### Integrated Community Equipment Service (ICES)

The Integrated Community Equipment pooled budget brings together health and social care equipment for disabled people as a single service, with some efficiency of scale and improved delivery.

The council's share of income and expenditure is included within the Comprehensive Income and Expenditure Statement.

The table below summarises the financial performance of the scheme:

2014/15 £'000		2015/16 £'000
	<b>Integrated Community Equipment Service (ICES)</b>	
	<b>Gross Funding</b>	
(533)	Milton Keynes Council	(236)
(813)	Milton Keynes Clinical Commissioning Group (CCG) - Millbrook	(813)
<b>(1,346)</b>	<b>Total Funding</b>	<b>(1,049)</b>
1,684	Expenditure	1,526
<b>1,684</b>	<b>Total Expenditure</b>	<b>1,526</b>
<b>338</b>	<b>Net (Surplus)/Deficit</b>	<b>477</b>
(62)	MKC share of underspend/ (overspend)	(199)
(276)	CCG share of underspend/ (overspend)	(278)
<b>0</b>	<b>Net (Surplus) / Deficit Carried Forward</b>	<b>0</b>



## Notes to the Accounts

### Mental Health

Pooled budget arrangements for Mental Health services ended on 31<sup>st</sup> March 2015.

### Learning Disability

The Learning Disability pooled budget supports the integrated Learning Disability service (Council and Clinical Commissioning Group), allowing greater flexibility and economies of scale in funding mental health services. Milton Keynes Council is the Lead Partner for the Learning Disability Pool.

The council's share of income and expenditure is included within the Comprehensive Income and Expenditure Statement. The table below summarises the financial performance of the scheme:

2014/15 £'000	Learning Disability	2015/16 £'000
	<b>Gross Funding</b>	
(21,010)	Milton Keynes Council	(21,084)
(1,434)	Milton Keynes Clinical Commissioning Group (CCG)	(1,427)
<b>(22,444)</b>	<b>Total Funding</b>	<b>(22,511)</b>
	<b>Expenditure</b>	
22,444	Pooled Expenditure	22,511
<b>22,444</b>	<b>Total Expenditure</b>	<b>22,511</b>
<b>0</b>	<b>Net (Surplus) / Deficit Carried Forward</b>	<b>0</b>

### Better Care Fund (BCF)

The Better Care Fund is viewed as an enabler to further integrate Health and Social Care Services. The BCF funds are intended to reduce hospital acute admissions; develop more robust and sustainable community health and social care services; and promote independent living. The Council's share of income and expenditure is included within the Comprehensive Income and Expenditure Statement.

2014/15 £'000	Better Care Fund	2015/16 £'000
	<b>Gross Funding</b>	
0	Milton Keynes Council - Capital Funding	(990)
0	Milton Keynes Clinical Commissioning Group (CCG)	(13,594)
<b>0</b>	<b>Total Funding</b>	<b>(14,584)</b>
	<b>Expenditure</b>	
0	Expenditure	14,054
<b>0</b>	<b>Total Expenditure</b>	<b>14,054</b>
<b>0</b>	<b>Net (Surplus)/Deficit</b>	<b>(530)</b>
0	MKC share of underspend/ (overspend)	76
0	CCG share of underspend/ (overspend)	454
<b>0</b>	<b>Net (surplus) / Deficit Carried Forward</b>	<b>0</b>

## Notes to the Accounts

### 13. OFFICERS REMUNERATION

The remuneration paid to the council's senior employees during 2015/16 whose salary was between £50,000 and £150,000 was as follows:

Total		Note	Salary	Expense Allowances	Pension Contributions	Total
2014/15			£	£	£	2015/16
£			£	£	£	£
154,320	Corporate Director, Resources		130,118	196	24,072	154,386
124,560	Director of Strategy		105,000	174	19,425	124,599
118,297	Corporate Director, People		120,000	0	22,200	142,200
65,323	Strategic Director Adult Social Care and Health	1	73,669	0	13,629	87,298
0	Corporate Director, Place	2	107,253	205	19,842	127,300

Notes

1. Employment ended 13.12.2015
2. Employment started 01.06.2015

The remuneration paid to the council's senior employees during 2015/16 whose salary is more than £150,000 was as follows:

Total		Note	Salary	Expense Allowances	Pension Contributions	Total
2014/15			£	£	£	2015/16
£			£	£	£	£
130,896	Chief Executive - C Mills	1	160,873	402	27,944	189,219

Notes

1. Salary includes £9,826 in respect of Acting Returning Officer payments.
2. The prior year comparator reflects a start date of 14/07/2014.

The council's other employees (excluding those listed individually as senior employees) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2014/15		2015/16
Number of	£ Band	Number of
Employees		Employees
49	£50,000 - £54,999	45
45	£55,000 - £59,999	34
28	£60,000 - £64,999	37
16	£65,000 - £69,999	21
9	£70,000 - £74,999	11
2	£75,000 - £79,999	7
3	£80,000 - £84,999	4
5	£85,000 - £89,999	7
2	£90,000 - £94,999	3
1	£130,000 - £134,999	0
<b>160</b>		<b>169</b>

## Notes to the Accounts

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

(a) Exit package cost band (including special payments)	(b) Number of Compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages in each band [(b) + (c)]		(e) Total Cost of exit package in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
							£'000	£'000
£0 - £20,000	31	28	2	22	33	50	34	359
£20,001 - £40,000	7	19	10	9	17	28	435	404
£40,001 - £140,000	6	9	0	5	6	14	190	263
<b>Total Exit packages charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>44</b>	<b>56</b>	<b>12</b>	<b>36</b>	<b>56</b>	<b>92</b>	<b>659</b>	<b>1,026</b>

The total cost of £1,026,000 in the table above includes exit packages that have been agreed, accrued for and charged to the authority's Comprehensive Income and Expenditure Statement in the current year.

### 14. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014. 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 2015/16 are as follows:

2014/15	2015/16		Total
Total £'000	Central Expenditure £'000	ISB £'000	£'000
215,322 Final DSG for 2015/16 before academy recoupment			218,882
(65,809) Less: Academy figure recouped for 2015/16			(67,395)
<b>149,512 Total DSG after academy recoupment for 2015/16</b>			<b>151,487</b>
2,709 Plus: Brought forward from 2014/15			1,659
(996) Less: Carry forward to 2016/17 agreed in advance			1,200
<b>151,225 Final Allocation in 2015/16</b>			<b>154,346</b>
<b>152,976 Agreed initial budgeted distribution in 2015/16</b>	29,284	125,062	<b>154,346</b>
(1,751) In year adjustments	0	272	272
<b>151,225 Final budgeted distribution for 2015/16</b>	<b>29,284</b>	<b>125,334</b>	<b>154,618</b>
(28,808) Less: Actual central expenditure	(27,592)		(27,592)
(121,754) Less: Actual ISB deployed to schools		(125,617)	(125,617)
<b>663 In year Carry forward to 2016/17</b>	<b>1,692</b>	<b>(283)</b>	<b>1,409</b>
996 Carry forward to 2016/17 agreed in advance			(1,200)
<b>1,659 Final Carry forward to 2016/17</b>			<b>209</b>

## Notes to the Accounts

### 15. GRANT INCOME

The council has been credited with the following grants and contributions in the Comprehensive Income and Expenditure Statements during 2015/16. The balances at the yearend are as follows:

2014/15 £'000	Credited to Taxation and Non Specific Grant Income	2015/16 £'000
(49,910)	Revenue Support Grant	(36,959)
(3,901)	Central Education Grant	(3,222)
(1,092)	Other Grants	(77)
<b>(54,903)</b>	<b>Total Non-Ringfenced Government Grants</b>	<b>(40,258)</b>
(94,759)	Council Tax Income	(99,120)
(43,668)	Redistributed National Non-Domestic Rate Income	(47,055)
(36,837)	Capital Grants and Contributions	(56,115)
<b>(230,167)</b>	<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>(242,548)</b>
	<b>Credited to Cost of Services</b>	
	<i>Grants:</i>	
(150,562)	Dedicated Schools Grant	(153,210)
(68,166)	Mandatory Rent Allowance: Subsidy	(67,059)
(29,760)	Mandatory Rent Rebates	(30,336)
(8,785)	New Homes Bonus	(10,752)
(8,797)	Public Health Grant	(10,226)
(8,421)	Pupil Premium Grant	(8,220)
(7,099)	Young People's Learning Agency	(7,158)
(2,595)	Universal Infant Free School Meals	(3,660)
(2,279)	Benefits Administration Grant	(1,704)
(9,360)	Other Grant Income	(9,627)
	<i>Contributions:</i>	
0	Better Care Fund Contributions	(13,594)
(9,295)	Social Care Client Contributions	(9,653)
(9,504)	Milton Keynes Hospital NHS Foundation Trust and Clinical Commissioning Group Contributions	(5,195)
(180)	Other Contributions	(1,058)
<b>(314,803)</b>	<b>Total Grant &amp; Contribution Income credited to Cost of Services</b>	<b>(331,452)</b>

### Grants and Contributions Receipts in Advance

The council has received a number of grants, contributions and donations that have conditions attached to them that will require the monies or property to be returned to the awarding body if the conditions are not met. These will not be recognised as income until the relevant conditions are met and the council is able to utilise the funds.

The current Grants and Contributions receipts in advance at the 31<sup>st</sup> March 2016 are £9,517,000. This includes:

- Revenue receipts in advance of £4,177,000, of which £562,000 was received for Strengthen Family Grant and £941,000 from Tariff contributions.
- Capital receipts in advance of £5,340,000 including Go Ultra Low Grants of £4,055,000.

The long term Grants and Contributions receipts in advance at the 31<sup>st</sup> March 2016 are £32,229,000. This includes Revenue receipts in advance of £28,805,000 which is mainly from Developer Contributions and capital receipts in advance of £6,424,000.

## Notes to the Accounts

### 16. PROPERTY, PLANT AND EQUIPMENT

The tables on the following pages show the movements in year for Property, Plant and Equipment in 2015/16 and the 2014/15 comparative movement.

Movement in 2015/16	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment Finance Lease	Vehicles, Plant & Equipment Other	Infra- structure	Community Assets	Surplus Assets	Assets Under Construction	Total PPE
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2015	512,679	420,135	3,148	17,432	193,834	1,928	3,971	13,692	1,166,819
Additions	6,735	528	0	791	21,627	17	0	57,237	86,935
Revaluation recognised in the Revaluation Reserve	59	13,303	0	0	0	0	1,321	0	14,683
Revaluation recognised in the Surplus/Deficit on the Provision of Services	67,579	(3,117)	0	0	0	0	(1,683)	0	62,779
Derecognitions and disposals	(2,734)	(2,602)	(809)	(857)	0	0	(469)	0	(7,471)
Assets Reclassified (to)/from other asset classes	2,495	9,861	(24)	365	2,905	0	616	(19,676)	(3,458)
<b>At 31 March 2016</b>	<b>586,813</b>	<b>438,108</b>	<b>2,315</b>	<b>17,731</b>	<b>218,366</b>	<b>1,945</b>	<b>3,756</b>	<b>51,253</b>	<b>1,320,287</b>
<b>Accumulated Depreciation and Impairment</b>									
Depreciation value at 1 April 2015	0	(20,444)	(2,801)	(10,229)	(39,823)	0	(42)	0	(73,339)
Impairment value at 1 April 2015	(246)	(34,394)	0	(148)	0	0	(1,447)	0	(36,235)
Depreciation charge	(9,306)	(9,954)	(342)	(1,475)	(4,875)	(9)	(18)	0	(25,979)
Depreciation written out to the Revaluation Reserve	0	2,012	0	0	0	0	52	0	2,064
Depreciation written out to the Surplus/Deficit on the Provision of Services	9,268	305	0	0	0	0	0	0	9,573
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	319	0	0	0	0	(220)	0	99
Impairment losses/(reversals) recognised in the Surplus/Deficit on the provision of Services	(428)	171	0	0	0	0	1,447	0	1,190
Derecognitions and disposals	39	1,386	809	845	0	0	15	0	3,094
Assets Reclassified (to)/from other asset classes	30	51	23	(10)	0	0	(93)	0	1
<b>At 31 March 2016</b>	<b>(643)</b>	<b>(60,548)</b>	<b>(2,311)</b>	<b>(11,017)</b>	<b>(44,698)</b>	<b>(9)</b>	<b>(306)</b>	<b>0</b>	<b>(119,532)</b>
<b>Net Book Value</b>									
<b>as at 31 March 2016</b>	<b>586,170</b>	<b>377,560</b>	<b>4</b>	<b>6,714</b>	<b>173,668</b>	<b>1,936</b>	<b>3,450</b>	<b>51,253</b>	<b>1,200,755</b>
<b>as at 31 March 2015</b>	<b>512,434</b>	<b>365,297</b>	<b>347</b>	<b>7,055</b>	<b>154,011</b>	<b>1,928</b>	<b>2,482</b>	<b>13,692</b>	<b>1,057,246</b>

## Notes to the Accounts

### Movement in 2014/15

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment Finance Lease	Vehicles, Plant & Equipment Other	Infra-structure	Community Assets	Surplus Assets	Assets Under Construction	Total PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2014	468,410	442,398	3,516	18,510	168,418	1,688	4,017	6,968	1,113,925
Additions	15,570	474	0	388	12,846	65	0	27,885	57,228
Revaluation recognised in the Revaluation Reserve	(177)	1,037	0	0	0	0	369	0	1,229
Revaluation recognised in the Surplus/Deficit on the Provision of Services	29,333	(4,727)	0	0	0	0	5	0	24,611
Derecognitions and disposals	(3,124)	(25,348)	(368)	(1,883)	0	0	0	0	(30,723)
Assets Reclassified (to)/from other asset classes	2,668	6,301	0	417	12,570	175	(420)	(21,161)	550
<b>At 31 March 2015</b>	<b>512,680</b>	<b>420,135</b>	<b>3,148</b>	<b>17,432</b>	<b>193,834</b>	<b>1,928</b>	<b>3,971</b>	<b>13,692</b>	<b>1,166,820</b>
<b>Accumulated Depreciation and Impairment</b>									
Depreciation value at 1 April 2014	0	(18,311)	(2,690)	(10,447)	(35,581)	0	(48)	0	(67,077)
Impairment value at 1 April 2014	(11,862)	(48,496)	0	(148)	0	0	(1,447)	0	(61,953)
Depreciation charge	(7,595)	(10,295)	(437)	(1,658)	(4,242)	0	(12)	0	(24,239)
Depreciation written out to the Revaluation Reserve	0	5,141	0	0	0	0	10	0	5,151
Depreciation written out to the Surplus/Deficit on the Provision of Services	7,559	1,644	0	0	0	0	0	0	9,203
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	3,940	0	0	0	0	1	0	3,941
Impairment losses/(reversals) recognised in the Surplus/Deficit on the provision of Services	11,920	3,555	0	(4)	0	0	0	0	15,471
Derecognitions and disposals	118	7,629	326	1,880	0	0	0	0	9,953
Assets Reclassified (to)/from other asset classes	(386)	355	0	0	0	0	7	0	(24)
<b>At 31 March 2015</b>	<b>(246)</b>	<b>(54,838)</b>	<b>(2,801)</b>	<b>(10,377)</b>	<b>(39,823)</b>	<b>0</b>	<b>(1,489)</b>	<b>0</b>	<b>(109,574)</b>
<b>Net Book Value</b>									
<b>as at 31 March 2015</b>	<b>512,434</b>	<b>365,297</b>	<b>347</b>	<b>7,055</b>	<b>154,011</b>	<b>1,928</b>	<b>2,482</b>	<b>13,692</b>	<b>1,057,246</b>
<b>as at 31 March 2014</b>	<b>456,548</b>	<b>375,591</b>	<b>826</b>	<b>7,915</b>	<b>132,837</b>	<b>1,688</b>	<b>2,522</b>	<b>6,968</b>	<b>984,895</b>

## Notes to the Accounts

### Depreciation

Depreciation should be provided on all assets with a finite useful life, which can be determined at the time of acquisition or revaluation.

The table below details the different classes of asset held by the council, the useful lives of each class of asset and the total depreciation charged for the year.

2014/15 Depreciation Charge		Potential Useful Life of Asset Years	Actual Useful Life of Asset Years	2015/16 Depreciation Charge £'000
7,595	Council Dwellings	10 - 85 *	10 - 85 *	9,305
10,307	Other Properties	20 - 60 **	20 - 60 **	9,981
1,658	Vehicles, Plant and Equipment	3 - 40 ***	3 - 18	1,475
437	Leased VPE	3 - 40 ***	3 - 10	343
4,242	Infrastructure	40	40	4,875
	Infrastructure - Other	20	20	
<b><u>24,239</u></b>				<b><u>25,979</u></b>

\* The depreciation for Right to Buy Council Dwellings is based on actual useful lives.

\*\* The depreciation calculation for Other Properties is based on a 60 year life from the completion date. Each time an asset is revalued the asset life is revised, but the calculation is based on the date of completion, a life of 60 years and the revaluation date.

\*\*\* The useful life varies from 3 to 40 years depending on the estimated life of each asset.

Please see Accounting Policy note 19 for further details.

### Capital Commitments

The council prepares an annual capital programme but a number of schemes take several years to complete thus committing the authority to capital expenditure in future years.

Overall commitments at 31<sup>st</sup> March 2016, including those with a commitment of less than £2,000,000 totalled £30,800,000 (£71,100,000 capital commitments in 2014/15).

There are no contractual commitments for the acquisition of purchased intangible assets.

Capital Commitments resulting in expenditure for foundation schools and other non-council owned assets will be treated as Revenue Expenditure Funded from Capital under Statute (REFCUS) because it will not result in an asset for the council.

Commitments for the academy relate to costs to be incurred from contracts entered into while the school was a foundation school and will therefore be treated as REFCUS as above.

Contractual commitments as at 31<sup>st</sup> March 2016 with a commitment of £2,000,000 or more are shown in the table on the following page.

## Notes to the Accounts

Segment: Scheme Name	Scheme Description	2015/16 £'000	Period of Investments Years
<b>Children &amp; Young Peoples Services:</b>			
<b>Community Schools:</b>			
Walton High at Brooklands	New Secondary School	4,960	1
Brooklands Primary	New Primary School and Community Pavilion	3,199	1
Oakgrove Primary	New Primary School	2,773	1
Whitehouse Primary	New Primary School	2,824	1
Fairfield Primary	New Primary School	3,439	1
		<b>17,195</b>	
<b>Housing and Community: Housing</b>			
Investment in Temporary Accommodation	Housing for Homeless	4,500	1
		<b>4,500</b>	
<b>Grand Total</b>		<b>21,695</b>	

### Valuation of Non-Current Assets

The council has a five year rolling programme for undertaking valuations of its property assets. In the 2015 valuations all those properties not valued within the previous five years, excluding Council Dwellings, were valued by Nathan Andrews MRICS of Kirkby Diamond Chartered Surveyors, the appointed valuers. The valuation date was 1<sup>st</sup> April 2015.

A property review has also been undertaken of the council's entire property portfolio, excluding Council Dwellings, as at 31<sup>st</sup> March 2016. These valuations were completed by Nathan Andrews MRICS of Kirkby Diamond Chartered Surveyors.

Following research into levels of land values during 2015/16 the conclusion of this review is that there is now evidence to suggest an increase in residential development land values in Milton Keynes. With regard to those valuations completed with a valuation date of 31<sup>st</sup> March 2016, where relevant a land value of £700,000 per acre (£1,729,700 per hectare) has been applied. This represents a cautious approach as while evidence now exists to support higher values, it is not in plentiful enough quantities to suggest a significant movement. It is thought that further evidence will emerge over the next year to further inform land values.

An enhancement review has been undertaken and where appropriate, revaluations have been conducted as at 31<sup>st</sup> March 2016.

The valuations were prepared in accordance with the Practice Statements in the RICS Red Book 2014, revised in April 2015, published by the Royal Institution of Chartered Surveyors and the valuation procedures agreed between RICS and CIPFA based on the International Financial Reporting Standards referred to in the RICS Red Book 2014. In accordance with the relaxations agreed between the RICS and CIPFA, not all properties were inspected.

The significant assumptions applied in estimating the current and fair values are:



## Notes to the Accounts

- That there are no burdensome incidents of tenure, legal rights, restrictive covenants, charges or outgoing, and no encumbrances on title affecting the properties;
- That the properties are in good structural repair;
- Unless valuers are otherwise aware, that the properties are in a reasonable standard of repair and that all reasonable external and internal repair and maintenance has been carried out;
- That the properties are free from the presence of any deleterious or hazardous material;
- That no contaminative or potentially contaminative uses have ever been carried out on the property and that no radon gas is present at any of the premises.

Council Dwellings have been valued as at 1<sup>st</sup> April 2015 based on a desk top review and a full property review has been undertaken as at 31<sup>st</sup> March 2016. Council dwellings were valued by Michael J Rees BSc FRICS and Nicholas G Worman BSc Dipurv MRICS of Bruton Knowles in with DCLG 2010 Guidance on Stock Valuation and the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards.

Following gains on the revaluation of Council Dwellings at 31<sup>st</sup> March 2016, some of the revaluation losses charged in previous years have been reversed.

### Revaluation of Non-Current Assets

The following table shows the progress of the council's rolling programme for revaluation of Property, Plant and Equipment:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infra-structure	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets held at historical cost	0	0	6,718	173,668	1,936	0	51,253	233,575
Revalued Assets in:								
2015/16	586,170	46,667	0	0	0	3,450	0	636,287
2014/15	0	90,177	0	0	0	0	0	90,177
2013/14	0	54,473	0	0	0	0	0	54,473
2012/13	0	69,451	0	0	0	0	0	69,451
2011/12	0	116,792	0	0	0	0	0	116,792
<b>Total Valuation of Revalued Assets</b>	<b>586,170</b>	<b>377,560</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,450</b>	<b>0</b>	<b>967,180</b>
The Carrying amount for revalued assets had they been carried under the cost model	586,170	270,769	0	0	0	1,863	0	858,802
Revaluation surplus for revalued assets including the charge in year	0	106,791	0	0	0	1,587	0	108,378

# Notes to the Accounts

## Foundation School Asset Values

Under the Schools Standards and Framework Act 1998, Foundation Schools Assets are vested in the Governing Bodies of the individual foundation schools. In 2015/16 no schools transferred to foundation status and there were no conversions to academy status.

At 31<sup>st</sup> March 2016, there were 15 foundation schools with an estimated asset valuation of £117,315,000 (15 schools at £111,846,000 as at 31<sup>st</sup> March 2015).

## Effects of Changes in Estimates

There are no changes in estimates for 2015/16.

## Material Impairment Losses

During 2015/16, the council has not recognised any material impairment losses.

## 17. INVESTMENT PROPERTIES

In 2015/16 the annual rental income from investment properties is £74,000.

The movement in the fair value of investment properties during 2015/16 comprised of:

- a reclassification from Property Plant of Equipment of £3,460,000;
- a revaluation increase of £37,375,000 which reflected market conditions and renewed negotiations on future development.

The total value of the council's investment property at the 31<sup>st</sup> March 2016 is £69,878,000 (£29,044,000 at 31<sup>st</sup> March 2015).

## Fair Value Hierarchy

Details of the council's investment properties and information about the fair value hierarchy as at 31<sup>st</sup> March 2016 are as follows:

	Quoted active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Fair value as at 31st March 2016 £'000
Recurring fair value measurements using:				
Farm Land in the Western Expansion Area	0	65,749	3,750	69,499
Miscellaneous pieces of land	0	312	66	379

In 2015/16, IFRS 13 Fair Value Measurement come into effect, leading to revised treatment and disclosure requirements. This has meant that there will be no comparatives for the fair value hierarchy disclosure above.

## Notes to the Accounts

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

#### Significant Observable Inputs – Level 2

The fair value for the farmland located in the council's Western Expansion Development area has been based on the market approach using current rents and market sales evidence for similar assets in the local authority area.

#### Significant Unobservable Inputs – Level 3

The fair value for the farmland located in the Council's Western Expansion Development area has been based on the market approach using previous valuation data and market sales evidence for similar assets in the local authority area.

### **Highest & Best Use of Investment Properties**

Farms classified as investment properties are currently held for both earning rentals and capital appreciation – the agricultural land is located in the council's Western Expansion area and is allocated for residential and employment development.

### **Valuation Techniques**

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

## **18. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

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

## Notes to the Accounts

31 Mar 2015 £'000		31 Mar 2016 £'000
<b>535,893</b>	<b>Opening Capital Financing Requirement</b>	543,191
	<b>Capital Investment</b>	
57,269	Assets	87,030
15,272	Revenue Expenditure Funded from Capital under Statute	18,067
<u>72,541</u>	<b>Total</b>	<u>105,097</u>
	<b>Sources of Finance</b>	
(4,512)	Capital Receipts	(1,095)
(5,370)	Supported Borrowing	0
(13,832)	Prudential Borrowing	(8,257)
(6,220)	Major Repairs Reserves	(15,540)
(35,044)	Other Government Grants & Contributions	(84,980)
(7,563)	Revenue Contributions	4,775
<u>(72,541)</u>	<b>Total</b>	<u>(105,097)</u>
	<b>Capital Financing Requirement</b>	
292,083	Non-HRA Capital Financing Requirement	309,589
251,108	HRA Capital Financing Requirement	233,736
<u>543,191</u>	<b>Total</b>	<u>543,325</u>
	<b>Explanation of movements in year</b>	
(8,341)	Increase in underlying need to borrow (supported by government financial assistance)	(7,315)
15,639	Increase in underlying need to borrow (unsupported by government financial assistance)	7,449
<u>7,298</u>	<b>Increase/Decrease in Capital Financing Requirement</b>	<u>134</u>

### 19. DEBTORS

#### Long Term Debtors

31 Mar 2015 £'000		31 Mar 2016 £'000
31,614	Milton Keynes Development Partnership Loan	31,511
11,758	Local Government Reorganisation Debt Payments in Advance	9,797
186	Other Long Term Debtors	113
<u>43,558</u>	<b>Total</b>	<u>41,421</u>

## Notes to the Accounts

### Short Term Debtors

31 Mar 2015 £'000		Debtors 31 Mar 2016 £'000	Bad Debt Impairment 31 Mar 2016 £'000	Total 31 Mar 2016 £'000
	<b>Short Term Debtors</b>			
7,106	Central Government Bodies	7,997	(13)	7,984
1,315	Other Local Authorities	1,143	(86)	1,057
2,233	NHS Bodies	1,971	(2)	1,969
13,139	Bodies External to Central Government	16,069	(6,373)	9,696
3,188	Council Tax Arrears	5,199	(2,070)	3,129
226	NDR Arrears	3,057	(2,032)	1,025
2,702	Housing Rents	4,011	(1,155)	2,856
3	Council Staff Debtors	0	0	0
<b>29,912</b>	<b>Total Short Term Debtors before Payments in Advance</b>	<b>39,447</b>	<b>(11,731)</b>	<b>27,716</b>
6,677	Payments in Advance	7,068	0	7,068
<b>36,589</b>	<b>Total Short Term Debtors</b>	<b>46,515</b>	<b>(11,731)</b>	<b>34,784</b>

### 20. CREDITORS

The analysis of short term creditors is as follows:

31 Mar 2015 £'000		31 Mar 2016 £'000
(17,835)	Central Government Bodies	(18,290)
(2,864)	Other Local Authorities	(5,072)
(1,461)	NHS Bodies	(3,504)
(38,170)	Bodies External to Central Government	(40,161)
(4,148)	Council Staff Creditors	(4,383)
(1,513)	Housing Rent Prepayments	(1,859)
(2,575)	Council Tax Prepayments	(2,331)
(1,419)	NDR Prepayments	(1,180)
<b>(69,985)</b>	<b>Total Short Term Creditors</b>	<b>(76,780)</b>

### 21. BORROWING REPAYABLE

Analysis of Loans by type:

31 Mar 2015 £'000	Source of Loan	Range of Interest Rates - 31 March 2016	31 Mar 2016 £'000
(486,606)	Public Works Loan Board	Lowest: 3.37% / Highest: 10.875%	(472,955)
(15,256)	Market Loans	Lowest: 3.75% / Highest: 6.62%	(15,256)
(7,105)	Other Loans	Zero interest rate	(7,281)
<b>(508,967)</b>	<b>Total</b>		<b>(495,492)</b>

## Notes to the Accounts

Analysis of Loans by maturity:

31 Mar 2015 £'000		31 Mar 2016 £'000
	<b><u>Borrowing repayable on demand or within 12 months</u></b>	
(28,902)	Borrowing repayable on demand or within 12 months	(7,599)
(2,088)	Accrued interest on borrowing repayable within a period in excess of 12 months	(2,212)
<b>(30,990)</b>	<b>Total Borrowing repayable on demand or within 12 months</b>	<b>(9,811)</b>
	<b><u>Borrowing repayable within a period in excess of 12 months</u></b>	
(2,473)	Maturing in 1 to 2 years	(2,568)
(25,105)	Maturing in 2 to 5 years	(39,740)
(56,409)	Maturing in 5 to 10 years	(58,346)
(393,990)	Maturing in more than 10 years	(385,027)
<b>(477,977)</b>	<b>Total Borrowing repayable within a period in excess of 12 months</b>	<b>(485,681)</b>
<b>(508,967)</b>	<b>Total</b>	<b>(495,492)</b>

## 22. PROVISIONS

The provisions are summarised in the table below, with further details provided below:

	Balance at 31 March 2015 £'000	Additional provisions made in 2015/16 £'000	Amounts used in 2015/16 £'000	Unused amounts reversed in 2015/16 £'000	Unwinding of Discounting 2015/16 £'000	Balance at 31 March 2016 £'000	Short Term £'000	Long Term £'000
Appeals Provision	(13,518)	(5,830)	3,061	0	0	(16,287)	(520)	(15,767)
Other Provisions	(794)	(522)	13	64	0	(1,239)	(556)	(683)
<b>Total</b>	<b>(14,312)</b>	<b>(6,352)</b>	<b>3,074</b>	<b>64</b>	<b>0</b>	<b>(17,526)</b>	<b>(1,076)</b>	<b>(16,450)</b>

### Appeals Provision

Under business rates retention, Milton Keynes Council have a percentage share of all business rates income, net of any backdated reductions. Rate payers can appeal a valuation and they have 5 years in which to do so from the date of the creation of the Rating List. This provision has been calculated based on information provided by the Valuation Office and external bodies combined with local knowledge of the Rating List. The Valuation Office Agency has re-directed personnel resources in 2016/17 onto the 2017 revaluation of the Rating List and as a result it is expected that there will be significant delays in the resolution of rating appeals until 1<sup>st</sup> April 2017. This has therefore meant a shift in potential settlement of appeals to 2017/18 financial year and beyond, hence an increase in the long term provision and corresponding decrease in the short term provision.

## Notes to the Accounts

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### 23. CONTINGENT GAINS AND LOSSES

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The most significant contingent gains and losses disclosed in the councils accounts for the year ending 31<sup>st</sup> March 2016 is as follows:

- a. In January 2013 the council took over the management of the Milton Keynes Tariff, which is a framework Section 106 agreement under which developers contribute to the provision of local and strategic infrastructure to mitigate the impact of growth. The terms of the funding agreement state that the council will manage the expenditure so that the tariff deficit is managed down to zero by the risk share cut-off date. In the event that this is not achieved, a risk sharing agreement is in place with the Homes and Communities Agency and the Department for Communities and Local Government to allocate the first £22,000,000 of any deficit in the proportion 10:5:7. The council will be liable for any tariff deficit in excess of the risk share.
- b. The legal case brought by Woods Building Services (WBS) against Milton Keynes Council regarding the award of the asbestos contract will result in the payment of damages to WBS. It is not clear at this time when the case will be finalised or the likely loss of the damages.
- c. Milton Keynes Council has entered into an agreement in accordance with Section 11(6) of the Local Government Act 2003 which enables the council to retain additional capital receipts. These additional receipts must be used towards the provision of new affordable housing within the borough. If, following three years from the date of receipt, any of the capital receipt remains unspent by the council, the remaining element is required to be repaid. Any repayment due will be subject to interest 4% above the base rate at the date of expiry. At the 31<sup>st</sup> March 2016 the value of receipts that were not allocated to a specific project was £1,065,036.
- d. Due to the uncertainty in terms of both timing and amounts, a provision was not made in the Collection Fund accounts for appeals which were not recorded by the Valuation Office Agency as at the 31<sup>st</sup> March 2016 or where Milton Keynes Council does not have prior intelligence. As such, the potential for further appeals is a potential liability to Milton Keynes Council which cannot be estimated at this time.

Milton Keynes Council has not been able to disclose an asset in the Collection Fund accounts for rating amendments which have not yet been completed by the Valuation Office. This is because they are uncertain both in terms of amount and timing; as such, the potential for further income is unknown and so a contingent asset is disclosed within the Statement of Accounts.

## Notes to the Accounts

### 24. RESERVES

#### Usable Reserves

The following table provides details of the Usable Reserves held by the council.

31 Mar 2015 £'000		31 Mar 2016 £'000
	<b>Usable Reserves</b>	
(8,877)	General Fund Balance	(7,000)
(63,467)	Earmarked General Fund Reserves	(82,266)
(10,275)	Schools Balance Reserve	(11,631)
(4,569)	Housing Revenue Account	(5,480)
(18,357)	Earmarked HRA Reserves	(38,047)
(18,199)	Major Repairs Reserve	(15,677)
(59,660)	Capital Grants Unapplied	(46,141)
(10,701)	Capital Receipts Reserve	(13,983)
<b>(194,105)</b>	<b>Total Usable Reserves</b>	<b>(220,225)</b>

The movements in the authority's usable reserves are detailed in the Movement in Reserves Statement on page 41 and note 6 to the Financial Statements.

#### Unusable Reserves

The following table provides details of the Unusable Reserves held by the council.

31 Mar 2015 £'000		Notes	31 Mar 2016 £'000
	<b>Unusable Reserves</b>		
(477,824)	Capital Adjustment Account	a	(648,221)
(99,598)	Revaluation Reserve	b	(112,611)
(371)	Financial Instruments Adjustment Account		(166)
336,641	Pensions Reserve	c	326,401
987	Collection Fund Adjustment Account	d	4,065
(97)	Deferred Capital Receipts		(100)
987	Accumulated Absences Account		1,893
543	Available for Sale Financial Instruments		262
<b>(238,732)</b>	<b>Total Unusable Reserves</b>		<b>(428,477)</b>

The material unusable reserves are as follows:

#### g) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.



## Notes to the Accounts

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<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 18 provide details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2014/15 £'000		2015/16 £'000	2015/16 £'000
<b>(408,553)</b>	<b>Balance at 1 April</b>		<b>(477,824)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
12,026	Charges for depreciation and impairment of non-current assets	26,569	
(37,113)	Revaluation losses on Property, Plant and Equipment	(74,729)	
335	Amortisation of Intangible Assets	301	
9,100	Revenue Expenditure Funded from Capital Under Statute	498	
21,020	Amounts on non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,377	
<u>5,368</u>			<u>(42,984)</u>
(7,068)	Adjusting amounts written out of the Revaluation Reserve		(3,715)
<b>(410,253)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(524,523)</b>
	Capital financing applied in the year:		
(4,512)	Use of the Capital Reserve to finance new capital expenditure	(992)	
(6,220)	Use of the Major Repairs Reserve to finance new capital expenditure	(15,540)	
(18,253)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(38,358)	
(10,624)	Application of grants to capital financing from the Capital Grants Unapplied Account	(31,274)	
(10,097)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(6,440)	
(7,560)	Capital expenditure charged against the General Fund and HRA balance	6,996	
<u>(57,266)</u>			<u>(85,608)</u>
(9,181)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(37,375)
(1,124)	HRA Self Financing		(850)
0	Reversal of Voluntary Set Aside from 2001/02		135
<u><b>(477,824)</b></u>	<b>Balance at 31 March</b>		<u><b>(648,221)</b></u>

## Notes to the Accounts

### h) Revaluation Reserve

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

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

The reserve contains only revaluation gains accumulated since 1<sup>st</sup> 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.

2014/15 £'000		2015/16 £'000
(96,346)	<b>Balance at 1 April</b>	(99,598)
(11,816)	Upward revaluation of assets	(19,112)
1,495	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	2,384
(10,321)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(16,728)
2,493	Difference between fair value depreciation and historical cost depreciation	2,802
4,576	Accumulated gains on assets sold or scrapped	913
7,069	Amount written off to the Capital Adjustment Account	3,715
<b>(99,598)</b>	<b>Balance at 31 March</b>	<b>(112,611)</b>

### i) Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, 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 council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

## Notes to the Accounts

2014/15 £'000		2015/16 £'000
251,129	<b>Balance at 1 April</b>	336,641
73,102	Actuarial (gains) or losses on pensions assets and liabilities	(50,406)
27,031	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	56,442
(14,621)	Employer's pension contributions and direct payments to pensioners payable in the year	(16,276)
<b>336,641</b>	<b>Balance at 31 March</b>	<b>326,401</b>

### j) Collection Fund Adjustment Account

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

2014/15 £'000		Council Tax 2015/16 £'000	NDR 2015/16 £'000	Total 2015/16 £'000
6,336	<b>Balance at 1 April</b>	(3,736)	4,722	986
(5,349)	Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	204	2,875	3,079
<b>987</b>	<b>Balance at 31 March</b>	<b>(3,532)</b>	<b>7,597</b>	<b>4,065</b>

## 25. CASH AND CASH EQUIVALENTS

The table below provides an analysis of the components of cash and cash equivalents.

	Balance 31 Mar 2015 £'000	Balance 31 Mar 2016 £'000	Movement In Year £'000
Cash held by the Authority	37	11,835	11,798
Short-term deposits with Financial Institutions	101,174	13,701	(87,473)
Bank Overdraft	(2,429)	(16,662)	(14,233)
<b>Total Cash &amp; Cash Equivalents</b>	<b>98,782</b>	<b>8,874</b>	<b>(89,908)</b>

At the 31<sup>st</sup> March 2016, the council held £13,701,000 invested with various financial institutions as short term deposits (£101,174,000 at the 31<sup>st</sup> March 2015). The deposits are investments held for cash flow purposes that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant

## Notes to the Accounts

risk of change in value. Due to the nature of these investment, the balance will vary year on year.

### 26. NET CASH FLOW FROM OPERATING ACTIVITIES

The table below provides an analysis of non-cash items and investing and financing activities included in the provision of services as presented in the Cash Flow Statement.

2014/15 £'000		2015/16 £'000
84,659	<b>Net Surplus/(Deficit) on the provision of services</b>	<b>150,412</b>
	<b><u>Adjustments to net Surplus or deficit on the provision of services for non-cash movements</u></b>	
(24,711)	Depreciation and Impairment of non-current assets	(47,380)
(9,181)	Investment Assets Revaluation Gains & Losses	(37,375)
(36,838)	Capital Grants & Contributions	(56,115)
(1,597)	(Increase) / decrease in Creditors	(5,630)
5,542	Increase / (decrease) in Debtors	822
93	Increase / (decrease) in Inventories and Work in Progress	73
1,130	(Increase) / decrease in Provisions	3,214
12,410	Pension Assets / Liabilities	40,166
14,671	Carrying amount of non-current assets sold	(1,452)
756	Housing Capital Receipts Pool	848
(1,959)	Local Government Reorganisation Transferred Debt	(1,962)
(10,992)	Other non-cash items charged to the net surplus or deficit on the	(17,525)
<b>(50,676)</b>	<b>Total Non-Cash Items in the Provision of Services</b>	<b>(122,316)</b>
<b>20,597</b>	Reversal of operating activity items included in the net surplus or deficit on the Provision of Services that are shown separately	<b>19,317</b>
	<b><u>Cash flow from interest received and paid</u></b>	
(20,769)	Interest Paid	(26,869)
(122)	Interest element of Finance Leases	(12)
1,630	Interest Received	2,208
<b>(19,261)</b>	<b>Total Cash Flow from Interest Received and Paid</b>	<b>(24,673)</b>
<b>35,319</b>	<b>Net Cash flow from Operating Activities</b>	<b>22,740</b>

### 27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the council's Cabinet on the basis of budget reports analysed across Service Groups. These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);

## Notes to the Accounts

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- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- Expenditure on some support services is budgeted for centrally and not charged to Service Groups, but costs are charged out of the Comprehensive Income and Expenditure Statement.

The table on the following page shows the income and expenditure of the council's principle Service Groups recorded in the budget reports for the year:

## Notes to the Accounts

Service Group Income & Expenditure 2015/16	Finance and Resources £'000	Adult Social Care & Health £'000	Housing & Community £'000	Children Services £'000	Planning & Transport £'000	Public Realm £'000	Corporate Core £'000	Total Carried Forward to Below
Government Grants & Contributions	(102,017)	(20,875)	(664)	(26,451)	(11,189)	(751)	(247)	(162,194)
Fees, Charges & Other Service Income	(7,990)	(12,464)	(3,088)	(2,895)	(3,522)	(23,619)	(127)	(53,705)
<b>TOTAL INCOME</b>	<b>(110,007)</b>	<b>(33,339)</b>	<b>(3,752)</b>	<b>(29,346)</b>	<b>(14,711)</b>	<b>(24,370)</b>	<b>(374)</b>	<b>(215,899)</b>
Employee Costs	10,292	22,713	1,103	25,400	2,960	7,870	1,822	72,160
Other Operating Expenses	131,330	66,834	5,291	52,308	10,459	48,078	1,446	315,746
Support Service Recharges	(22,929)	3,933	880	7,453	2,508	4,696	(1,223)	(4,682)
<b>TOTAL EXPENDITURE</b>	<b>118,693</b>	<b>93,480</b>	<b>7,274</b>	<b>85,161</b>	<b>15,927</b>	<b>60,644</b>	<b>2,045</b>	<b>383,224</b>
<b>Contributions to/(from) Reserves</b>	<b>(2,001)</b>	<b>213</b>	<b>(1,563)</b>	<b>(3,465)</b>	<b>552</b>	<b>1,629</b>	<b>(599)</b>	<b>(5,234)</b>
<b>NET EXPENDITURE</b>	<b>6,685</b>	<b>60,354</b>	<b>1,959</b>	<b>52,350</b>	<b>1,768</b>	<b>37,903</b>	<b>1,072</b>	<b>162,091</b>

	Total Brought Forward from Above £'000	Debt Financing £'000	Housing Revenue Accounts £'000	Public Health £'000	Community Facilities £'000	Schools £'000	Central Resources £'000	All Service Groups Total £'000
Government Grants & Contributions	(162,194)	(256)	(24)	0	(622)	(157,209)	(53,289)	(373,594)
Fees, Charges & Other Service Income	(53,705)	(2,515)	(58,287)	(147)	(2,141)	(4,808)	(146,469)	(268,072)
<b>TOTAL INCOME</b>	<b>(215,899)</b>	<b>(2,771)</b>	<b>(58,311)</b>	<b>(147)</b>	<b>(2,763)</b>	<b>(162,017)</b>	<b>(199,758)</b>	<b>(641,666)</b>
Employee Costs	72,160	0	4,212	1,163	2,870	124,505	0	204,910
Other Operating Expenses	315,746	20,834	47,928	8,904	6,391	36,825	(9,985)	426,643
Support Service Recharges	(4,682)	(5,375)	5,123	760	1,160	0	47	(2,967)
<b>TOTAL EXPENDITURE</b>	<b>383,224</b>	<b>15,459</b>	<b>57,263</b>	<b>10,827</b>	<b>10,421</b>	<b>161,330</b>	<b>(9,938)</b>	<b>628,586</b>
<b>Contributions to/(from) Reserves</b>	<b>(5,234)</b>	<b>4,800</b>	<b>1,048</b>	<b>(426)</b>	<b>(306)</b>	<b>687</b>	<b>14,388</b>	<b>14,957</b>
<b>NET EXPENDITURE</b>	<b>162,091</b>	<b>17,488</b>	<b>0</b>	<b>10,254</b>	<b>7,352</b>	<b>0</b>	<b>(195,308)</b>	<b>1,877</b>

## Notes to the Accounts

<b>Service Group Income &amp; Expenditure 2014/15 Restated**</b>	<b>Finance and Resources £'000</b>	<b>Adult Social Care &amp; Health £'000</b>	<b>Housing &amp; Community £'000</b>	<b>Children Services £'000</b>	<b>Planning &amp; Transport £'000</b>	<b>Public Realm £'000</b>	<b>Corporate Core £'000</b>	<b>Total Carried Forward to Below</b>
Government Grants & Contributions	(104,149)	(10,299)	(258)	(26,079)	(9,639)	(62)	(28)	(150,514)
Fees, Charges & Other Service Income	(4,570)	(12,468)	(1,264)	(4,346)	(15,266)	(7,267)	(140)	(45,321)
<b>TOTAL INCOME</b>	<b>(108,719)</b>	<b>(22,767)</b>	<b>(1,522)</b>	<b>(30,425)</b>	<b>(24,905)</b>	<b>(7,329)</b>	<b>(168)</b>	<b>(195,836)</b>
Employee Costs	4,600	22,494	1,133	26,655	3,120	7,430	1,815	67,247
Other Operating Expenses	134,114	58,334	3,246	44,855	12,534	30,804	680	284,567
Support Service Recharges	(27,002)	5,913	45	9,493	3,917	4,435	(1,370)	(4,569)
<b>TOTAL EXPENDITURE</b>	<b>111,712</b>	<b>86,741</b>	<b>4,424</b>	<b>81,003</b>	<b>19,571</b>	<b>42,669</b>	<b>1,125</b>	<b>347,245</b>
<b>Contributions to/(from) Reserves</b>	1,272	(1,917)	(1,080)	(1,812)	5,867	(1,915)	(64)	351
<b>NET EXPENDITURE</b>	<b>4,265</b>	<b>62,057</b>	<b>1,822</b>	<b>48,766</b>	<b>533</b>	<b>33,425</b>	<b>893</b>	<b>151,760</b>

	<b>Total Brought Forward from Above £'000</b>	<b>Debt Financing £'000</b>	<b>Housing Revenue Accounts £'000</b>	<b>Public Health £'000</b>	<b>Community Facilities £'000</b>	<b>Schools £'000</b>	<b>Central Resources £'000</b>	<b>All Service Groups Total £'000</b>
Government Grants & Contributions	(150,514)	0	(23)	(8,728)	(313)	(149,523)	(55,802)	(364,903)
Fees, Charges & Other Service Income	(45,321)	(1,313)	(57,455)	(249)	(2,267)	(5,447)	(132,048)	(244,100)
<b>TOTAL INCOME</b>	<b>(195,836)</b>	<b>(1,313)</b>	<b>(57,478)</b>	<b>(8,977)</b>	<b>(2,580)</b>	<b>(154,970)</b>	<b>(187,850)</b>	<b>(609,004)</b>
Employee Costs	67,247	0	3,596	1,242	2,963	120,864	0	195,912
Other Operating Expenses	284,567	23,531	43,159	6,733	3,839	34,505	5,477	401,811
Support Service Recharges	(4,569)	(4,540)	6,699	579	1,782	0	49	0
<b>TOTAL EXPENDITURE</b>	<b>347,245</b>	<b>18,991</b>	<b>53,454</b>	<b>8,554</b>	<b>8,584</b>	<b>155,369</b>	<b>5,526</b>	<b>597,723</b>
<b>Contributions to/(from) Reserves</b>	351	150	4,064	572	(140)	125	7,135	12,257
<b>NET EXPENDITURE</b>	<b>151,760</b>	<b>17,828</b>	<b>40</b>	<b>149</b>	<b>5,864</b>	<b>524</b>	<b>(175,189)</b>	<b>976</b>

## Notes to the Accounts

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\*\*The 2014/15 Service Group Income and Expenditure was re-categorised to reflect 2015/16 reporting segments due to the Council restructured in year.

Resources: Finance, HR & Governance and Public Access amalgamated into Finance & Resources in 2015/16. Children & Families: Integrated Support and Education, Effectiveness & Participation amalgamated into Children Services in 2015/16.

### Reconciliation between Amounts Reported for Resource Allocation Decisions and the Comprehensive Income and Expenditure Statement

The table below illustrates how the Amounts Reported for Resource Allocation Decisions (previous disclosure) reconciles to the Cost of Services reported in the Comprehensive Income and Expenditure Statement, by identifying and illustrating amounts not reflected in either the Amounts Reported for Resource Allocation Decisions or the Comprehensive Income and Expenditure Statement.

2014/15 £'000		2015/16 £'000
	<b>976 Net expenditure in the Analysis</b>	<b>1,877</b>
(88,050)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Amount Reported for Resource Allocation Decisions	(139,012)
188,106	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	230,622
<b>101,032</b>	<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>93,487</b>

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Service Group income and expenditure relate to a subjective analysis of the Surplus of Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.



## Notes to the Accounts

2015/16	Analysis £'000	Amounts not reported to management in decision making £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(166,183)	0	46,080	(120,103)	(47,055)	(167,158)
Interest and Investment Income	(2,769)	0	2,769	0	(2,769)	(2,769)
Income from Council Tax	(99,120)	0	99,120	0	(99,120)	(99,120)
Government Grants	(373,594)	0	96,372	(277,222)	(96,373)	(373,595)
<b>TOTAL INCOME</b>	<b>(641,666)</b>	<b>0</b>	<b>244,341</b>	<b>(397,325)</b>	<b>(245,317)</b>	<b>(642,642)</b>
Employee Expenses	204,910	12,146	18,071	235,127	10,675	245,802
Other Service Expenses	413,087	(90,279)	(3,277)	319,531	(37,166)	282,365
Support Service recharges	(2,967)	0	0	(2,967)	0	(2,967)
Depreciation, Amortisation & Impairment	0	(60,879)	0	(60,879)	0	(60,879)
Interest Payments	22,075	0	(22,075)	0	22,075	22,075
Precepts and Levies	6,438	0	(6,438)	0	6,438	6,438
Payments to the Housing Capital Receipts Pool	0	0	0	0	848	848
Gain/Loss on Disposal of Non-current Assets	0	0	0	0	(1,452)	(1,452)
<b>TOTAL EXPENDITURE</b>	<b>643,543</b>	<b>(139,012)</b>	<b>(13,719)</b>	<b>490,812</b>	<b>1,418</b>	<b>492,230</b>
<b>Surplus/Deficit on the Provision of Services</b>	<b>1,877</b>	<b>(139,012)</b>	<b>230,622</b>	<b>93,487</b>	<b>(243,899)</b>	<b>(150,412)</b>

2014/15 Restated	Analysis £'000	Amounts not reported to management in decision making £'000	Amounts not included in I&E £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(144,494)	0	40,185	(104,309)	(40,185)	(144,494)
Interest and Investment Income	(1,363)	0	1,363	0	(1,363)	(1,363)
Income from Council Tax	(98,242)	0	98,242	0	(98,242)	(98,242)
Government Grants	(364,903)	0	91,740	(273,163)	(91,740)	(364,903)
<b>TOTAL INCOME</b>	<b>(609,002)</b>	<b>0</b>	<b>231,530</b>	<b>(377,472)</b>	<b>(231,530)</b>	<b>(609,002)</b>
Employee Expenses	195,910	12,371	(10,848)	197,433	10,848	208,281
Other Service Expenses	385,907	(63,317)	(2,897)	319,693	(8,598)	311,095
Depreciation, Amortisation & Impairment	0	(38,622)	0	(38,622)	0	(38,622)
Interest Payments	21,880	0	(21,880)	0	21,880	21,880
Precepts and Levies	6,281	0	(6,281)	0	6,281	6,281
Payments to the Housing Capital Receipts Pool	0	0	0	0	756	756
Gain/Loss on Disposal of Non-current Assets	0	0	0	0	14,672	14,672
<b>TOTAL EXPENDITURE</b>	<b>609,978</b>	<b>(89,568)</b>	<b>(41,906)</b>	<b>478,504</b>	<b>45,839</b>	<b>524,343</b>
<b>Surplus/Deficit on the Provision of Services</b>	<b>976</b>	<b>(89,568)</b>	<b>189,624</b>	<b>101,032</b>	<b>(185,691)</b>	<b>(84,659)</b>

## Notes to the Accounts

### 28. FINANCIAL INSTRUMENTS

International Financial Reporting Standard IAS 39 Financial Instruments Recognition and Measurement, IAS 32 Financial Instruments Presentation and IFRS 7 Financial Instruments Disclosures require that all local authorities provide information about the impact of financial instruments on their risk profile, how the risks arising from financial instruments might affect their performance and financial condition, and how these risks are being managed.

#### a. Financial Instrument Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

##### Liabilities

	Long Term		Short Term	
	31 Mar 2015 £'000	31 Mar 2016 £'000	31 Mar 2015 £'000	31 Mar 2016 £'000
Loans at amortised cost				
Principal sum borrowed	(470,873)	(478,400)	(28,901)	(7,599)
Accrued interest	0	0	(2,089)	(2,212)
EIR adjustments (soft loans received)	(7,104)	(7,281)	0	0
<b>Total Borrowing</b>	<b>(477,977)</b>	<b>(485,681)</b>	<b>(30,990)</b>	<b>(9,811)</b>
Loans at amortised cost				
Bank overdraft	0	0	(16,025)	(16,662)
<b>Total Cash Overdraft</b>	<b>0</b>	<b>0</b>	<b>(16,025)</b>	<b>(16,662)</b>
Financial Liabilities at Amortised Cost				
Trade Payables	(31,174)	(26,050)	(31,334)	(30,603)
<b>Included in Creditors</b>	<b>(31,174)</b>	<b>(26,050)</b>	<b>(31,334)</b>	<b>(30,603)</b>
<b>Total Financial Liabilities</b>	<b>(509,151)</b>	<b>(511,731)</b>	<b>(78,349)</b>	<b>(57,076)</b>

The total short-term borrowing includes £2,473,000 (£2,383,000 in 2014/15) representing the short-term principal liability of long-term annuity loans.

The short creditor's lines on the Balance Sheet include £46,581,000 (£38,651,000 in 2014/15) that does not meet the definition of a financial liability. See note 20 for further information.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

## Notes to the Accounts

	Long Term		Short Term	
	31 Mar 2015 £'000	31 Mar 2016 £'000	31 Mar 2015 £'000	31 Mar 2016 £'000
Loans and Receivables				
Principal at amortised cost	38,262	31,036	110,000	202,034
Accrued interest	17	69	360	659
Available-for-sale Financial Assets				
Principal at amortised cost	9,456	14,737	0	0
Accrued interest	0	0	2	137
<b>Total Investments</b>	<b>47,735</b>	<b>45,842</b>	<b>110,362</b>	<b>202,830</b>
Loans and Receivables				
Cash (inc bank accounts)	0	0	13,632	11,835
Cash equivalents at amortised cost	0	0	101,105	13,670
Accrued interest	0	0	69	31
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>114,806</b>	<b>25,536</b>
Loans and Receivables				
Trade receivables	31,800	31,623	15,744	12,888
<b>Included in Debtors</b>	<b>31,800</b>	<b>31,623</b>	<b>15,744</b>	<b>12,888</b>
<b>Total Financial Assets</b>	<b>79,535</b>	<b>77,465</b>	<b>240,912</b>	<b>241,254</b>

The total short-term investments includes £224,000 (£142,000 in 2014/15) representing the short-term interest accrued due on long-term investments.

The debtors lines on the Balance Sheet include £21,330,000 (£20,845,000 in 2014/15) short-term and £9,798 (2015: £13,717) long-term debtors that do not meet the definition of a financial asset. See note 19 for further information.

### b. Material Soft Loans

Soft loans are those advanced at below market rates in support of the council's service priorities. The largest soft loans given to the council are a total of £8,000,000 from HCA for short term cash flow financing of the Milton Keynes Tariff. The movements on material soft loans balances are:

2014/15 £000		2015/16 £000
(6,349)	<b>Opening carrying amount of soft loans on 1st April</b>	(7,104)
(700)	Cash value of new loans made in year	0
99	Fair value adjustment on initial recognition	0
(154)	Increase in discounted amount due to passage of time	(177)
<b>(7,104)</b>	<b>Closing Carrying Amount of Soft Loans on 31st March</b>	<b>(7,281)</b>

Soft loans have been valued by discounting the contractual payments at the market rate of interest for a similar loan. The market rate has been arrived at by taking the council's marginal cost of borrowing and adding a credit risk premium to cover the risk that the borrower is unable to repay the council.

## Notes to the Accounts

### c. Reclassifications of financial instruments

During the financial year there have been no reclassifications between financial assets measured at fair value and those measured at amortised cost.

### d. De-recognition of financial instruments

There have been no financial assets transferred in such a way that the assets did not qualify for de-recognition during the financial year.

### e. Allowance account for credit losses

The council has created an allowance for non-payment of debts. Each class of debt is reviewed and any impairment resulting from issues such as changes in the economic climate or the financial position of the debtor is calculated. This is known as the incurred losses method.

### f. Defaults and Breaches

In respect of loans payable by the council during the year, there have been no breaches or defaults.

### g. Financial Instruments Income, Expenses, Gains and Losses

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

2014/15 Total £000		Financial Liabilities	Financial Assets		2015/16 Total £000
		Amortised Cost £000	Loans & Receivables £000	Available- for-sale assets £000	
(21,877)	Interest expense	(21,996)	0	0	(21,996)
<b>(21,877)</b>	<b>Interest payable and similar charges</b>	<b>(21,996)</b>	<b>0</b>	<b>0</b>	<b>(21,996)</b>
1422	Interest income	0	2,340	0	2,340
0	Dividend income	0	0	533	533
<b>1,422</b>	<b>Interest and investment income</b>	<b>0</b>	<b>2,340</b>	<b>533</b>	<b>2,873</b>
0	Gains on revaluation	0	0	553	553
<b>0</b>	<b>Impact in Other Comprehensive Income</b>	<b>0</b>	<b>0</b>	<b>553</b>	<b>553</b>
<b>(20,455)</b>	<b>Net Gain/(Loss) for the year.</b>	<b>(21,996)</b>	<b>2,340</b>	<b>1,086</b>	<b>(18,570)</b>

### h. Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2016, using the following methods and assumptions:

## Notes to the Accounts

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- Certificates of deposit and forward loan contracts have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2016, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31<sup>st</sup> March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

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

## Notes to the Accounts

Fair Values of financial liabilities:

31 Mar 2015			31 Mar 2016	
Balance sheet £000	Fair Value £000	Fair Value levels	Balance Sheet £000	Fair Value £000
<b><i>Financial liabilities held at amortised cost:</i></b>				
486,606	574,547		472,955	572,199
15,256	16,834	2	15,256	23,826
7,104	7,104	2	7,281	7,281
<b>508,966</b>	<b>598,485</b>		<b>495,492</b>	<b>603,306</b>
<b>Recorded on Balance Sheet as:</b>				
31,334			30,603	
30,989			9,811	
477,977			485,681	
<b>540,300</b>			<b>526,095</b>	

The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

## Notes to the Accounts

### Fair Values of Financial Assets:

31 Mar 2015			31 Mar 2016	
Balance sheet £000	Fair Value £000	Fair Value levels	Balance Sheet £000	Fair Value £000
<i>Financial assets held at fair value:</i>				
85,145	85,145	1	13,676	13,676
9,458	9,458	1	14,874	14,874
0	0	2	15,643	15,643
<i>Financial assets held at amortised cost:</i>				
22,500	22,770	2	20,500	20,937
<b>117,103</b>	<b>117,373</b>	<b>Total</b>	<b>64,693</b>	<b>65,130</b>
Assets for which fair value is not disclosed				
189,712	0		242,190	0
<b>306,815</b>	<b>117,373</b>	<b>Total Financial Assets</b>	<b>306,883</b>	<b>65,130</b>
<b>Recorded on Balance Sheet as:</b>				
15,744			12,888	
110,362			202,830	
31,800			31,623	
47,735			45,842	
101,174			13,701	
<b>306,815</b>		<b>Total Financial Assets</b>	<b>306,884</b>	

The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

### i. Nature and Extent of Risks Arising from Financial Instruments

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

- Credit Risk – the possibility that other parties might fail to pay amounts due to the council;
- Liquidity Risk – the possibility that the council might not have funds available to meet its commitments to make payments;
- Market Risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The council'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. Risk management is carried out by a treasury team, under policies approved by the council in the annual Treasury Management Strategy. The council provides written principles for overall risk management, as well as written policies

## Notes to the Accounts

covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

During 2015/16 the council strengthened measures to minimise credit risk. This has ranged from further restricting deposit sums and durations to, where appropriate, removing institutions from the counterparty list and withdrawing deposits upon maturity. In February 2016, the council approved the 2016/17 Treasury Management Strategy including changes to methodology applied in setting counterparty limits and durations. The council's investment portfolio was subsequently realigned to this policy during the final months of the year.

The investment criteria outlined above ensured that financial assets held by the authority at 31<sup>st</sup> March 2016 were held with institutions that fall into the summarised categories outlined below:

#### Counterparty Limits:

- UK Central Government – Unlimited
- Other Local Authorities – max. £16,000,000 each
- Money Market Funds – max. £162,000,000 in total
- Any single organisation or group under same ownership – max. £32,000,000 each secured, max. £16,000,000 each unsecured
- Building Societies – max. £96,000,000 sector total (no more than 20% unrated)
- Any group of pooled funds under same management – max. £15,000,000 each

Counterparty limits and durations are weighted proportionately to long term credit ratings. For bank/building society investments this ranges from overnight to up to five years where unsecured, and from 100 days to up to 20 years where secured. UK Government investments are limited to up to 50 years. The actual duration of investments within these parameters is informed by cash flow projection, medium and long term financial modelling, and latest economic conditions.

The table below summaries the credit risk for investments:

<u>Credit Rating</u>	Long Term		Short Term	
	31 Mar 16 £000	31 Mar 15 £000	31 Mar 16 £000	31 Mar 15 £000
AAA	10,605	10,779	13,676	85,145
AA+	5,000	5,000	10,056	35
AA	0	0	0	21,028
AA-	0	0	97,321	0
A+	0	0	26,073	0
A	0	5,000	16,077	57,183
A-	0	0	0	0
Unrated local authorities	15,500	17,500	52,190	47,142
Unrated building societies	0	0	1,001	1,001
Unrated Pooled Funds	14,737	9,456	137	2
<b>Total Investments</b>	<b>45,842</b>	<b>47,735</b>	<b>216,531</b>	<b>211,536</b>



## Notes to the Accounts

### Liquidity Risk

As the council has ready access to borrowing from the Public Works Loan 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 the council may have to raise new loans at a time of unfavourable interest rates. In this instance short term loans will be taken until rates become favourable.

The table below sets out the maturity analysis of financial liabilities held by the council.

2014/15 £'000		2015/16 £'000
30,989	Less than one year	9,811
2,473	Between one and two years	2,568
25,105	Between two and five years	39,740
56,409	Between five and ten years.	58,346
127,394	Between ten and twenty years	123,469
96,236	Over 20 years but not over thirty years	101,198
70,000	Over thirty years but not over forty	60,000
100,360	Over forty years	100,360
<b>508,966</b>	<b>Total</b>	<b>495,492</b>

### Market Risk

The council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments and has a number of strategies for managing interest rate risk. These are set out in the annual Treasury Management Strategy which is approved by council in February each year.

The table below sets out the financial impact if interest rates had been 1% higher.

2014/15 £'000		2015/16 £'000
0	Increase in interest payable on variable rate borrowings	0
(1,539)	Increase in interest receivable on variable rate investments	(822)
(4,434)	Increase in government grant receivable for financing costs	(4,257)
(5,973)	Impact on Surplus or Deficit on the Provision of Services	(5,079)
(776)	Decrease in fair value of fixed rate investment assets Impact on Other Comprehensive Income and Expenditure	1,344
(93,690)	Decrease in fair value of fixed rate borrowings liabilities	75,466

# Notes to the Accounts

## Price Risk

The market prices of the council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The council's £15,000,000 cash investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is contained within an upper limit of £15.0m per fund manager and managed alongside the council's diversification of deposits by sector, country and asset classes. Furthermore where an investment carries a risk of capital fluctuation, the council will divert a proportion of interest returns to a reserve provision which may be called upon to mitigate the impact upon the general fund if realised. A notional 5% rise or fall in the fund's net asset value (NAV) unit price at 31<sup>st</sup> March 2016 would have resulted in either a £737,000 charge or gain against Other Comprehensive Income & Expenditure – however this is a point in time measure and would only be realised against the general fund if the investment was actually sold. The council considers its investment in property funds with a long term outlook (5 years or greater) and anticipates that although price fluctuation may occur during this period, prices will rebound in line with market cycles so that a loss is never realised.

## 29. LEASES

### Council as a Lessor - Operating Leases

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

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

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

31 Mar 2015 £'000		31 Mar 2016 £'000
2,154	Not later than one year	2,510
5,209	Later than one year and not later than five years	6,561
14,310	Later than five years	15,566
<u>21,673</u>		<u>24,637</u>

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 2015/16 £98,000 contingent rents were receivable by the council (£64,000 in 2014/15).

# Notes to the Accounts

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## 30. RELATED PARTY TRANSACTIONS

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

### Central Government

The UK Government has significant influence over the general operations of the authority – it is responsible for providing the statutory framework, within which the council must operate, provides the majority of its funding in the forms of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax, housing benefits etc.). Grants received from government departments are set out in the Grant Income disclosure at note 15 to the Financial Statements.

### Other Public Bodies (subject to common control by central government)

The council has three pooled budget arrangements with the Milton Keynes Clinical Commissioning Group. Full details of the transactions for each of the pooled arrangements can be found at note 12.

### Councillors

Councillors have direct control over the council's financial and operating policies. The total of councillors' allowances paid during 2015/16 is shown in note 9. During 2015/16, works and services to the value of £1,471,000 were commissioned from organisations in which 28 councillors had an interest. Of this sum, £21,000 was paid to the City Discovery Centre as a contribution to the educational activities of the charity.

In addition, the council paid grants totalling £322,000 to voluntary and charitable organisations in which 24 councillors had positions on the governing body. Of this sum £133,000 was paid to Milton Keynes Museum to fund the museum expansion. In all cases, grants were made with proper consideration of declarations of interest. The relevant councillors did not take part in any discussion or decision relating to the grants.

Income received during 2015/16 totalled £56,000 (£51,000 in 2014/15) from 10 organisations in which 13 councillors had an interest.

Related parties have been included in this note irrespective of whether there have been financial transactions with the council.

Details of all councillors' disclosures can be viewed online at <http://cmis.milton-keynes.gov.uk/CmisWebPublic/Councillors.aspx>.

## Notes to the Accounts

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### Officers

All staff employed by the council are required to declare any interest or involvement with a third party which could give rise to a related party transaction. No significant interests have been disclosed.

### Outstanding Balances

The outstanding amounts owed by related parties at the end of 31<sup>st</sup> March 2016 totalled £112,000 (£16,000 at 31<sup>st</sup> March 2015).

The outstanding amount owed to related parties at the end of 31<sup>st</sup> March 2016 totalled £316,000 (£235,000 at 31<sup>st</sup> March 2015).

Details of all transactions are included elsewhere in the 2015/16 accounts.

### MK Dons Sport and Education Trust

Milton Keynes Council has a 30% representation (three councillors' appointed by the council) on the Board of Directors of MK Dons Sport Education Trust, therefore the potential to exercise significant influence. This organisation is a charitable company, limited by guarantee. The appointments were made because of a common purpose in relation to the council's own diverse activities, and not to oversee any financial investment made by the council.

In 2015/16, the council provided the MK Dons Sport and Education Trust with £148,000 for works and services which includes £100,000 for Early Help Funding which provides parenting, mentoring and brief intervention services.

The aim of the association is to educate children and young people, resident within Milton Keynes and surrounding areas, through the provision of facilities for recreation and other leisure time occupation.

### Milton Keynes Service Partnership and Milton Keynes Development Partnership

Milton Keynes Council has 100% representation on the Board of Directors and therefore controls two Limited Liability Partnerships. Details of both Milton Keynes Service Partnership and Milton Keynes Development Partnership are disclosed in the Group Accounts note below. Further details can also be found in the Group Accounts section on page 114.

## 31. GROUP ACCOUNTS

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During 2015/16 the council had an interest in two Limited Liability Partnerships – the Milton Keynes Service Partnership, Milton Keynes Development Partnership. The group accounts also cover Milton Keynes Business Excel, which is wholly owned by Milton Keynes Council.

## Notes to the Accounts

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### **Milton Keynes Service Partnership**

The Milton Keynes Service Partnership (MKSP) was formed following the renegotiation of the Public Private Partnership with Mouchel Business Services on 1<sup>st</sup> January 2013.

Created as a Limited Liability Partnership (LLP), MKSP was wholly owned by Milton Keynes Council and provided support services to the council including Finance, Human Resources, Business Support, Revenues and Benefits and Information Technology.

In 2015/16, a review was undertaken of the way the Partnership works and how the LLP can continue going forward. The Board unanimously agreed that there needed to be a new model for MKSP. This new model will seek to aggregate all commercial activity of both MKSP and the council into a company limited by guarantee and for non-traded activity to be directly managed by the council. MKSP ceased to trade from the 31<sup>st</sup> December 2015 at which point all services transferred from the partnership to the council.

### **Milton Keynes Service Partnership Direct / Milton Keynes Business Excel**

The Milton Keynes Service Partnership Direct (MKSP Direct) was a wholly owned company of MKSP, which came into existence on the 23<sup>rd</sup> September 2013. The company was created as an external trading arm of the Milton Keynes Services Partnership LLP. As MKSP ceased to trade on the 31<sup>st</sup> December 2015, MKSP Direct is now wholly owned by Milton Keynes Council and has been renamed and traded under Milton Keynes Business Excel from the 1<sup>st</sup> January 2016.

### **Milton Keynes Development Partnership**

The Milton Keynes Development Partnership (MKDP) was incorporated on 14<sup>th</sup> January 2013, and is a Limited Liability Partnership, wholly owned by Milton Keynes Council.

MKDP was set up by the council to facilitate Milton Keynes' continued growth and economic success by promoting the development of land assets purchased from the Homes and Communities Agency by the council, in line with the Corporate Plan and Economic Development Strategy.

Due to the materiality of both of these entities the council has taken the view that the activity warrants full group accounts disclosures. Details of the group account disclosures can be found from page 114 (Group Accounts).

## **32. TRUST FUNDS**

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The council acts as trustee for the following Trust Funds:

### **a. The MK Emergencies Trust Fund**

The Trust was established to make payments to people who have suffered extreme hardship as a result of flooding within the Borough. The value of the fund at 31<sup>st</sup> March 2016 was £10,974 (£10,974 at 31<sup>st</sup> March 2015). Expenditure of £nil was incurred in 2015/16 (£nil in 2014/15).

## Notes to the Accounts

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### **b. The Norman Hawes Memorial Trust Fund**

The trust was founded in memory of the late Norman Hawes for the purpose of assisting young people to travel overseas for educational purposes. The value of the fund at 31<sup>st</sup> March 2016 was £100,856 (£110,733 in 2014/15). In 2015/16 dividends and donations received generated an income of £3,799 (£3,724 in 2014/15) and expenditure totalling £9,500 was paid out in grants (£2,400 in 2014/15). The council acts as administrator for the trust.

### **33. RETIREMENT BENEFITS**

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#### **a. Local Government Pension Scheme**

##### **Participation in pension schemes**

As part of the terms and conditions of employment of its officers, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The council participates in one pension scheme - The Local Government Pension Scheme, administered locally by Buckinghamshire County Council. This is a funded defined benefits final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

On 1<sup>st</sup> April 2013 the statutory responsibility for Public Health activities transferred to the council from the NHS primary care trusts. There were 7 members of staff that transferred along with their pensions in the NHS pensions scheme to the council. This scheme is not available for current Milton Keynes Council staff to participate in. The pension contributions are included within the Comprehensive Income and expenditure Statement, but full disclosure is not considered to be material to include in this note.

##### **Transactions relating to Post-employment Benefits**

The council recognises the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance and Housing Revenue Account via the Movement in Reserves Statement during the year:

## Notes to the Accounts

2014/15 £'000		2015/16 £'000
	<b><u>Comprehensive Income and Expenditure Statement</u></b>	
	Cost of Services	
	<i>Service cost comprising:</i>	
18,952	Current Service Cost	24,161
(3,408)	(Gain)/Loss from Settlements	21,005
320	Past Service Costs	268
319	Administration expenses	333
	<i>Financing and Investment Income and Expenditure</i>	
10,848	Net interest expense	10,675
<u>27,031</u>	<b>Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services</b>	<u>56,442</u>
2014/15 £'000		2015/16 £'000
	<i>Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</i>	
	Remeasurement of the net defined benefit liability comprising:	
	Return on plan assets (excluding the amount included in the net interest expense)	6,720
(30,074)	Actuarial gains and losses arising on changes in demographic assumptions	0
0	Actuarial gains and losses arising on changes in financial assumptions	(57,127)
103,057	Experience gain/ (loss) on defined benefit obligation	1
119	Other actuarial gains/ (losses) on assets	0
0		0
<u>73,102</u>	Total remeasurement of the net benefit liability (asset)	<u>(50,406)</u>
<u>100,133</u>	<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<u>6,036</u>
2014/15 £'000	<b><u>Movement in Reserves Statement</u></b>	2015/16 £'000
(27,031)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for Post Employment Benefits in accordance with the code.	(56,442)
	<i>Actual Amount Charged Against the General Fund Balance for Pensions in Year:</i>	
<u>14,621</u>	<b>Employers Contributions Payable to Scheme</b>	<u>16,276</u>

### Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2014/15 £'000		2015/16 £'000
(768,028)	Present Value of the defined obligations	(805,176)
431,387	Fair Value of plan assets	478,775
<u>(336,641)</u>	<b>Net liability arising from defined benefit obligation</b>	<u>(326,401)</u>

## Notes to the Accounts

### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2014/15 £'000		2015/16 £'000
385,367	Opening fair value of scheme assets	431,387
17,247	Interest on assets	14,229
	<i>Remeasurement gain/(loss):</i>	
30,074	The return on plan assets, excluding the amount included in the net interest expense	(6,720)
0	Other actuarial gains/(losses)	
14,621	Contribution by employer	16,276
4,834	Contribution by Scheme participants	5,488
(15,253)	Estimated Benefits paid	(14,270)
(5,184)	Settlement prices received/(paid)	32,718
(319)	Administration expenses	(333)
<u>431,387</u>	<b>Closing fair value of scheme assets</b>	<u>478,775</u>

### Reconciliation of Present Value of scheme Liabilities (Defined Benefit Obligation)

2014/15 £'000		2015/16 £'000
636,495	<b>Opening balance at 1st April</b>	<b>768,028</b>
18,952	Current Service Cost	24,161
28,095	Interest Cost	24,904
4,834	Contribution by scheme participants	5,488
	<i>Measurement gain/(loss):</i>	
0	Actuarial gains/losses arising from changes in demographic assumptions	0
103,057	Actuarial gains/losses arising from changes in financial assumptions	(57,127)
119	Experience loss/(gain) on defined benefit obligation	1
320	Past Service cost, including curtailments	268
(8,592)	Liabilities assumed / (extinguished) on settlements	53,723
(14,659)	Estimated benefits paid net of transfer in	(13,676)
(593)	Unfunded pension payments	(594)
<u>768,028</u>	<b>Closing balance at 31st March</b>	<u>805,176</u>

### Local Government Pension Scheme assets comprised:

The return on the pension fund for the year to 31<sup>st</sup> March 2016 is estimated to be 2%. The actual return on Fund assets over the year may be different.

The estimated assets allocation for Milton Keynes Council as at 31<sup>st</sup> March 2016 is as follows:

31 Mar 2015			31 Mar 2016	
£'000	%		£'000	%
53,772	12%	Gilts	58,625	12%
235,584	55%	Equities	256,250	54%
55,864	13%	Other Bonds	58,360	12%
36,984	9%	Property	45,431	10%
8,395	2%	Cash	12,260	3%
6,360	1%	Alternative Assets	6,522	1%
16,246	4%	Hedge Funds	20,027	4%
18,182	4%	Absolute return Portfolio	21,300	4%
<u>431,387</u>	<u>100%</u>	<b>Total Assets</b>	<u>478,775</u>	<u>100%</u>



## Notes to the Accounts

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method. An estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme have been estimated by Waddingham Public Sector Consulting, an independent firm of actuaries, estimates for the council fund being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2016.

The significant assumptions used by the actuary have been:

2014/15 £'000		2015/16 £'000
3.3%	Long term expected rate of return on assets in the scheme:	3.7%
	<i>Mortality assumptions:</i>	
	Longevity at 65 for current pensioners:	
23.7	Men	23.8
26.1	Women	26.2
	Longevity at 65 for future pensioners	
26.0	Men	26.1
28.4	Women	28.5
3.2%	Rate of inflation (RPI)	3.3%
2.4%	Rate of inflation (CPI)	2.4%
4.2%	Rate of inflation in salaries	4.2%
2.4%	Rate of increase in pensions	2.4%
3.3%	Rate for discounting scheme liabilities	3.7%

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

### Sensitivity Analysis

	2015/16		
	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.00%	-0.1%
Present value of total obligation	£790,465	£805,176	£820,176
Projected service cost	£21,343	£21,842	£22,353
Adjustment to long term salary increase	+0.1%	0.00%	-0.1%
Present value of total obligation	£807,042	£805,176	£803,322
Projected service cost	£21,852	£21,842	£21,832
Adjustment to pension increases and deferred revaluation	+0.1%	0.00%	-0.1%
Present value of total obligation	£818,487	£805,176	£792,120
Projected service cost	£22,348	£21,842	£21,347
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	£829,430	£805,176	£781,654
Projected service cost	£22,399	£21,842	£21,298

## Notes to the Accounts

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### Risks associated with investments

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

- Investment risk - The fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk - The fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk - All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk - In the event that the members live longer than assumed a deficit will emerge in the fund. There are also other demographic risks.

### 34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16 the council paid £8,924,000 (£8,064,000 in 2014/15) to Teachers Pensions in respect of teachers' retirement benefits. This was equivalent to 14.1% (14.1% in 2014/15) of total pensionable pay; the rate was changed in September 2016 to 16.48% as per Teachers' Pensions instructions. There was no contribution remaining payable at the year end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis.

# Supplementary Financial Statements

## 1. HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

This statement shows the economic cost in the year of providing housing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from rents and government grants. The council charges rent to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rent is raised, is shown in the Movement on the Housing Revenue Account Statement.

2014/15 £'000		2015/16 £'000
	<b>Expenditure</b>	
10,672	Repairs and Maintenance	10,393
7,891	Supervision and Management	8,145
2,877	Special Services	2,947
327	Rent, Rates, Taxes and Other Charges	382
	Depreciation of Non-Current Assets	
7,595	Dwellings	9,304
635	All Other HRA Assets	613
	Impairment of Non-Current Assets	
(48,813)	Dwellings	(76,538)
22	All Other HRA Assets	480
1	Amortisation of Intangible Fixed Assets	0
0	Revenue Expenditure Funded by Capital Under Statute	745
128	Debt Management Costs	237
23	Movement in allowance for bad debts	186
0	Rent Rebate Subsidy Limitation Transfer to the General Fund	0
<b>(18,642)</b>	<b>Total Expenditure</b>	<b>(43,106)</b>
	<b>Income</b>	
(53,426)	Dwelling Rents	(54,707)
(1,887)	Non-Dwelling Rents	(1,167)
	Charges for Services and Facilities	
(886)	Tenants	(908)
(830)	Leaseholders	(1,012)
(29)	Contribution towards expenditure	(13)
(180)	Reimbursement Costs	(207)
<b>(57,238)</b>	<b>Total Income</b>	<b>(58,014)</b>
<b>(75,880)</b>	<b>Net Expenditure of HRA Services as included in the whole authority</b>	<b>(101,120)</b>
	<b>Comprehensive Income and Expenditure Statement</b>	
290	HRA Share of Corporate and Democratic Core	288
<b>(75,590)</b>	<b>Net Expenditure of Housing Revenue Account Services</b>	<b>(100,832)</b>
(2,636)	(Gain) / Loss on Sale of HRA Non-Current Assets	(2,722)
10,600	Interest Payable and Similar Charges	10,157
(164)	HRA Interest and Investment Income	(413)
344	Net Interest on the Defined Benefit Liability (Asset)	353
(207)	Capital Grants and Contributions Receivable	0
<b>(67,653)</b>	<b>Surplus / Deficit for the Year on HRA Services</b>	<b>(93,457)</b>

## Supplementary Financial Statements

### 2. MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

This statement illustrates how the Housing Revenue Account Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year.

2014/15 £'000		2015/16 £'000
(4,641)	<b>Housing Revenue Account Balance as at 1 April 2015</b>	(4,569)
(67,653)	(Surplus) / Deficit on HRA Income and Expenditure Statement	(93,457)
63,657	Adjustments between Accounting Basis and Funding Basis Under Regulations	72,858
<hr/>		
(3,996)	<b>Net (Increase) / Decrease before Transfers to/from Earmarked Reserves</b>	(20,599)
4,068	Transfer to / (from) Reserves	19,690
72	Decrease in year on Housing Revenue Account	(909)
<hr/>		
(4,569)	<b>Housing Revenue Account Balance as at 31 March 2016</b>	(5,478)

### 3. ANALYSIS OF THE ADJUSTMENT BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made the Housing Revenue Account in the year according with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet capital and revenue expenditure.

2014/15 £'000		2015/16 £'000
40,601	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	66,619
0	Revenue Expenditure Funded from Capital Under Statute	2
207	Capital Grants & Contributions credited to the Housing Revenue Income & Expenditure Account	0
2,636	Net Gain or Loss on Sale of Non-Current Assets	2,722
(17)	Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(22)
(393)	Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(1,334)
6,742	Capital Expenditure funded from the Housing Revenue Account	(8,087)
(5)	Accumulated Absence Account	(62)
13,870	Transfer to/(from) the Major Repairs Reserve	13,020
(26)	Write-off of mortgage payments	0
42	Prudential Borrowing Principal Repayment	0
<hr/>		
63,657	<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	72,858

## Supplementary Financial Statements

### 4. TRANSFERS TO/FROM EARMARKED RESERVES

The following Reserves were held at 31<sup>st</sup> March 2016.

	Balance at 31 March 2014 £'000	Transfers Out 2014/15 £'000	Transfers In 2014/15 £'000	Balance at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance at 31 March 2016 £'000
Allow for Non-Payment of Debt Reserve	(561)	0	0	(561)	561	0	0
Other Earmarked Reserves	(3,046)	628	(3,115)	(5,533)	1,508	(3,118)	(7,143)
Capital Reserve - HRA	(10,682)	6,742	(8,323)	(12,263)	0	(18,641)	(30,904)
<b>Total HRA Earmarked Reserves</b>	<b>(14,289)</b>	<b>7,370</b>	<b>(11,438)</b>	<b>(18,357)</b>	<b>2,069</b>	<b>(21,759)</b>	<b>(38,047)</b>

### 5. HOUSING STOCK

At 1<sup>st</sup> April 2015 the HRA housing stock was 12,270. During the 2015/16 financial year 63 properties were sold to tenants (includes part-sales of shared ownership dwellings), 13 dwellings were built, 3 dwellings were converted from commercial properties, 1 repossession was overturned, and 1 was sold on the open market. Therefore as at 31<sup>st</sup> March 2016 the council's HRA was responsible for managing a housing stock of 12,221 dwellings of which 974 is the council's portion of shared ownership dwellings. The analysis of the remaining 11,247 dwellings is as follows:

	Houses	Flats	Total	Houses Built	No. of Houses
1 Bedroom	1,477	2,328	3,805	Pre - 1919	44
2 Bedrooms	1,794	841	2,635	1919 - 1944	338
3 or more Bedrooms	4,631	176	4,807	1945 - 1964	1,486
				Post - 1964	6,034
<b>Total</b>	<b>7,902</b>	<b>3,345</b>	<b>11,247</b>		<b>7,902</b>

## Supplementary Financial Statements

### 6. ASSET VALUES

The Balance Sheet values of the assets held within the Housing Revenue Account are as follows:

	31 March 2015 £'000	1 April 2015 £'000	31 March 2016 £'000
<u>Operational Assets</u>			
Council Dwellings	512,434	504,615	586,170
Other Land & Buildings	20,211	19,302	3,210
Equipment	7	4	72
<u>Non Operational Assets</u>			
Surplus Assets	947	933	781
Assets Under Construction	890	890	45
Investment Properties	22	22	22
	<u>534,511</u>	<u>525,766</u>	<u>590,300</u>

As at 1<sup>st</sup> April 2015, the vacant possession value of the council's dwellings is estimated at £1,601,779,000 compared with the Balance Sheet value of £504,615,000 shown above. This variance reflects the economic cost to the Government of providing council housing at less than open market rents and annual depreciation charged on brought forward balances.

The increase of £64,534,000 between 1<sup>st</sup> April 2015 and 31<sup>st</sup> March 2016 is due to further revaluations in the year along with additions, disposals and reclassifications.

### 7. MAJOR REPAIRS RESERVE

The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows capital resources that have yet to be applied at the year-end.

2014/15 £'000		2015/16 £'000
(10,549)	Opening Balance at 1 April 2015	(18,199)
(13,870)	Amounts transferred to the Major Repairs Reserve from the HRA during the year	(13,020)
6,220	Debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on land, houses, and other properties within the HRA	15,540
<u>(18,199)</u>	<b>Balance Carried Forward at 31 March 2016</b>	<u>(15,679)</u>

## Supplementary Financial Statements

### 8. CAPITAL EXPENDITURE

Total capital spending within Housing and Other Housing Revenue Account resources and the funding of that expenditure in 2015/16 is shown in the table below.

2014/15 £'000		2015/16 £'000
	<b><u>Capital Spending</u></b>	
15,539	- Dwellings	6,735
2,561	- Other HRA Assets	1,647
0	- Revenue Expenditure Funded from Capital Under Statute	743
<b><u>18,100</u></b>		<b><u>9,125</u></b>
	<b><u>Funded By</u></b>	
(3,861)	- Usable Capital Receipts	(854)
(5)	- Supported Borrowing	0
(6,220)	- Major Repairs Allowance	(15,540)
(1,064)	- Government Grant	(73)
(208)	- Third Party Contributions	0
(6,742)	- Revenue Contributions	7,342
<b><u>(18,100)</u></b>		<b><u>(9,125)</u></b>

### 9. CAPITAL RECEIPTS

The following capital receipts were received during 2015/16:

2014/15 £'000		2015/16 £'000
	Sales of Dwellings*:	
4,647	Council Houses	4,106
995	Shared Ownership	1,219
0	Land	6
10	Recovered Discount	33
8	Mortgage Receipts	0
0	Non Right to Buy Sales	498
<b><u>5,660</u></b>	<b>HRA Receipts in Year</b>	<b><u>5,862</u></b>
(756)	Less: Statutory Pooling	(848)
<b><u>4,904</u></b>	<b>Total HRA Useable Receipts in year</b>	<b><u>5,014</u></b>

\* Sales of dwellings are shown net of administrative costs and clawback.

## Supplementary Financial Statements

### 10. DEPRECIATION

The total charge for depreciation within the Housing Revenue Account for the year is made up as follows:

2014/15 £'000		2015/16 £'000
7,595	Dwellings	9,304
635	Other Assets	613
<u>8,230</u>	<b>Gross Balance Sheet Value</b>	<u>9,917</u>

The charge for depreciation on dwellings from 1<sup>st</sup> April 2015 has been calculated on an actual life basis.

Other assets are depreciated over their useful life with property being based on 60 years from completion date.

### 11. IMPAIRMENT

The total charge for impairment within the Housing Revenue Account for the year is made up as follows:

Total Impairment 2014/15 £'000		Impairment Loss Charged to HRA 2015/16 £'000	Reversal of Impairment Loss charged to HRA 2015/16 £'000	Revaluation - on 2015/16 £'000	Reversal of Revaluation- on Loss charged to HRA 2015/16 £'000	Total Impairment 2015/16 £'000
(48,813)	Dwellings	644	0	18,692	(95,873)	(76,537)
22	Other Assets	0	0	479	0	479
<u>(48,791)</u>	<b>Total Impairment</b>	<u>644</u>	<u>0</u>	<u>19,171</u>	<u>(95,873)</u>	<u>(76,058)</u>

### 12. PENSION RESERVE

The transfer to the Pensions Reserve in respect of the Housing Revenue Account is (£1,334,000). Details of the background to, and reasons for this adjustment, may be found in note 7 to the Statement of Accounting Policies, and note 33 to the Financial Statements.



## Supplementary Financial Statements

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### 13. RENTS ARREARS

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The total rent income for the year, after allowance is made for empty properties is known as Gross Rent Income. The loss of income as a result of empty properties & garages in HRA fell by £227,000 from 2014/15 value of £1,015,000 to £788,000 in 2015/16. The reduction in loss was partly due to lower number of empty properties during the year and transfer of majority of non-tied garages to General fund housing in October 2015. At 31<sup>st</sup> March 2016, 0.64% of the housing stock was vacant (0.58% at 31<sup>st</sup> March 2015).

Rents are expressed in terms of a 50-week year and were increased from 6<sup>th</sup> April 2015 by an average of 2.20%. The average weekly rent at the end of 2015/16 was £89.17 (£87.18 in 2014/15).

The Housing Revenue Account shows rent income and other miscellaneous charges (for example service charges). Arrears of all charges at 31<sup>st</sup> March 2016 amounted to £3,604,000 (£4,114,000 at 31<sup>st</sup> March 2015). During the year ending 31<sup>st</sup> March 2016 arrears of £404,000 were written off as irrecoverable, which includes rent debt written off amounting to £363,000.

The council has made a total provision against all housing-related debts of £1,155,000. This figure includes a provision against rent arrears, in the sum of £1,007,000.

### 14. SUBSIDY LIMITATION TRANSFER TO THE GENERAL FUND

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Rent Rebates are available under the Housing Benefit scheme for those on low incomes. During 2015/16 64.05% of the Council's tenants received some help with the cost of their rent.

From 1<sup>st</sup> April 2004, the responsibility for carrying the cost of Housing Benefit passed to the General Fund in accordance with legislative changes. The Housing Revenue Account now only bears the cost of rent rebate subsidy limitation, which is the cost of rent rebates payable on rents above the Government's Limit rent level. In 2015/16 HRA average rents were below the Limit rent value, therefore, the cost to HRA was nil.

### 15. COLLECTION FUND

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

## Supplementary Financial Statements

Business Rates £'000	Council Tax £'000	2014/15 £'000		Business Rates £'000	Council Tax £'000	2015/16 £'000	
<b>INCOME</b>							
	0	(112,794)	(112,794)	Council Tax Receivable	0	(117,148)	(117,148)
(162,653)		0	(162,653)	Business Rates Receivable	(166,990)	0	(166,990)
<b>(162,653)</b>	<b>(112,794)</b>	<b>(275,447)</b>			<b>(166,990)</b>	<b>(117,148)</b>	<b>(284,138)</b>
<b>EXPENDITURE</b>							
<b>Apportionment of Previous Year (Surplus)/Deficit</b>							
(2,402)	0	(2,402)	Central Government	1,712	0	1,712	
(2,354)	1,017	(1,337)	Billing Authority	1,678	2,882	4,560	
(48)	50	2	Fire Authority	34	141	175	
0	133	133	Police Authority	0	384	384	
<b>(4,804)</b>	<b>1,200</b>	<b>(3,604)</b>		<b>3,424</b>	<b>3,407</b>	<b>6,831</b>	
<b>Precepts, Demands and Shares</b>							
70,587	0	70,587	Central Government	77,601	0	77,601	
69,176	91,875	161,051	Billing Authority	76,049	96,442	172,491	
1,412	4,509	5,921	Fire Authority	1,552	4,595	6,147	
0	12,241	12,241	Police Authority	0	12,849	12,849	
<b>141,175</b>	<b>108,625</b>	<b>249,800</b>		<b>155,202</b>	<b>113,886</b>	<b>269,088</b>	
<b>Charges to Collection Fund</b>							
908	433	1,341	Less write offs of uncollectable	1,069	134	1,203	
			Less: Increase/ Decrease(-) in Bad Debt Provision*	(620)	(32)	(652)	
			Less: Increase/ Decrease(-) in Provision for Appeals	11,898	0	11,898	
17,323	0	17,323	Less: Cost of Collection	376	0	376	
374	0	374	Less: Disregarded Amounts	1,510	0	1,510	
0	0	0		<b>14,233</b>	<b>102</b>	<b>14,335</b>	
<b>19,175</b>	<b>760</b>	<b>19,935</b>					
<b>(7,107)</b>	<b>(2,209)</b>	<b>(9,316)</b>	<b>(Surplus)/Deficit arising during the year</b>	<b>5,869</b>	<b>247</b>	<b>6,116</b>	
16,746	(2,208)	14,538	<b>(Surplus)/Deficit b/fwd 1st April</b>	9,638	(4,416)	5,222	
<b>9,639</b>	<b>(4,417)</b>	<b>5,222</b>	<b>(Surplus)/Deficit c/fwd 31st March</b>	<b>15,507</b>	<b>(4,169)</b>	<b>11,338</b>	

\* The Write-offs and Bad debt provision for 14/15 has been corrected for an identified misclassification on the Collection Fund Statement.

### 16. RATEABLE VALUE

The total rateable value of business property as at the end of 2015/16 was £371,073,587 (as compared to £363,395,819 in 2014/15) and the rate multiplier applied was £0.493 (as compared to £0.482 in 2014/15) with a reduced multiplier of £0.480 for those businesses receiving Small Business Relief (as compared to £0.471 in 2014/15).

## Supplementary Financial Statements

### 17. WRITE OFFS

Council Tax debt of £133,830 was written off in 2015/16 (£433,008 in 2014/15). National Non domestic rates debt of £1,069,462 was written off in 2015/16 (£907,283) was written off in 2014/15).

### 18. TAX BASE

The Council Tax base for 2015/16, i.e. the number of chargeable dwellings in each band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, was calculated as follows:

Estimated No. of Taxable Properties after discounts/exemptions	Ratio to Band D	Band D Equivalent
A-	5/9	7.65
A	6/9	9,089.99
B	7/9	21,032.67
C	8/9	22,584.45
D	9/9	12,377.50
E	11/9	12,461.44
F	13/9	7,452.62
G	15/9	4,376.59
H	18/9	224.00
		89,606.91
Anticipated changes during the year		760.00
Provision for non-collection		(1,673.17)
		88,693.74
Impact of Council Tax Reductions		(10,200.75)
<b>Council Tax Base</b>		<b>78,492.99</b>

### 19. COLLECTION FUND BALANCE APPORTIONMENT

The Collection Fund is a statutory Fund in which the council records transactions for Council Tax, Business Rates and residual Community Charges. In 2015/16 the fund is in deficit and the proportionate shares are as follows:

2014/15 Total £'000	2015/16 Council Tax £'000	2015/16 NDR £'000	2015/16 Total £'000
987 Milton Keynes Council	(3,533)	7,600	4,067
4,819 Central Government	0	7,752	7,752
(498) Thames Valley Police Authority	(468)	0	(468)
(86) Buckinghamshire and Milton Keynes Fire Authority	(168)	155	(13)
<b>5,222</b>	<b>(4,169)</b>	<b>15,507</b>	<b>11,338</b>

The Council Tax element of the Collection Fund had an estimated surplus of (£3,109,000) when the 2015/16 Council Tax was set. The final outturn as above was (£4,167,678) surplus, leaving the balance of (£1,058,678) to be a contribution to the Collection Fund in 2016/17. The Business Rates element of the Collection Fund has a final outturn of £15,507,000 deficit which will need to be funded in 2017/18.

## Supplementary Financial Statements

### 20. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

2014/15 Total		2015/16 Council Tax Precept / Demand £'000	2015/16 NDR Precept / Demand £'000	2015/16 Total Precept / Demand £'000	Council Tax Share of 2015/16 Surplus £'000	NDR Share of 2015/16 Deficit £'000	Total Share of 2015/16 (Surplus)/ Deficit £'000	2015/16 Total £'000
162,038	Milton Keynes Council	96,442	76,049	172,491	(3,533)	7,600	4,067	176,558
75,406	Central Government	0	77,601	77,601	0	7,752	7,752	85,353
11,743	Police & Crime Commissioner for Thames Valley	12,849	0	12,849	(468)	0	(468)	12,381
5,835	Buckinghamshire and Milton Keynes Fire Authority	4,595	1,552	6,147	(168)	155	(13)	6,134
<b><u>255,022</u></b>		<b><u>113,886</u></b>	<b><u>155,202</u></b>	<b><u>269,088</u></b>	<b><u>(4,169)</u></b>	<b><u>15,507</u></b>	<b><u>11,338</u></b>	<b><u>280,426</u></b>

# **GROUP ACCOUNTS**

# Group Accounts

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## INTRODUCTION

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The council has an interest in two Limited Liability Partnerships – the Milton Keynes Service Partnership and the Milton Keynes Development Partnership.

### **Milton Keynes Service Partnership**

The Milton Keynes Service Partnership (MKSP) was formed following the renegotiation of the Public Private Partnership with Mouchel Business Services on 31<sup>st</sup> December 2012.

Created as a Limited Liability Partnership, MKSP was wholly owned by Milton Keynes Council and provides support services to the council including Finance, Human Resources, Business Support, Revenues and Benefits and Information Technology. Following a review commissioned by the council during 2015, it was determined that the Milton Keynes Service Partnership (MKSP) LLP was dissolved and that all partnership activity was transferred back to the council with effect from 31<sup>st</sup> December 2015. MKSP will end in 2016/17. Any outstanding assets or liabilities will transfer back to the council.

MKSP Direct which was wholly owned by MKSP was renamed in year to Milton Keynes Business Excel (MKBE). The ownership of MKBE also transferred to Milton Keynes Council on the 31<sup>st</sup> December 2015. The trading activity for 9 months of the year has been included within the MKSP LLP financial statements which have been consolidated in to the councils Group Accounts. There was no trading activity within MKBE for the final three months of the year.

The financial position of the Milton Keynes Service Partnership at 31<sup>st</sup> March 2016 was a loss of £7,818,000. MKSP held a cash balance of £2,551,000. These resources will be incorporated in the council accounts and used to invest in external trading and saving opportunities.

### **Milton Keynes Development Partnership**

The Milton Keynes Development Partnership (MKDP) was incorporated on 14<sup>th</sup> January 2013, and is a Limited Liability Partnership, wholly owned by Milton Keynes Council.

MKDP was set up by the council to facilitate Milton Keynes' continued growth and economic success by promoting the development of land assets transferred to the council from the Homes and Communities Agency, in line with the council's Corporate Plan and Economic Development Strategy.

The financial position of the Milton Keynes Development Partnership for the period ended 31<sup>st</sup> March 2016 was a profit of (£3,894,000).

The significant variations include an increase in the revaluation of assets (£2,077,000) and sale of assets (£947,000).

Due to the materiality of both of these entities the council has taken the view that the activity warrants full group accounts disclosures.

## Group Accounts

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In order to provide a full picture of the council's economic activities and financial position, the accounting statements of the council, the Milton Keynes Service Partnership LLP and the Milton Keynes Development Partnership LLP have been consolidated. The Group Accounts are presented in addition to the council's single entity financial statements and comprise:

- The Group Movement in Reserves Statement; incorporating the movement in year on all the different reserves held by the Group;
- The Group Comprehensive Income and Expenditure Statement; which summarises resources which have been applied and generated in providing services and managing the group during the last year;
- The Group Balance Sheet which sets out the assets and liabilities recognised by the group as at 31<sup>st</sup> March 2016, and;
- Group Cash Flow Statement, which summarises the changes in cash and cash equivalents of the council during the reporting period.

These statements, together with explanatory notes are set out in the pages that follow.

### Notes to the Group Financial Statements

The notes to support the group's financial statements have three main purposes:

- To present information about the basis of preparation of the financial statements and the specific accounting policies used;
- To disclose the information required by the International Financial Reporting Standards Code of Practice that is not presented elsewhere in the financial statements, and;
- To provide information that is not presented elsewhere in the financial statements, but is relevant to the understanding of them.

### Material Item of Income and Expense

The material income and expense included within the Group Comprehensive Income and Expenditure Statement are the same as the single entity Accounts which can be found in note 3 of the Financial Statements.

### Interest in Subsidiaries

There are no interests in subsidiaries other than those reported in note 30 in the financial statements that would enable users of the authority's group accounts to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group.

There are no significant restrictions on its ability to access or use the assets and settle the liabilities of the group, such as those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group

Milton Keynes Council are wholly liable for the assets and liabilities of both of their subsidiaries and would provide financial support to a consolidated structured entity, including events or circumstances that could expose the authority to a loss. There are no other risks associated with these subsidiaries

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the groups services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the group.

	General Fund	Earmarked General Fund	Schools Balances	Housing Revenue Account	Earmarked HRA Reserves	Major Repairs Reserve	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Group Reserves
	Balance	Reserves	Reserve	Account	Reserves	Reserve	Unapplied	Reserve	Reserves		Reserves
2015/16	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2015</b>	<b>(8,874)</b>	<b>(67,122)</b>	<b>(10,275)</b>	<b>(4,569)</b>	<b>(18,357)</b>	<b>(18,199)</b>	<b>(59,660)</b>	<b>(10,701)</b>	<b>(197,757)</b>	(221,707)	<b>(419,464)</b>
(Surplus) or Deficit on Provision of Services (Accounting Basis)	(81,604)	0	0	(93,457)	0	0	0	0	<b>(175,061)</b>	0	<b>(175,061)</b>
Other Comprehensive Expenditure and Income	0	0	0	0	0				<b>0</b>	(67,717)	<b>(67,717)</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>(81,604)</b>	<b>0</b>	<b>0</b>	<b>(93,457)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(175,061)</b>	<b>(67,717)</b>	<b>(242,778)</b>
Adjustments between Accounting Basis & Funding Basis under Regulations	62,339	0	0	72,858	0	2,520	13,517	(4,283)	<b>146,951</b>	(145,005)	<b>1,946</b>
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(19,265)</b>	<b>0</b>	<b>0</b>	<b>(20,599)</b>	<b>0</b>	<b>2,520</b>	<b>13,517</b>	<b>(4,283)</b>	<b>(28,110)</b>	<b>(212,722)</b>	<b>(240,832)</b>
Transfers (to) / from Earmarked Reserves	21,153	(19,797)	(1,356)	19,690	(19,690)	0	0	0	<b>0</b>		<b>0</b>
<b>(Increase) / Decrease in Year</b>	<b>1,891</b>	<b>(19,797)</b>	<b>(1,356)</b>	<b>(909)</b>	<b>(19,690)</b>	<b>2,520</b>	<b>13,517</b>	<b>(4,283)</b>	<b>(28,110)</b>	<b>(212,722)</b>	<b>(240,832)</b>
<b>Balance at 31 March 2016</b>	<b>(6,986)</b>	<b>(86,919)</b>	<b>(11,631)</b>	<b>(5,478)</b>	<b>(38,047)</b>	<b>(15,679)</b>	<b>(46,143)</b>	<b>(14,984)</b>	<b>(225,867)</b>	<b>(434,429)</b>	<b>(660,296)</b>



## Group Movement in Reserves Statement

	General Fund	Earmarked General Fund	Schools Balances	Housing Revenue	Earmarked HRA	Major Repairs	Capital Grants	Capital Receipts	Total Usable Reserves	Unusable Reserves	Total Group Reserves	Reserves Of Group Entities	Total Group Reserves
	Balance	Reserves	Reserve	Account	Reserves	Reserve	Unapplied	Reserve	Reserves		Reserves		Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2014/15</b>													
<b>Balance at 31 March 2014</b>	<b>(9,852)</b>	<b>(57,288)</b>	<b>(10,150)</b>	<b>(4,641)</b>	<b>(14,289)</b>	<b>(10,549)</b>	<b>(51,699)</b>	<b>(10,715)</b>	<b>(169,183)</b>	<b>(238,037)</b>	<b>(407,220)</b>	<b>0</b>	<b>(407,220)</b>
(Surplus) or Deficit on Provision of Services (Accounting Basis)	(16,074)	0	0	(67,653)	0	0	0	0	(83,727)	0	(83,727)	0	(83,727)
Other Comprehensive Expenditure and Income									0	69,524	69,524	0	69,524
<b>Total Comprehensive Expenditure and Income</b>	<b>(16,074)</b>	<b>0</b>	<b>0</b>	<b>(67,653)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(83,727)</b>	<b>69,524</b>	<b>(14,203)</b>	<b>0</b>	<b>(14,203)</b>
Adjustments between Group Accounts and authorities accounts	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Increase/Decrease before Transfers</b>	<b>(16,074)</b>	<b>0</b>	<b>0</b>	<b>(67,653)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(83,727)</b>	<b>69,524</b>	<b>(14,203)</b>	<b>0</b>	<b>(14,203)</b>
Adjustments between Accounting Basis & Funding Basis under Regulations	7,093	0	0	63,657	0	(7,650)	(7,961)	14	55,153	(53,194)	1,959	0	1,959
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(8,981)</b>	<b>0</b>	<b>0</b>	<b>(3,996)</b>	<b>0</b>	<b>(7,650)</b>	<b>(7,961)</b>	<b>14</b>	<b>(28,574)</b>	<b>16,330</b>	<b>(12,244)</b>	<b>0</b>	<b>(12,244)</b>
Transfers (to) / from Earmarked Reserves	9,959	(9,834)	(125)	4,068	(4,068)	0	0	0	0	0	0	0	0
Transfers (to) / from Other Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>(Increase) / Decrease in Year</b>	<b>978</b>	<b>(9,834)</b>	<b>(125)</b>	<b>72</b>	<b>(4,068)</b>	<b>(7,650)</b>	<b>(7,961)</b>	<b>14</b>	<b>(28,574)</b>	<b>16,330</b>	<b>(12,244)</b>	<b>0</b>	<b>(12,244)</b>
<b>Balance at 31 March 2015</b>	<b>(8,874)</b>	<b>(67,122)</b>	<b>(10,275)</b>	<b>(4,569)</b>	<b>(18,357)</b>	<b>(18,199)</b>	<b>(59,660)</b>	<b>(10,701)</b>	<b>(197,757)</b>	<b>(221,707)</b>	<b>(419,464)</b>	<b>0</b>	<b>(419,464)</b>

## Group 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. The council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Group Movement in Reserves Statement.

31 March 2015	31 March 2016		
Net Exp £'000	Gross Exp £'000	Gross Income £'000	Net Exp £'000
58,509 Adult Social Care	75,538	(19,752)	55,786
7,988 Central Services	10,349	(3,020)	7,329
63,438 Children & Education Services	273,870	(206,604)	67,266
10,647 Culture & Related Services	15,492	(2,105)	13,387
23,377 Environmental & Regulatory Unit	26,915	(5,106)	21,809
12,019 Highways and Transport Services	23,538	(18,161)	5,377
8,417 Housing Services	115,514	(106,339)	9,175
(75,770) Housing Revenue Account	(47,595)	(58,015)	(105,610)
(5,503) Planning Services	13,142	(14,992)	(1,850)
(428) Public Health	10,973	(10,373)	600
<b>102,694 Cost of Services</b>	<b>517,736</b>	<b>(444,467)</b>	<b>73,269</b>
<b>Other Operating Expenditure</b>			
5,838 Precepts			5,992
443 Levies			446
756 Payment to the Housing Capital Receipt Pool			849
14,672 (Gain)/Loss on Disposal of non-Current Assets			(1,452)
<b>21,709 Total Other Operating Expenditure</b>			<b>5,835</b>
21,880 Interest Payable and Similar Charges			22,075
(1,363) Interest and Investment Income			(2,769)
224 (Surplus)/Deficit on Trading Operations			284
(10,088) Income, expenditure and changes in the fair value of investment properties			(42,708)
11,384 Net Interest on the net defined benefit liability (asset)			11,500
<b>22,037 Total Financing and Investment Income and Expenditure</b>			<b>(11,618)</b>
(94,759) Council Tax Income			(99,120)
(43,668) Non-Domestic Rate Income			(47,055)
(36,837) Capital Grants & Contributions			(56,115)
(54,903) Non-Ringfenced Government Grants			(40,257)
<b>(230,167) Total Taxation and Non-Specific Grant Income</b>			<b>(242,547)</b>
<b>(83,727) (Surplus) or Deficit on Provision of Services</b>			<b>(175,061)</b>
(10,321) (Surplus) or Deficit on Revaluation of Property, Plant & Equipment			(16,728)
Surplus or deficit on revaluation of available-for-sale financial asset.			(281)
544			(281)
79,301 Remeasurements of the net benefit liability (asset)			(50,708)
<b>69,524 Other Comprehensive Income and Expenditure</b>			<b>(67,717)</b>
<b>(14,203) Total Comprehensive Income and Expenditure</b>			<b>(242,778)</b>

## Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the group 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 are sold; and reserves that hold timing differences shown in the Group Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015 £'000		Note	31 March 2016 £'000
1,057,247	Property, Plant & Equipment		1,200,753
784	Heritage Assets		784
64,926	Investment Property	3	107,226
317	Intangible Assets		110
47,811	Long Term Investments		45,955
11,944	Long Term Debtors		9,910
<b>1,183,029</b>	<b>Long Term Assets</b>	2	<b>1,364,738</b>
110,597	Short Term Investments	2	203,081
1,124	Assets held for sale	2	1,125
317	Inventories	2	244
36,567	Short Term Debtors	4	32,660
106,042	Cash and Cash Equivalents		13,553
<b>254,647</b>	<b>Current Assets</b>		<b>250,663</b>
(30,990)	Short Term Borrowing	2	(9,811)
(74,301)	Short Term Creditors	5	(73,861)
(10,120)	Short Term Provisions	6	(1,076)
(18,372)	Short Term Capital Grants & Contributions Receipts in Advance	2	(5,340)
(12,064)	Short Term Revenue Grants & Contributions Receipts in Advance	2	(4,177)
<b>(145,847)</b>	<b>Current Liabilities</b>		<b>(94,265)</b>
(4,192)	Long Term Provisions	6	(16,450)
(477,977)	Long Term Borrowing	2	(485,681)
0	Other Long Term Liabilities	2	0
(357,516)	Liability Related to Defined Benefit Pension Scheme	2	(326,480)
(825)	Long Term Capital Grants & Contributions Receipts in Advance	2	(6,424)
(31,855)	Long Term Revenue Grants & Contributions Receipts in Advance	2	(25,805)
<b>(872,365)</b>	<b>Long Term Liabilities</b>		<b>(860,840)</b>
<b>419,464</b>	<b>Net Assets</b>		<b>660,296</b>
(197,757)	Usable reserves	7	(225,867)
(221,707)	Unusable Reserves	7	(434,429)
<b>(419,464)</b>	<b>Total Reserves</b>		<b>(660,296)</b>

## Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the group during the reporting period. The statement shows how the group 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 group are funded by way of taxation and grant income or from the recipients of services provided by the group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the group'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 group.

2014/15 £'000		2015/16 £'000
<b>83,727</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>175,061</b>
(47,670)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(150,282)
1,336	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(5,356)
<b>37,393</b>	<b>Net Cash flow from Operating Activities</b>	<b>19,423</b>
	<b><u>Investing Activities</u></b>	
(51,817)	Purchase of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	(88,183)
(157,718)	Purchase of short-term and long-term investments	(247,789)
(756)	Other payments for investing activities	(848)
6,377	Proceeds of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	6,938
35,000	Proceeds of short-term and long-term investments	157,718
65,505	Other receipts from investing activities	68,292
<b>(103,409)</b>	<b>Net cash flows from investing activities</b>	<b>(103,872)</b>
	<b><u>Financing Activities</u></b>	
93,842	Cash receipts of short and long-term borrowing	0
10,954	Other receipts from financing activities	4,998
(20,000)	Repayment of short and long-term borrowing	(13,534)
527	Other payments for financing activities	499
<b>85,323</b>	<b>Net cash flows from financing activities</b>	<b>(8,037)</b>
<b>19,307</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(92,489)</b>
86,734	Cash and cash equivalents at the beginning of the reporting period	106,042
<b>106,041</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>13,553</b>

# Notes to the Group Accounts

## 1. ACCOUNTING POLICIES

In preparing the Group Accounts the council has:

- Aligned the accounting policies of the partnerships with those of the council and made consolidation adjustments where necessary;
- Consolidated the financial statements of the partnerships with those of the council on a line by line basis;
- Eliminated in full balances, transactions, income and expenses between the council and the partnerships.

## 2. SUMMARY OF SUBSIDIARIES TRANSACTIONS INCLUDED IN THE GROUP BALANCE SHEET

The Group Balance Sheet contains transactions for both the Milton Keynes Service Partnership and the Milton Keynes Development Partnership. Each organisation is shown prior to the elimination of intra-group transactions (the transactions that took place between the subsidiaries and the council):

Group Total 2014/15 £'000	Milton Keynes Council 2015/16 £'000	Milton Keynes Service Partnership 2015/16 £'000	Milton Keynes Development Partnership 2015/16 £'000	Intra- Company Transactions 2015/16 £'000	Group Total 2015/16 £'000
1,183,029 Long Term Assets	1,358,790	0	37,461	(31,513)	1,364,738
110,597 Short Term Investments	202,830	0	251	0	203,081
1,124 Assets held for sale	1,125	0	0	0	1,125
317 Inventories	244	0	0	0	244
36,567 Short Term Debtors	34,784	(2,548)	932	(508)	32,660
106,042 Cash and Cash Equivalents	8,874	71	4,608	0	13,553
(30,990) Short Term Borrowing	(9,811)	0	0	0	(9,811)
(74,301) Short Term Creditors	(76,780)	4,668	(2,259)	510	(73,861)
(10,120) Short Term Provisions	(1,076)	0	0	0	(1,076)
(30,436) Short Term Grants & Contributions Receipts in Advance	(9,517)	0	0	0	(9,517)
(4,192) Long Term Provisions	(16,450)	0	0	0	(16,450)
(477,977) Long Term Borrowing	(485,681)	0	0	0	(485,681)
0 Other Long Term Liabilities	0	0	(31,511)	31,511	0
(357,516) Liability Related to Defined Benefit Pension Scheme	(326,401)	0	(79)		(326,480)
(32,680) Long Term Grants & Contributions Receipts in Advance	(32,229)	0	0	0	(32,229)
<b>419,464 Net Assets</b>	<b>648,702</b>	<b>2,191</b>	<b>9,403</b>	<b>0</b>	<b>660,296</b>

## Notes to the Group Accounts

### 3. INVESTMENT PROPERTIES

In 2015/16 the annual rental income from investment properties is £1,697,000.

The movement in the fair value of investment properties during 2015/16 comprised of:

- a reclassification from Property Plant of Equipment of £3,460,000;
- a revaluation increase of £38,742,000 which reflected market conditions and renewed negotiations on future development.
- A subsequent expenditure of £135,000.

The total value of the council's investment property at the 31<sup>st</sup> March 2016 is £107,226,000 (£64,926,000 at 31<sup>st</sup> March 2015).

### 4. DEBTORS

Long term debtors held by the group at 31<sup>st</sup> March 2016 are detailed below.

Group Total 2014/15 £'000	Milton Keynes Council 2015/16 £'000	Milton Keynes Service Partnership 2015/16 £'000	Milton Keynes Development Partnership 2015/16 £'000	Intra- Company Transactions 2015/16 £'000	Group Total 2015/16 £'000
0 Partnership Loans	31,511	0	0	(31,511)	0
11,758 Local Government Reorganisation Debt Payments in Advance	9,797	0	0	0	9,797
186 Other Long Term Debtors	113	0	0	0	113
<b>11,944 Total Long Term Debtors</b>	<b>41,421</b>	<b>0</b>	<b>0</b>	<b>(31,511)</b>	<b>9,910</b>

Short term debtors including payments in advance held by the group at 31<sup>st</sup> March 2016 are detailed in the table on the following page.

## Notes to the Group Accounts

Group Total 2014/15 £'000	Milton Keynes Council 2015/16 £'000	Milton Keynes Service Partnership 2015/16 £'000	Milton Keynes Development Partnership 2015/16 £'000	Intra- Company Transactions 2015/16 £'000	Group Total 2015/16 £'000
7,370 Central Government Bodies	7,984	52	(113)	0	7,923
221 Other Local Authorities	1,057	(2,600)	0	(508)	(2,051)
2,233 NHS Bodies	1,969	0	0	0	1,969
13,670 Bodies External to Central Government	9,696	0	937	0	10,633
3,188 Council Tax Arrears	3,129	0	0	0	3,129
226 NNDR Arrears	1,025	0	0	0	1,025
2,702 Housing Rents	2,856	0	0	0	2,856
0 Staff Debtors	0	0	0	0	0
<b>29,610 Total Short Term Debtors before Payments in</b>	<b>27,716</b>	<b>(2,548)</b>	<b>824</b>	<b>(508)</b>	<b>25,484</b>
6,959 Payments in Advance	7,068	0	108	0	7,176
<b>36,569 Total Short Term Debtors</b>	<b>34,784</b>	<b>(2,548)</b>	<b>932</b>	<b>(508)</b>	<b>32,660</b>

### 5. CREDITORS

Creditors held by the group at 31<sup>st</sup> March 2016 are detailed below.

Group Total 2014/15 £'000	Milton Keynes Council 2015/16 £'000	Milton Keynes Service Partnership 2015/16 £'000	Milton Keynes Development Partnership 2015/16 £'000	Intra- Company Transactions 2015/16 £'000	Group Total 2015/16 £'000
(19,193) Central Government Bodies	(18,290)	0	(339)	0	(18,629)
(3,011) Other Local Authorities	(5,072)	4,668	(247)	291	(360)
(1,461) NHS Bodies	(3,504)	0	0	0	(3,504)
(40,097) Bodies External to Central Government	(40,161)	0	(513)	219	(40,455)
(4,566) Staff Creditors	(4,383)	0	0	0	(4,383)
(1,979) Housing Rent Prepayments	(1,859)	0	(1,160)	0	(3,019)
(2,575) Council Tax Prepayments	(2,331)	0	0	0	(2,331)
(1,419) NDR Prepayments	(1,180)	0	0	0	(1,180)
<b>(74,301) Total Short Term Creditors</b>	<b>(76,780)</b>	<b>4,668</b>	<b>(2,259)</b>	<b>510</b>	<b>(73,861)</b>

### 6. PROVISIONS

There are no provisions set up within the Milton Keynes Service Partnership or the Milton Keynes development Partnership in 2015/16.

### 7. RESERVES

The reserves held by the Milton Keynes Council, Milton Keynes Service Partnership and Milton Keynes Development Partnership at 31<sup>st</sup> March 2016 are detailed below:

## Notes to the Group Accounts

Group Total 31 Mar 2015 £'000		Milton Keynes Council	Milton Keynes Service Partnership	Milton Keynes Development Partnership	Group Total 31 Mar 2016 £'000
(194,105)	Milton Keynes Council's Usable Reserves	(220,225)	0	0	(220,225)
(3,652)	LLP Retained Earnings	0	(2,191)	(3,451)	(5,642)
<b>(197,757)</b>	<b>Total Usable Reserves</b>	<b>(220,225)</b>	<b>(2,191)</b>	<b>(3,451)</b>	<b>(225,867)</b>
(238,732)	Milton Keynes Council's Unusable Reserves	(428,477)	0	0	(428,477)
17025	LLP Non-Distributed Reserves	0	0	(5,952)	(5,952)
<b>(221,707)</b>	<b>Total Unusable Reserves</b>	<b>(428,477)</b>	<b>0</b>	<b>(5,952)</b>	<b>(434,429)</b>
<b>(419,464)</b>	<b>Total Reserves</b>	<b>(648,702)</b>	<b>(2,191)</b>	<b>(9,403)</b>	<b>(660,296)</b>



## Notes to the Group Accounts

### 8. NET CASH FLOW FROM OPERATING ACTIVITIES

The table on the below provides an analysis of non-cash items and investing and financing activities included in the provision of services as presented in the Group Cash Flow Statement.

Group Total		Milton Keynes Council	Milton Keynes Service Partnership	Milton Keynes Development Partnership	Intra-Company Transactions	Group Total
	<b>31 Mar 2015</b>			<b>31 Mar 2016</b>		
<b>83,727</b>	<b>Net Surplus/(Deficit) on the provision of services</b>	<b>150,412</b>	<b>20,208</b>	<b>4,441</b>	<b>0</b>	<b>175,061</b>
	<b><u>Adjustments to net Surplus or deficit on the provision of services for non-cash movements</u></b>					
(24,968)	Depreciation and Impairment of non-current assets	(47,380)	0	(2,077)	0	(49,457)
(9,181)	Investment Assets Revaluation Gains & Losses	(37,375)	0	(1,595)	979	(37,991)
(36,838)	Capital Grants & Contributions	(56,115)	0	0	0	(56,115)
109	(Increase) / decrease in Creditors	(5,630)	(3,450)	655	(4,443)	(12,868)
5,011	Increase / (decrease) in Debtors	822	(1,985)	(347)	4,511	3,001
93	Increase / (decrease) in Inventories and Work in Progress	73	0	0	0	73
1,130	(Increase) / decrease in Provisions	3,214	0	(22)	22	3,214
14,498	Pension Assets / Liabilities	40,166	(20,530)	43	0	19,679
14,671	Carrying amount of non-current assets sold	(1,452)	0	0	0	(1,452)
756	Housing Capital Receipts Pool	848	0	0	0	848
(1,959)	Local Government Reorganisation Transferred Debt	(1,962)	0	0	0	(1,962)
(10,992)	Other non-cash items charged to the net surplus or deficit on the Provision of Service	(17,525)	0	0	273	(17,252)
<b>(47,670)</b>	<b>Total Non-Cash Items in the Provision of Services</b>	<b>(122,316)</b>	<b>(25,965)</b>	<b>(3,343)</b>	<b>1,342</b>	<b>(150,282)</b>
20,597	Reversal of operating activity items included in the net surplus or deficit on the Provision of Services that are shown separately	19,317	0	0	0	19,317
	<b><u>Cash flow from interest received and paid</u></b>					
(20,769)	Interest Paid	(26,869)	0	0	0	(26,869)
(122)	Interest element of Finance Leases	(12)	0	0	0	(12)
1,630	Interest Received	2,208	0	0	0	2,208
<b>(19,261)</b>	<b>Total Cash Flow from Interest Received and Paid</b>	<b>(24,673)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(24,673)</b>
<b>37,393</b>	<b>Net Cash flow from Operating Activities</b>	<b>22,740</b>	<b>(5,757)</b>	<b>1,098</b>	<b>1,342</b>	<b>19,423</b>

# Glossary

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## **Accruals**

Sums included in the final accounts of the council to cover income or expenditure attributable to the accounting period for which payment has not been received/made in the financial year. Local authorities accrue for both revenue and capital expenditure.

## **Actuary**

An independent and appropriately qualified adviser who carries out statutorily required pension fund valuations.

## **Amortisation**

The reduction of the value of an asset by prorating its cost over a period of years.

## **Capital Charges**

A charge for the use of fixed assets in the provision of services e.g. depreciation.

## **Capital Expenditure**

Spending that produces or enhances an asset, like land, buildings, vehicles, plant and machinery. Definitions are set out in Section 40 of the Local Government and Housing Act 1989. Any expenditure that does not fall within the definition must be charged to a revenue account.

## **Capital Receipts**

The proceeds from the sale of fixed assets such as land and buildings.

Capital receipts can be used to repay any outstanding debt on fixed assets or, to finance new capital expenditure, within rules set down by government. Capital receipts cannot, however, be used to finance revenue expenditure.

## **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The professional accountancy body concerned with local authorities and the public sector.

## **Collection Fund**

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging Authority in relation to Non-Domestic Rates and Council Tax and illustrates the way in which the fund balance is distributed to preceptors and the General Fund.

## **Contingent Liabilities/Gains**

Potential losses/gains for which a future event will establish whether a liability/gain exists and for which it is inappropriate to set up a provision in the accounts.

## **Council Tax**

This is the means of raising money locally, based upon the value of domestic property and is adjusted for the previous year's surplus or deficit on collection.

## **Deferred Grants**

Amounts received or receivable that have been used to finance capital expenditure. Under the capital accounting arrangements these amounts will be released to offset depreciation in respect of the fixed assets to which they relate.

# Glossary

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## **Depreciation**

The measure of the wearing out, consumption or other reduction in the useful life of a fixed asset.

## **Earmarked Reserves**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

## **Finance Leases**

Arrangement whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

## **Financial Instruments**

A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

## **International Financial Reporting Standard (IFRS)**

A statement of accounting practice issued by the Accounting Standards Board.

## **Fixed Assets**

Non-current assets that yield benefits to the Council and the services it provides for a period of more than one year.

## **General Fund (GF)**

This is the main revenue account of the council. Day to day transactions are conducted through this account, with the exception of those relating to the Housing Revenue Account, Collection Fund or any other trust funds held by the Council.

## **Housing Revenue Account (HRA)**

The account of revenue expenditure and income relating to the Council's own housing stock.

## **Infrastructure Assets**

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to highways.

## **Intangible Assets**

Expenditure of a capital nature where no tangible asset is created such as housing renovation grants or computer software.

## **Investments**

Deposits for less than one year with approved institutions.

## **Long Term Debtors**

Amounts due to the Council more than one year after the balance sheet date.

## **Major Repairs Allowance**

The estimated average annual cost of maintaining the condition of the council's housing stock over a 30 year period based on the Councils mix of dwelling types.

# Glossary

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## **Minimum Revenue Provision**

The minimum amount that may be set aside for the repayment of debt. The statutory figure is usually shown in a council's accounts by means of an adjustment to depreciation.

## **Non-Domestic Rate (NDR)**

Under the revised arrangements for uniform business rates, which came into effect on 1st April 1990, the council collects Non-Domestic Rates for its area based on local rateable values, multiplied by a national uniform rate.

The total amount, less certain reliefs and deductions, is paid to a central pool managed by the government, that in turn, pays back to Authorities their share of the pool based on a standard amount per head of the local adult population.

## **Non-Operational Assets**

Fixed assets held by the Council but not directly used or consumed in the delivery of its services. This would include surplus properties awaiting disposal.

## **Operational Assets**

Fixed assets held by the Council and used or consumed in the delivery of its services.

## **Operational Leases**

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the leasing company.

## **Pension Fund**

An employees' pension fund maintained by an authority, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

## **Precepting Authorities**

Those authorities that are not billing authorities (i.e. do not collect Council Tax) precept upon the billing authority, who then collect on their behalf - Thames Valley Police Authority, Buckinghamshire & Milton Keynes Fire Authority and the Parishes that precept upon Milton Keynes Council.

## **Provisions**

Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

## **Public Works Loan Board**

The Public Works Loan Board (PWLB) was established in 1793 to provide loans to public bodies from the National Loans Fund. It today provides loans to local authorities of all types in Great Britain, primarily for capital projects, but also as a lender of last resort.

## **Retained Business rates**

This is the amount of business rates an individual authority retains (after adjustments including repayment to Central Government and the fire authority) to fund Council services.

## **Revenue Support Grant (RSG)**

RSG is Government funding which provides general support for council services.