



Statement of Accounts

2016/17

For the year ending 31 March 2017

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Narrative Report

Introduction

This document presents the statutory financial statements for Milton Keynes Council (the Council) for the period 1 April 2016 to 31 March 2017 and gives a comprehensive summary of the overall financial position of the Council giving a true and fair view.

The accounts are presented in the format recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code). Our core financial statements use this format and meet the conditions of the Code.

This narrative statement provides a summary of the most significant matters reported within the accounts and of the Council's financial position.

The Council's Strategic / Corporate Priorities

Milton Keynes Council operated through 2016/17 in line with the priorities set out in the 2016-2020 Council Plan. The 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.

The **Three Key Aims** detailed in the Council Plan are as follows:

- **A City of Opportunity** - Milton Keynes has limitless potential. We want every person to have the chance of a good, well paid job and the skills to do it in a more equal society; a prosperous Milton Keynes with a strong, diverse economy that has an international reputation for innovation.
- **An Affordable City** - We want to create communities that can attract, retain and enable people from every background. Milton Keynes has been built on meeting the aspirations of people to live in a good home at a price they can afford to rent or buy, and businesses being able to access high quality, affordable premises that meet their needs.
- **A Healthy City** - We will ensure lifelong wellbeing for all. We want Milton Keynes to be an active, vibrant place with people living long, healthy and fulfilling lives.

Further details on the Council's aims, visions and priorities can be found in the Milton Keynes Council Plan 2016-20 which is published on the Internet <https://www.milton-keynes.gov.uk/your-council-and-elections/council-information-and-accounts/strategies-plans-and-policies/council-plan-2016-2020>.

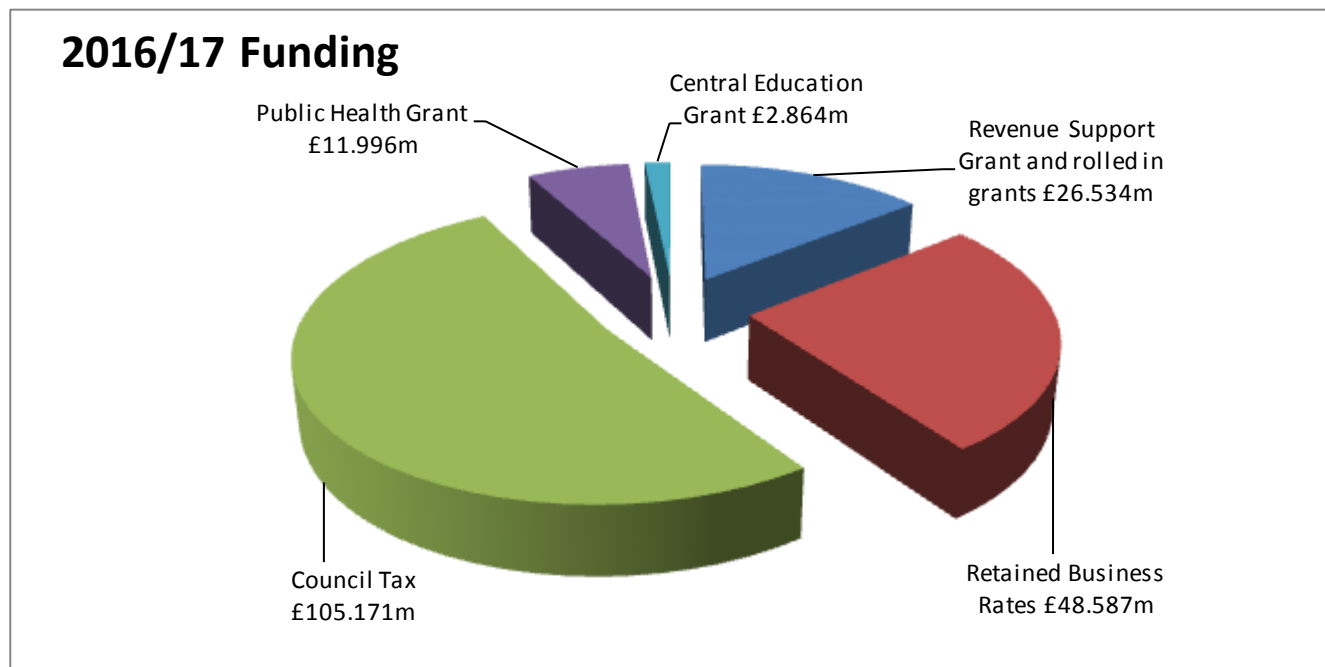
Milton Keynes is a Unitary Authority and also still holds approximately 12,000 properties whose income and expenditure is operated through a Housing Revenue Account (HRA).

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The Council's 2016/17 Financial Position

Income from Grants, Local Tax Payers and other sources

Milton Keynes Council is funded through Council Tax, Business Rates and Grants. The chart below details how the 2016/17 budget requirement of £186.0m is financed.



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.

Service Expenditure – General Fund

The Council had a net budget of £186.0m at the end of the 31 March 2017. This compares against spend of £189.061m giving an overall overspend of £2.981m or 1.6% of the net Council budget.

This overspend is largely caused by the increased demand for Children's Social Care and Temporary Accommodation and has exceptional issues; the delay to the delivery of the Residual Waste Treatment Facility, caused by a subcontractor going into liquidation and the conversion of Stantonbury Campus to academy status which left the local authority with a deficit, as a result of Government policy. The overspends created by these issues have been partially offset 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.

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	Revised Budget £'m	Outturn £'m	(Under)/Overspends £'m	%
Adult Social Care and Health	61.026	60.380	(0.646)	(1.1%)
Children & Families	47.460	48.729	1.269	2.7%
Public Health	12.051	12.051	0.000	0.0%
Total People	120.537	121.160	0.623	0.5%
Housing and Community	2.037	3.431	1.394	68.4%
Growth, Economy and Culture	7.317	7.304	(0.013)	5.7%
Public Realm	39.151	41.384	2.233	5.7%
Total Place	48.505	52.119	3.614	7.5%
Resources - retained MKC	10.290	10.753	0.463	4.5%
Resources - delegated to LGSS	1.959	1.959	0.000	0.0%
Total Resources	12.249	12.712	0.463	3.8%
Total Corporate Core	0.646	0.813	0.167	25.9%
Debt financing, sustainability items, levies and asset rentals	4.143	2.257	(1.886)	(45.5%)
Net Operating Expenditure	186.080	189.061	2.981	
Less Resources available	(186.080)	(186.080)	0.000	
Net overspend	0.000	2.981	2.981	
LGSS (MKC Share)			0.000	
Overall position incl. LGSS			2.981	
General Fund Balance as at 31 March 2016			(7.000)	
Overspend in 2016/17			2.981	
Drawdown from Risk Reserves (approved as part of 2016/17 budget process)			(2.981)	
General Fund Balance at 31 March 2017			(7.000)	

Significant Overall Revenue Variances

People

Adult Social Care - (£0.646m) underspend, predominantly due to staff savings in Learning Disability internal day care and short breaks and an increase in continuing health care income for eligible clients.

Children and Families - £1.269m overspend (£2.938m before the use of one-off reserves). This is overspend mainly due to:

- Home to School Travel (£1.102m overspend) – a significant peak in transporting children from temporary accommodation contributed £0.301m to the overspend, with up to 138 children being conveyed before the change of approach was implemented in October 2016. 38 children were being transported at March 2017. The rest was caused by cost reductions not being achieved (mainly relating to procurement and contract arrangements) and late increases in demand in 2015/16.
- Children's Social Care (£2.127m gross overspend) – an increase in the number of looked after children (LAC) continues to place pressure on the budget and demand-led reserve, impacting all areas of the service, from increased legal costs to the placement costs of each child. There were 392 LAC at March 2017; an increase of 47 since the same time last year. A current lack of suitable tenancies for care

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leavers is also causing overspends. The use of agency staff has contributed £0.560m to the overspend, as the service is staffed to ensure continued statutory service delivery and meet child protection needs. This was partly mitigated by using (£1.369m) of the demand-led reserve, giving a net overspend of £0.758m.

- Stantonbury Campus £0.710m overspend, arising from the deficit at Stantonbury Campus when it converted to an academy. Government policy means the Council is liable for this deficit at the point of conversion.

Place:

Public Realm - £2.233m overspend due to:

- The delayed opening of the Residual Waste Treatment Facility (RWTF) which is due to the bankruptcy of a subcontractor. This is a complex project, using innovative technology, which makes alternative provision difficult. Current estimates are for the facility to be open by 31 July 2017. We continue to assess progress with the contractor and recent feedback has provided some assurance. The delay created £3.201m of costs for the Council in 2016/17 and also delayed the delivery of £1.300m of income generation and cost reduction. This was mitigated by using reserves of £2.300m and cost reductions and investment interest in treasury management of £1.118m.
- Car Parking Income - £1.130m overspend – overall income from on-street and off-street parking was down by £0.920m and costs were £0.210m over budget due to additional NNDR charges and one-off car parking machine upgrades. This was partly offset by £0.300m from the parking reserve and revenue funding of £0.330m set aside to repay borrowing for the new multi storey car park in future years. Whilst parking occupancy in the business areas remains high, that around the shopping areas reflects the national trend of reduced footfall in shopping centres due to changes in shopping habits and a consequent fall in parking income.

Housing & Community - £1.394m overspend mainly due to Temporary Accommodation £1.276m (after the use of £1.589m demand lead reserves), where the number of homeless families continues to increase.

Resources:

Resources – £0.463m overspend. The key variances include £0.335m increased costs in legal, mainly through the use of locums, and shortfall in fees from the capital programme, and Community Language Service income shortfall of £0.183m, offset by underspend on property arising from the consolidated maintenance and management of properties and increased sponsorship income £0.330m.

Service Expenditure – Capital

The 2016/17 outturn on the Capital programme was £110.158m compared to £105.095m in 2015/16. The main area of expenditure was £49.507m within People Services to build and expand new schools. £22.000m was spent on two Secondary Schools, of which the Secondary & Special School at Kents Hill is still ongoing. £27.285m was spent on eight Primary Schools of which six were completed in year.

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There has been £20.059m investment in Public Realm, including £8.409m in Highways infrastructure and £5.612m in upgrading street lighting.

The Council has also invested £20.035m in Housing, including £5.000m on building new council houses and purchasing existing houses as well as £4.500m in temporary accommodation for homeless households.

Within the Capital programme was the expectation to purchase a new Residual Waste Treatment Facility, £129.217m, this has been delayed due to contractor issues but commissioning has now commenced and the purchase is planned to complete in the summer of 2017.

Other expenditure in year includes investment in Community Facilities of £6.643m, this included £3.060m for building a new Central MK Sports Facility and £1.969m on the start of an expansion to the MKMuseum.

The programme has been funded from various sources, the major elements being Government Grants £49.620m, Third party contributions £21.928m and Major Repairs Reserve £8.792m.

Major non-current asset disposals during the year include the conversion of six schools to Academy status £66.4m, including:

- Brooklands School £26.290m
- Whitehouse Primary School £10.172m
- Fairfields Primary School £10.006m
- Oakgrove Primary School £9.050m

Other non-current asset disposals include the sale of Council Dwellings main stock of (£2.818m) and Council Dwellings Shared Ownership stock of (£0.744m).

Expenditure – Borrowing

Although capital expenditure plans are the primary driver of the Council's borrowing requirement, loans are not attached to particular capital schemes and actual borrowing is a separate aggregated treasury management decision based on cashflow analysis.

During 2016/17, principal repayments on annuity loans (£2.473m) were made to the Public Works Loan Board (PWLB) in line with loan agreements. No new loans to fund expenditure on capital projects were undertaken.

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 £493.171m; of this total, £485.710m (including accrued interest of £2.309m) represents funding of

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capital projects and the remaining £7.462m represents other loans mentioned above. Further details of the composition of this sum can be found in the note 30 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 March 2017.

At the 31 March 2017, the Council held £275.014m invested with various financial institutions (including accrued interest of £0.404m); of this amount £96.645m has been classified as cash equivalents (including £0.015m of accrued interest previously stated) in accordance with Accounting Policy note 7.

Service Expenditure – Investments

The Treasury Management Strategy Statement (TMSS) for 2016/17, which included the Annual Investment Strategy, and approved by Council on 17 February 2016. It set out the investment priorities as being:

1. Security of Capital;
2. Liquidity; and
3. Yield

Interest rates expectations within the 2016/17 strategy anticipated low but rising Bank Rates, with gradual rises in medium and longer term fixed borrowing rates, so short-term borrowing rates were expected to be the cheaper form of borrowing. The continued market risk environment promoted a cautious approach, investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns (compared to borrowing rates).

Service Expenditure – Cost Reductions and Income

The 2016/17 Council budget included £21.570m of savings and £2.684m savings brought forward from 2015/16, which were also to be delivered. A total of £19.225m (79%) has been successfully implemented. £3.344m (14%) of the remaining savings will be delayed until 2017/18; £0.520m (2%) was agreed in the 2016/17 Budget. £1.165m (5%) of the budgeted savings are undeliverable and this is reflected in the outturn position.

The main undeliverable Cost Reductions or Income are:

- £0.376m for procuring Temporary Accommodation units; this didn't take place due to difficulties with the Provider's funding. However, alternative agreements were reached to increase the total number of temporary accommodation properties (excluding B&B Hotels) by 362 over the last year.
- Children's Services saving target for home to school transport will not be achieved, £0.320m of the £0.500m. Savings anticipated from rerouting and retendering of the special school contracts has taken place but did not deliver the savings initially estimated. A task force is reviewing the policy, procurement and contract management.

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The key delayed Cost Reductions / Income was the delay in the delivery by an external contractor, £1.3m. The budget for 2017/18 allows for revised opening time, and regular updates on progress are received from the contractor.

Contingencies and Material Write-offs

During 2016/17 seven debts over £0.020m were written off. These totalled £0.367m and relates to Business Rates, Housing Benefits Overpayments and Care Costs. During 2016/17 Milton Keynes Council raised debts totalling £494.473m, of this £2.019m was written off in 2016/17.

The Council has 5 Contingent Liabilities which are detailed in Note 26 to the accounts.

LGSS Summary

Local Government Shared Services (LGSS) is the shared service operation with three partners Milton Keynes Council (MKC), Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC). LGSS began in October 2010 with MKC joining as a third Partner from 1 April 2016. LGSS provides a wide range of strategic, professional, operational and transactional services including finance, procurement, audit, HR, IT and transactional financial services. It is governed by a Joint Committee with the financial transactions of each shareholder authority included in the respective Council's statutory accounts. The LGSS overall performance for 2016/17 is summarised below.

	2016/17 Budget	2016/17 Expenditure	2016/17 Variance
LGSS Overall Performance	32,136	31,564	(572)

The 2016/17 Accounts

The council is required to present a complete set of financial statements (including comparative information). The financial statements are set out on pages 40 to 43 and are presented as follows:

Expenditure & Funding Analysis (EFA) - The objective of the EFA is to demonstrate to council tax and rent payers how the funding available to the council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the council in accordance with generally accepted accounting practices. The EFA also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented fully in the Comprehensive Income and Expenditure Statement. The analysis of income and expenditure on the face of the EFA is specified by the council's operating segments which are based on the council's internal management reporting structure.

Comprehensive Income and Expenditure Statement (CIES) – The CIES shows the accounting cost in the financial year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents.

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Authorities raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the EFA and the Movement in Reserves Statement (MiRS). The analysis of income and expenditure on the face of the CIES is specified by the council's operating segments which are based on the council's internal management reporting structure.

The headline figures and messages from this statement are:

- The Council disposed of six schools that converted to Academy in year, causing a large loss on disposal of £66.4m, offset by sales of Council Dwellings main stock of (£2.818m) and Council Dwellings Shared Ownership stock of (£0.744m).
- The Councils revaluations have increased by 43% for School buildings and 16% for land causing a large increase in the Council's asset value in year.

There has not been any material or unusual transactions in the 2016/17 year.

Balance Sheet – setting out the assets and liabilities recognised by the Council at the balance sheet date, the bottom line is effectively the net worth of the organisation. The net assets of the Council (assets less liabilities) are matched by the Reserves held by the Council.

The headline figures and messages from this statement are:

- The pension liability calculated by the actuary has increased by £84m in 2016/17. Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an accrued benefits funding method in which the Actuarial Liability makes allowance for projected earnings providing an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liability is therefore outside of the control or influence of the council and is reported in accordance with International Accounting Standard 19 – Employee benefits.
- The Milton Keynes Development Partnership (MKDP) is a Limited Liability Partnership created to manage and exploit the commercial assets purchased from the Homes and Communities Agency.
- In 2012/13, the Council funded the purchase of the assets through prudential borrowing and this has been reflected in the Council's balance sheet as additional Long Term Borrowing. This debt was passed on to MKDP along with the assets. The Council therefore holds a Long Term Debtor on its Balance Sheet to reflect the amount owed by the MKDP. As the assets are developed and/or sold by the MKDP or as the economic benefit is used (in the case of operational assets), the debt will be settled with the Council and the long term debtor will be reduced.

Movement in Reserves Statement (MiRS) – representing the movements on the reserves held by the Council during the financial year analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The 'surplus or (deficit) on provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES.

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These are different from the statutory amounts required to be charged to the General Fund balance for Council Tax setting purposes. The 'net' increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

- **Cash Flow Statement** – outlines the changes in the cash and cash equivalents, for example changes in debtor balance (those owing the Council money) and creditor balances (those which the Council owes money to) during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
- **Supplementary Financial Statements:**
 - The Housing Revenue Accounts shows the in year cost 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.

The Council is required by the Code to prepare Group Accounts. These consolidate the financial statements of the Council together with those of organisations in which the Council has material financial interests and a significant level of control. The Group accounts contained in this document consolidate the accounts of the Milton Keynes Development Partnership with Milton Keynes Council. Further details of the Council Group Accounts arrangements are detailed in note 33 to the financial statement.

Risk Management & Governance

The aim of Risk Management, as identified in the Councils Risk Strategy 2015-18, is to improve the Council's ability to deliver its identified priorities, by managing the threats, achieving identified opportunities and creating an environment that allows innovation and adds value.

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 outstripping the available resources. This is mitigated by Budget Monitoring, Development and Accountability for delivery.
- **Organisational Capacity at a time of increasing demand and declining resources** – 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, the staff needed to provide that service and relationships with stakeholders (new & old).
- **Planning for cohesive growth** – Risk of piecemeal growth and poor returns on investment (time or cash). There is a coherent vision/strategy in place, this is the Plan MK process.
- **Protecting and Caring for vulnerable people** – Failure to safeguard Adult/Children's Social Care. This is mitigated by development of new & innovative

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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.

The Council also monitors its governance arrangements throughout the year, culminating in the Annual Governance Statement produced by the Chief Internal Auditor, which is approved by the Audit Committee.

The 2017/18 Budget and Medium Term Outlook

The 2017/18 Budget for the Council has been formulated to ensure that the resources available support priorities set out in the Council Plan. The key themes are:

- A City of Opportunity
- An Affordable City
- A Healthy City

The 2017/18 Budget has been determined against a background of tough financial 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 £19m of cost reductions and income generation proposals for 2017/18, and a requirement for a further £39m between the years 2018/19 and 2020/21.

Demographic Pressures

Milton Keynes is a high growth area; over the last six years the population has increased by 16,750 people (6.7%). The borough will continue to grow over the medium-term, and as such the Medium Term Financial Strategy addresses the Council's anticipated demographic pressures. The key demographic pressures are summarised below:

1. The population of under 19s will grow by 2% per year or equivalent to 1,000 children. This will cost an additional £3.0m over the next four years. In addition we will have to transport an additional 168 eligible children to school, costing £1.1m
2. The fact that Milton Keynes was a new town, means that while we currently have relatively small numbers of over 65s, this number will increase by 17%, 6,360 people, over the next four years and is expected to cost us £0.6m in additional care costs.
3. Between 2015 – 2030 the number of people (65+) with Dementia will increase by 102%, a potential increase of £4.15m. Over the next 4 years therefore, a possible increase of 27% costing c£1.11m.
4. The success of Milton Keynes means more people are moving to the area. The value of houses is increasing, as is the cost of private rental sector homes, which contributes to more people having a statutory requirement for rehousing. We are also seeing a reduction in the numbers of people moving from our own housing, so reducing the numbers of properties available for rehousing. The cost of this over the next four years will have risen by £3.0m per year (compared to service cost of £3.21m in 2015/16).

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Workforce

Milton Keynes Council has a total establishment of 2530.95 (FTE) at 31 March 2017. The following Table shows the FTE by service area:

<u>Service Group</u>	FTE
Adult Social Care and Health	672.64
Children & Families	655.28
Public Health	30.48
Total People	1,358.40
Housing and Community	42.79
Growth, Economy and Culture	138.53
Public Realm	268.52
Total Place	449.84
Resources - retained MKC	371.38
Resources - delegated to LGSS	169.99
Total Resources	541.37
Total Corporate Core	51.11
Total HRA	130.24
Total Authority	<u>2,530.96</u>

Social Care

Over the next three years the Council is already projecting to spend more on Adult Social Care (ASC) than the precept requires, due to substantial demand increases for services. The Council is already committed to investing in preventative services, and resources such as the changes to the reablement service and aids and adaptations. As a result the ASC precept will not be used to fund additional preventative services, but to enable the existing services to be safeguarded as far as possible for the future.

Reserves

Milton Keynes has maintained its General Fund Balance at £7.0m which was set as part of the risk assessment and evaluation of reserves alongside the 2016/17 budget on 15 February 2017.

There are a number of reasons the Council holds reserves, some of the key ones are as follows:

- To manage known financial risks
- To hold funding as one-off contributions to expenditure, which has allowed the Council to make ongoing revenue budget reductions
- To manage timing differences between the receipt of funding and the profile of expenditure
- To hold ring-fenced balances for example, specific grants, trusts, schools or the Housing Revenue Account.

Details of the Councils reserves can be found in Note 9 to the Financial Statement.

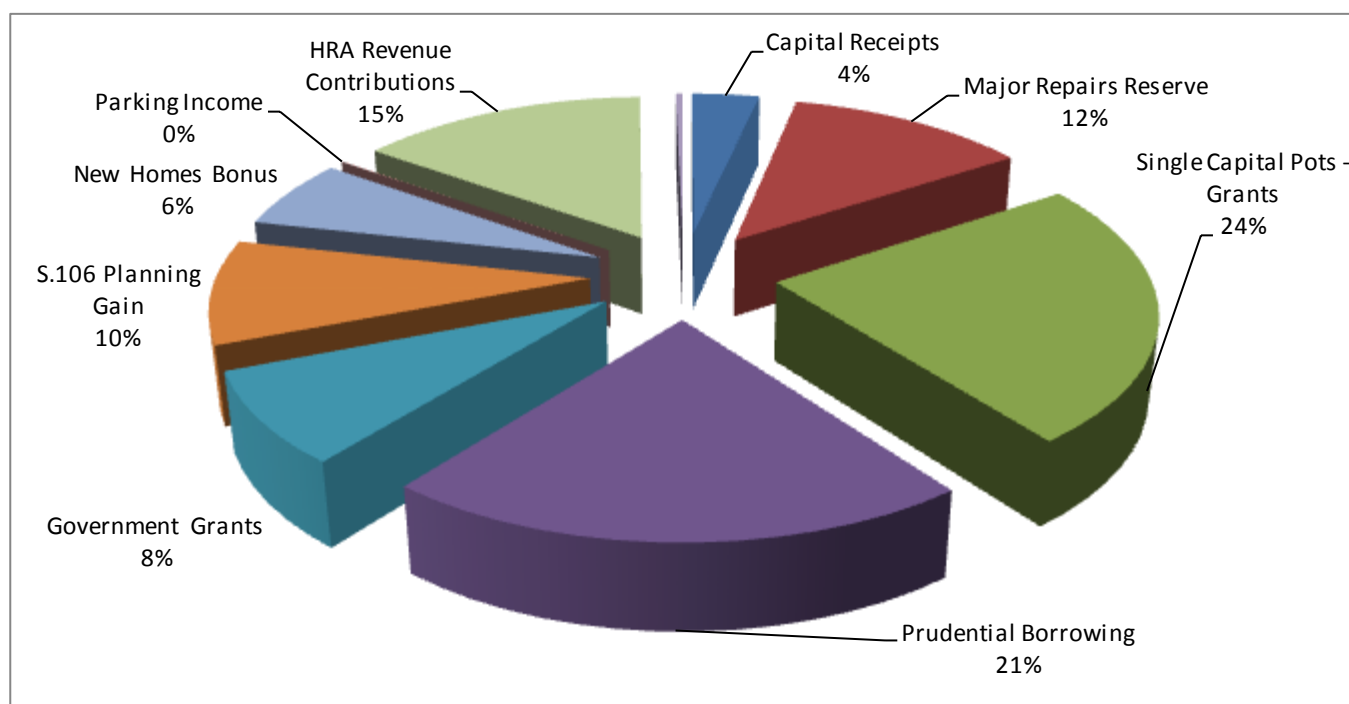
Capital

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The Capital Programme in the Medium Term is projected to spend £127.004m and focused on the following 5 areas:

- People: the programme includes school expansions to increase the number of pupil places, the completion of a number of new schools already under construction and the building of two new primary schools and two secondary schools starting after 2017/18.
- Housing: the Council is continuing to fund the building of up to 200 new homes to address the increasing demand for affordable Housing.
- Prudential borrowing continues to enable the backlog maintenance issues on highways and infrastructure to be addressed and street lights to be replaced and become more energy efficient through trimming and dimming works.
- The Residual Waste Treatment Facility is expected to open in 2017/18 funded through prudential borrowing at a cost of £129.0m (excluding financing costs).
- The Future Work Programme will result in improvements to office accommodation, support new ways of working and reduce the cost of Council accommodation.

The table below shows how the medium term capital programme will be funded:



Annual Investment Strategy

Both the CIPFA Code and the Department of Communities and Local Government (CLG) Guidance require Council's to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults as well as the risk of receiving unsuitably low investment income.

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Given increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to maintain or increase diversity in more secure and/or higher yielding asset classes. This is especially the case for funds available for longer-term investment. Approximately 70% of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds; however two thirds of this sum relates to cash that will be applied to fund the Residual Waste Treatment Facility acquisition which was originally anticipated for September 2016, but has been delayed until 31 July 2017 (after which this proportion will reduce to approximately 50%). This diversification will represent a continuation of the strategy implemented in 2015/16. Milton Keynes Council is a going concern and this is the basis the 2016/17 accounts have been prepared under.

Value for Money Statement

Milton Keynes Council strives to achieve Value for Money (VfM) through:

- Services that are fit for purpose and meeting statutory requirements;
- Expenditure on services which compares favourably with comparable local authorities regardless of whether services are provided directly, in partnership or commissioned through a third party;
- An understanding of our costs and what drives them;
- Changes and investment to reduce costs and overheads and improve efficiency and the customer experience; and
- Improved outcomes and value for money for local people through a framework of strategic and local partnerships which cooperate effectively to meet shared goals.

The Council has developed a range of integrated approaches and organisational processes which together help to drive the delivery of VfM:

- Integrated Service & Resource Planning
- Performance Management
- Project Management
- Procurement

The Council will continue to maintain the focus on Value for Money whilst striving to achieve its key outcomes.

FURTHER INFORMATION

For information please contact: CorporateFinance@milton-keynes.gov.uk

You have the right to inspect our accounts each year before the external audit is completed. We advertise the dates during which you can inspect the accounts on Milton Keynes Council website. Our accounts are audited by Ernst & Young LLP. They are the auditors appointed following the demise of the Audit Commission.

Statement of Responsibilities

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 2017 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,
- related notes 1 to 36,
- Housing Revenue Account Statement and related notes, and
- Collection Fund and related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 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.

Statement of Responsibilities

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Milton Keynes Council as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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 if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- 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 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,

Statement of Responsibilities

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 (C&AG) in November 2016, 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 C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2017.

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, the 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 C&AG in November 2016, 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 2017.

Certificate

We certify that we have completed the audit of the accounts of Milton Keynes Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Maria Grindley (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
29 September 2017*

The maintenance and integrity of Milton Keynes Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Responsibilities

THE COUNCIL'S RESPONSIBILITIES

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: 29 September 2017

THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER

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 March 2017.



Corporate Director – Resources
Date: 29 September 2017

Accounting Policies

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The authority is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2016 which require the Accounts to be prepared in accordance with proper accounting practices. These practices, under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12, 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.

2. CHANGE IN ACCOUNTING POLICY

The council has introduced a change in accounting policy in respect of the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS) and the introduction of a new Expenditure and Funding Analysis (EFA) as a result of CIPFA's "Telling the Story" review of improvements to the presentation of local authority financial statements.

The EFA brings together the council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and HRA balances. Proper accounting practices measure the resources that have been generated and consumed in the year whilst statutory provisions determine how much of the council's expenditure needs to be met from council tax each year. The EFA takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES.

The change in accounting policy in relation to the new format of the CIES represents the analysis of income and expenditure on the face of the CIES now being specified by the council's operating segments which are based on the council's internal management reporting structure. The analysis was previously reported on CIPFA's Service Reporting Code of Practice (SeRCOP). The change in accounting policy in relation to the new format of the MiRS represents the reporting requirements are now reduced to the absolute minimum with the split of Total Comprehensive Income and Expenditure being removed as well as earmarked reserves no longer being separated out on the face of the MiRS.

These changes in accounting policy required full retrospective restatement in accordance with the requirements of the Code and IAS 1 and therefore the council has restated the preceding year information (ie for the 2015/16 financial year). There is no impact on the council's Balance Sheet.

Further explanations of these financial statements are included in the Narrative Report.

Accounting Policies

3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority;
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- 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;
- 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 31st March is accrued and full details can be found in Accounting Policy note 9 – Employee Benefits.

4. FAIR VALUE MEASUREMENT

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.

Accounting Policies

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.

5. ACQUIRED AND DISCONTINUED OPERATIONS

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;
- 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.

6. CAPITAL RECEIPTS

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.

Accounting Policies

7. CASH AND CASH EQUIVALENTS

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.

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

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.

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 2016/17.

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 12 (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.

9. EMPLOYEE BENEFITS

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

Accounting Policies

sick leave 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 March 2017 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 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:

- 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 1st April 2013 the statutory responsibility for Public Health activities transferred to the council from the NHS primary care trusts. There were 14 members of staff who transferred along with their pensions in the NHS pension's scheme to the Council, of which only 6

Accounting Policies

members remain. This scheme is not available for other 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 35 to the Financial Statements.

Local Government Pension Scheme

The Local Government Pension 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.

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.

Accounting Policies

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 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 34 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.

Accounting Policies

10. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

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.

11. EXCEPTIONAL ITEMS AND PRIOR PERIOD ADJUSTMENTS

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 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.

12. FINANCIAL INSTRUMENTS

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

Accounting Policies

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 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

Accounting Policies

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 2016/17, for capital expenditure incurred before 1 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 Department for Communities and Local Government Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (Capital Financing Requirement (CFR)) each year. The resulting backlog overprovision set aside between 2008/09 and 2015/16 from this change of calculation basis may be adjustment by reducing future annual MRP charges (in part or in full) in a prudent manner, considering the wider impact upon the Council's financial position.

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 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.

Accounting Policies

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). There has been no debt restructuring in 2016/17.

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 2016/17 which has not been paid by the 31 March 2017 this amount has been accrued and can be seen as part of the borrowing repayment on demand or within excess of 12 months.

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.

Accounting Policies

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.

13. GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

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

- The 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 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.

14. HOUSING REVENUE ACCOUNT SELF-FINANCING

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.

Accounting Policies

15. INSURANCE

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 March 2017. 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:

Risk	Maximum Cover per Claim
Employers Liability	£0.250m
Third Party	£0.250m
Fire Damage	£.050m General Buildings £0.100m Housing Properties
Cash Loss	The first £100 is met by the service concerned
Loss of Computers	The first £100 is met by the service concerned.

16. INTEREST IN COMPANIES

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 to 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 Leadership Team. No material reportable interests were identified. Minority interests in companies are detailed in note 31 to the Financial Statements.

The Council has an interest in three entities, Milton Keynes Development Partnership LLP (MKDP), Milton Keynes Business Excel Ltd (MKBE) and YourMK. Group Accounts have been prepared to reflect the Council's ownership in MKDP. Both MKBE and YourMK are deemed immaterial at this time. The group accounts can be found on page 112. Further details on this can be found in Note 33.

17. INVESTMENT PROPERTY

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.

Accounting Policies

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 4 on Fair Value Measurement for a more detailed explanation of the valuation techniques adopted.

18. LEASES

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

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

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

The Authority as 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.

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.

Accounting Policies

19. NON DOMESTIC RATES

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 ten 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.

20. OVERHEADS

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

21. PROPERTY, PLANT AND EQUIPMENT

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 Foundation Schools' assets are not included within Milton Keynes Council's Property, Plant and Equipment.

Accounting Policies

Measurement:

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

- 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.

Accounting Policies

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.

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.

Accounting Policies

d. The bases for calculating the lives of different classes of assets at acquisition are as follows:

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 Dwellings. 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

Revaluation Reserve:

The Revaluation Reserve contains revaluation gains recognised since 1st 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:

Average NBV of Asset Group	De-minimis Threshold for Componentisation
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:

Type of Property Component	Component Useful Life
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.

Foundation Schools:

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

Accounting Policies

22. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 not required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme since the last recast of the scheme; on the basis of its reduction of carbon emissions since the start of phase one. This scheme is currently in phase two, which ends on 31 March 2019. The authority is therefore no longer required to purchase and surrender allowances under the current phase (two).

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but 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.

Accounting Policies

23. RESERVES

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 27 to the Financial Statements.

24. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of 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.

25. VAT

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.

26. ACCOUNTING FOR SCHOOLS

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

Accounting Policies

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

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's Services 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.

27. 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 2016/17 the fund received £15.0 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 Council's share of the Income and Expenditure is 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.

	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
2016/17 Current Year								
Balance at 31 March 2016	(100,895)	(43,525)	(15,679)	(46,143)	(13,983)	(220,225)	(428,477)	(648,702)
Total Comprehensive Expenditure and Income	33,192	(58,810)	0	0	0	(25,618)	3,710	(21,908)
Adjustments between Accounting Basis & Funding Basis under Regulations (Note 8)	(35,790)	49,902	(3,720)	12,270	(2,622)	20,040	(18,082)	1,958
Net (Increase) / Decrease in 2016/17	(2,598)	(8,908)	(3,720)	12,270	(2,622)	(5,578)	(14,372)	(19,950)
Balance at 31 March 2017*	(103,493)	(52,433)	(19,399)	(33,873)	(16,605)	(225,803)	(442,849)	(668,652)
2015/16 Comparative year								
Balance at 31 March 2015	(82,619)	(22,926)	(18,199)	(59,660)	(10,701)	(194,105)	(238,732)	(432,837)
Total Comprehensive Expenditure and Income	(56,952)	(93,457)	0	0	0	(150,409)	(67,415)	(217,824)
Adjustments between Accounting Basis & Funding Basis under Regulations (Note 8)	38,676	72,858	2,520	13,517	(3,282)	124,289	(122,330)	1,959
Net (Increase) / Decrease in 2015/16	(18,276)	(20,599)	2,520	13,517	(3,282)	(26,120)	(189,745)	(215,865)
Balance at 31 March 2016	(100,895)	(43,525)	(15,679)	(46,143)	(13,983)	(220,225)	(428,477)	(648,702)
* Balance at 31 March								
		Increase/ Decrease	Use of reserves					
	2015/16 £'000	in year £'000	£'000	2016/17 £'000				
General Fund Balance	(7,000)	2,981	(2,981)	(7,000)				
Schools Balance	(11,631)	2,061	0	(9,570)				
Earmarked Reserves	(82,264)	0	(4,657)	(86,921)				
Total	(100,895)	5,042	(7,638)	(103,491)				

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.

31 March 2016	Balance Sheet		31 March 2017
£'000			£'000
1,200,755	Property, Plant & Equipment	19	1,307,143
784	Heritage Assets		784
69,878	Investment Property	20	64,128
110	Intangible Assets		1,165
45,842	Long Term Investments	30	42,478
41,421	Long Term Debtors	22	39,411
1,358,790	Long Term Assets		1,455,109
202,830	Short Term Investments	30	135,891
1,125	Assets Held for Sale		1,845
244	Inventories		77
34,784	Short Term Debtors	22	31,646
8,874	Cash and Cash Equivalents	28	87,385
247,857	Current Assets		256,844
(9,811)	Short Term Borrowing	24	(9,877)
(76,780)	Short Term Creditors	23	(80,786)
(1,076)	Short Term Provisions	25	(12,191)
(5,340)	Short Term Capital Grants & Contributions Receipts in Advance	18	(7,593)
(4,177)	Short Term Revenue Grants & Contributions Receipts in Advance	18	(4,055)
(97,184)	Current Liabilities		(114,502)
(16,450)	Long Term Provisions	25	(8,943)
(485,681)	Long Term Borrowing	24	(483,294)
(326,401)	Liability Related to Defined Benefit Pension Scheme	35	(410,932)
(6,424)	Long Term Capital Grants & Contributions Receipts in Advance	18	(2,373)
(25,805)	Long Term Revenue Grants & Contributions Receipts in Advance	18	(23,257)
(860,761)	Long Term Liabilities		(928,799)
648,702	Net Assets		668,652
(220,225)	Usable reserves	27	(225,803)
(428,477)	Unusable Reserves	27	(442,849)
(648,702)	Total Reserves		(668,652)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2015/16 £'000	Cash Flow Statement	2016/17 £'000
150,412	Net surplus or (deficit) on the provision of services	25,618
(122,316)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(5,460)
(5,356)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(473)
22,740	Net Cash flow from Operating Activities (Note 29)	19,685
	<u>Investing Activities</u>	
(88,184)	Purchase of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	(99,450)
(247,849)	Purchase of short-term and long-term investments	(139,958)
(848)	Other payments for investing activities	(1,009)
6,073	Proceeds of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	8,566
157,904	Proceeds of short-term and long-term investments	210,488
68,292	Other receipts from investing activities	77,468
(104,612)	Net cash flows from investing activities	56,105
	<u>Financing Activities</u>	
0	Cash receipts of short and long-term borrowing	0
4,998	Other receipts from financing activities	4,709
(13,533)	Repayment of short and long-term borrowing	(2,473)
499	Other payments for financing activities	485
(8,036)	Net cash flows from financing activities	2,721
(89,908)	Net increase or (decrease) in cash and cash equivalents	78,511
98,782	Cash and cash equivalents at the beginning of the reporting period	8,874
8,874	Cash and cash equivalents at the end of the reporting period (Note 28)	87,385

Notes to the Accounts

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Accounting changes introduced in the 2017/18 Code relate to the reporting of Pension Fund Scheme transactions and the Investment Concentration. Neither of these changes will have an impact on Milton Keynes Council.

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

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 1 April. A full property review was also carried out as at the 31 March 2017 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 19 and Accounting Policy 21 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 26.
- 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

Notes to the Accounts

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 2016/17 the fund received £14.96 million to spend across various Adult Social Care 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 27.

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
Defined Benefit Pension Scheme – Pension Liability.	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 £961.411m. An adjustment to the long term salary assumption by +1% would result in the present value of the total obligation increasing by £2.113m. Sensitivity to some of the key assumptions is provided in Note 35. The carrying amount of the liability is £410.932m.
Provisions	The most significant provision the Council has disclosed is a provision of £18.162m 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 25 to the Financial Statements.

Notes to the Accounts

Allowance for Non-Payment of Debt	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 £14.254m.	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.
Property, Plant and Equipment - Depreciation	Depreciation is charged on a Useful Economic Life basis ranging from 3-85 years depending on the asset. In 2016/17 the charge is shown as £26.277m.	As part of the total depreciation charge, Infrastructure assets are depreciated over 40 years. If the assets were depreciated over 50 years the depreciation charge for 2016/17 would decrease to £4.393m, currently shown as £5.486 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 21, and non-current asset values are provided in note 19 to the Financial Statements.

3. MATERIAL ITEMS OF INCOME AND EXPENSE

All material items are shown within the Comprehensive Income & Expenditure Statement.

4. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

The Draft Statement of Accounts was authorised for issue by the Corporate Director Resources on 30 September 2017. 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 March 2017, the notes 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 been adjusted for the following material event which took place after 31 March 2017 as it provides information that is relevant to an understanding of the authority's financial position and relates to conditions that existed at the end of the reporting period.

At the 31st March 2017, the Council was involved with a legal case brought by Woods Building Services (WBS) against Milton Keynes Council regarding the award of the asbestos contract. The legal case has since been settled resulting in a payment by the Council of £0.800m. The financial Statements and notes have been amended for this material event after the Balance Sheet date.

Notes to the Accounts

The Financial Statements and notes have not been adjusted for the following events which took place after 31 March 2017 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date:

Since 31 March 2017 information has been received that a number of schools have indicated an intention to transfer to Academy status. As a result it is currently estimated that property assets to the value of £20m is to transfer from the Council's Balance Sheet in 2017/18. However these values are subject to further academy conversions that may arise during 2017/18.

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Notes to the Accounts

5. EXPENDITURE AND FUNDING ANALYSIS (EFA)

The objective of the Expenditure and Funding Analysis is to demonstrate how funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services.

2016/17

	Outturn £'000	Use of Appropriations £'000	Net Exp Chargeable to the GF& HRA Balances £'000	Adjustments between funding and accounting basis (Note 6) £'000	Net expenditure in CIES £'000
Adult Social Care and Health	60,380	366	60,746	(908)	59,838
Children and Families	48,729	4,628	53,357	7,789	61,146
Public Health	12,051	117	12,168	(12,028)	140
Total People	121,160	5,111	126,271	(5,147)	121,124
Housing and Community	3,431	1,701	5,132	4,042	9,174
Housing Revenue Account	(757)	(138)	(895)	(63,453)	(64,348)
Growth, Economy and Culture	7,304	(1,922)	5,382	(6,974)	(1,592)
Public Realm	41,384	(2,917)	38,467	(8,975)	29,492
Total Place	51,362	(3,276)	48,086	(75,360)	(27,274)
Resources delegated to LGSS	1,959	721	2,680	223	2,903
Resources retained MKC	10,753	2,255	13,008	(14,810)	(1,802)
Total Resources	12,712	2,976	15,688	(14,587)	1,101
Total Corporate Core	813	244	1,057	1,169	2,226
Debt Financing	15,752	(4,850)	10,902	(10,902)	0
Corporate Items	767	(5,041)	(4,274)	2,697	(1,577)
Asset Rentals	(17,243)	(11,305)	(28,548)	28,548	0
Net Cost of Services	185,323	(16,141)	169,182	(73,582)	95,600
Other Income and Expenditure	(186,080)	5,392	(180,688)	59,470	(121,218)
(Surplus) or deficit *	(757)	(10,749)	(11,506)	(14,112)	(25,618)
Opening General Fund and HRA Balance as 31 March 2016			(144,420)		
Less (surplus) or deficit on General Fund and HRA Balance in year			(11,506)		
Closing General Fund and HRA Balance at 31 March 2017			(155,926)		

*The surplus of (£0.757m) above includes both the General Fund overspend of £2.981m offset by a drawdown from the budget risk reserves (£2.981m) and the HRA surplus of (£0.757m)

Notes to the Accounts

	2015/16				
	Outturn £'000	Use of Appropriations £'000	Net Exp Chargeable to the GF& HRA Balances £'000	Adjustments between funding and accounting basis (Note 6) £'000	Net expenditure in CIES £'000
Adult Social Care and Health	60,353	(213)	60,140	6,725	66,865
Children and Families	47,376	2,106	49,482	18,629	68,111
Public Health	10,254	426	10,680	(9,850)	830
Total People	117,983	2,319	120,302	15,504	135,806
Housing and Community	2,252	1,564	3,816	336	4,152
Housing Revenue Account	(909)	(1,048)	(1,957)	(99,166)	(101,123)
Growth, Economy and Culture	8,563	(232)	8,331	(1,390)	6,941
Public Realm	38,287	(1,540)	36,747	(1,741)	35,006
Total Place	48,193	(1,256)	46,937	(101,961)	(55,024)
Resources delegated to LGSS	6,559	751	7,310	(4,019)	3,291
Resources retained MKC	5,118	1,250	6,368	591	6,959
Total Resources	11,677	2,001	13,678	(3,428)	10,250
Total Corporate Core	960	497	1,457	1,211	2,668
Debt Financing	17,488	(4,800)	12,688	(12,688)	0
Corporate Items	6,964	(9,542)	(2,578)	2,365	(213)
Asset Rentals	(16,256)	(24,215)	(40,471)	40,471	0
Net Cost of Services	187,009	(34,996)	152,013	(58,526)	93,487
Other Income and Expenditure	(186,041)	(4,847)	(190,888)	(53,011)	(243,899)
(Surplus) or deficit	968	(39,843)	(38,875)	(111,537)	(150,412)
Opening General Fund and HRA Balance as 31 March 2015			(105,545)		
Less (surplus) or deficit on General Fund and HRA Balance in year			(38,875)		
Closing General Fund and HRA Balance at 31 March 2016			(144,420)		

*The deficit of £0.968m above includes both the General Fund overspend of £1.877m and the HRA surplus of (£0.909m)

Notes to the Accounts

6. NOTE TO THE EFA – ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

2016/17

The table below illustrates the adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts

	Adjustment for capital purposes £'000	Net change for the Pension Adjustment £'000	Other Difference £'000	Total Adjustment £'000
Adult Social Care and Health	0	(1,015)	107	(908)
Children and Families	(947)	7,988	748	7,789
Public Health	0	(42)	(11,986)	(12,028)
Total People	(947)	6,931	(11,131)	(5,147)
Housing and Community	4,316	(222)	(52)	4,042
Housing Revenue Account	(54,138)	(63)	(9,252)	(63,453)
Growth, Economy and Culture	(4,983)	(250)	(1,741)	(6,974)
Public Realm	(2,754)	(451)	(5,770)	(8,975)
Total Place	(57,559)	(986)	(16,815)	(75,360)
Resources delegated to LGSS	202	(472)	493	223
Resources retained MKC	(6,925)	(223)	(7,662)	(14,810)
Total Resources	(6,723)	(695)	(7,169)	(14,587)
Total Corporate Core	11	765	393	1,169
Debt Financing	(2,136)	0	(8,766)	(10,902)
Corporate Items	0	0	2,697	2,697
Asset Rentals	29,365	0	(817)	28,548
Net Cost of Services	(37,989)	6,015	(41,608)	(73,582)
Other Income and Expenditure from the Funding Analysis	14,332	11,668	33,470	59,470
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	(23,657)	17,683	(8,138)	(14,112)

	£'000
Items included in the difference above are as follows:	
Reversal of Accrued Employee benefits	14
Council's share of Movement in Collection Fund Surplus/(Deficit)	(6,400)
Financial Instruments	208
Voluntary additional payment of LGR Debt	(1,960)
Total other differences	(8,138)

Also included within the other differences column above are adjustments required between services areas from the presentation required by the Council for decision making purposes, and the Income and expenditure accounted for under generally accepted accounting practices presented in the Councils Comprehensive Income and Expenditure Statement. This includes:

- Public Health Grant £11.966m moved between the Other Income and Expenditure to Public Health.
- General Fund and Housing Revenue Account Interest Payable and Receivable transferred from the Housing Revenue Account and debt financing to Other Income Expenditure.
- (Surplus)/Deficit on Trading Operations transferred from the Net Cost of Service to Other Income expenditure.

Notes to the Accounts

2015/16	for capital purposes £'000	the Pension Adjustment £'000	Other Difference £'000	Total Adjustment £'000
Adult Social Care and Health	99	4,909	1,717	6,725
Children Children and Families	(212)	18,271	570	18,629
Public Health	17	244	(10,111)	(9,850)
Total People	(96)	23,424	(7,824)	15,504
Housing and Community	261	287	(212)	336
Housing Revenue Account	(79,643)	1,333	(20,856)	(99,166)
Growth, Economy and Culture	1,716	1,297	(4,403)	(1,390)
Public Realm	221	2,020	(3,982)	(1,741)
Total Place	(77,445)	4,937	(29,453)	(101,961)
Resources delegated to LGSS	5	379	(4,403)	(4,019)
Resources - MKC	(36,551)	249	36,893	591
Total Resources	(36,546)	628	32,490	(3,428)
Total Corporate Core	2	675	534	1,211
Debt Financing	(6,619)	0	(6,069)	(12,688)
Corporate Items	0	0	2,365	2,365
Asset Rentals	23,490	0	16,981	40,471
Net Cost of Services	(97,214)	29,664	9,024	(58,526)
Other Income and Expenditure from the Funding Analysis	(56,718)	10,503	(6,796)	(53,011)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	(153,932)	40,167	2,228	(111,537)

7. EXPENDITURE AND INCOME ANALYSED BY NATURE

The council's expenditure and income is subjectively analysed as follows:

2015/16 £'000	2016/17 £'000
Expenditure	
173,124 School Employee Expenses	150,275
71,400 Non School Employee	80,039
206,356 Other operating expenses	191,042
58,847 Third Party payments	59,753
112,549 Transfer Payments	109,417
(84,753) Depreciation, amortisation, impairment, revaluations	(13,376)
22,075 Interest Payments	27,385
6,439 Precepts & levies	6,805
848 Payment to Housing Capital Receipts Pool	1,009
(1,452) Gain on the disposal of assets	65,499
565,433 Total Expenditure	677,848
Income	
(113,359) Fees, charges and other service income	(119,525)
(2,772) Interest and investment income	(2,598)
(447,816) Government Grants & Contributions	(381,556)
(5,723) Non Government Grant & Contributions	(46,029)
(100,095) Council Tax	(105,171)
(46,080) Non Domestic rate income	(48,587)
(715,845) Total Income	(703,466)
(150,412) (Surplus) or Deficit on Provision of services	(25,618)

Notes to the Accounts

The fees, charges and other service income (ie income received from external customers) is analysed further in the below table on an operating segment basis:

2015/16 £'000	2016/17 £'000
Expenditure	
(2,812) Adult Social Care and Health	(1,993)
(7,870) Children & Families	(6,100)
(147) Public Health	(103)
(10,829) Total People	(8,196)
(2,589) Housing and Community	(5,160)
(57,873) HRA	(56,035)
(10,896) Growth, Economy & Culture	(9,507)
(23,576) Public Realm	(26,362)
(94,934) Total Place	(97,064)
(1,581) Resources delegated to LGSS	(2,486)
(6,587) Resources retained MKC	(8,440)
(8,168) Total Resources	(10,926)
(127) Total Corporate Core	(116)
0 Corporate Items	(2,164)
699 Other Income & expenditure	(1,059)
(113,359) Total Income received from External Customers	(119,525)

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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 and provides an analysis of the adjustment against each reserve.

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

Notes to the Accounts

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:

2015/16 £'000		2016/17 £'000
(10,701)	Balance at 1 April	(13,983)
(5,829)	Capital Receipts in year from Sale of Assets	(7,150)
(103)	Capital Receipts in year from Repayments of Advances	(24)
(142)	Other Capital Receipts in year	(79)
<u>(16,775)</u>		<u>(21,236)</u>
	<u>Less:</u>	
1,095	Capital Receipts applied to finance capital expenditure	2,698
850	Capital Receipts transferred to Capital Adjustment Account re: HRA Debt	925
(1)	Deferred Capital Receipts in year from Sale of Assets	(1)
848	Statutory HRA Pooling (Right to Buy)	1,009
<u>2,792</u>		<u>4,631</u>
<u>(13,983)</u>	Balance at 31 March	<u>(16,605)</u>

Capital Grants Unapplied Reserve

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has not met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet capital expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place. The balance can be analysed as follows:

Notes to the Accounts

2015/16	2016/17		
Total	General Fund	HRA	Total
£'000	£'000	£'000	£'000
(59,660) Balance at 1 April 2016	(46,102)	(41)	(46,143)
Capital Grants and Contributions credited to the Comprehensive Income & Expenditure Statement			
(26,183) Government Grants	(30,607)	0	(30,607)
(29,932) Third Party Contributions	(21,579)	0	(21,579)
Applied Capital Grants and Contributions			
39,699 Government Grants	42,836	41	42,877
29,933 Third Party Contributions	21,579	0	21,579
<u>(46,143)</u> Balance at 31 March 2017	<u>(33,873)</u>	<u>0</u>	<u>(33,873)</u>

Notes to the Accounts

	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
2016/17						
<u>Reversal of items Impacting the Usable Capital Reserves</u>						
Charges for depreciation, impairment and Revaluation Losses of non-current assets	(10,882)	30,059	0	0	0	(19,177)
Movements in the market value of Investment Properties	(5,750)	0	0	0	0	5,750
Amortisation of intangible fixed assets	(42)	0	0	0	0	42
Capital grants and contributions applied	0	0	0	0	64,456	(64,456)
Revenue Expenditure Funded from Capital Under Statute	(4,499)	0	0	0	0	4,499
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(76,233)	3,574	0	0	0	72,659
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	8,792	0	(8,792)
HRA Self Financing	0	0	925	0	0	(925)
Statutory provision for the financing of capital investment	1,959	0	0	0	0	(1,959)
Capital expenditure charged against the General Fund and HRA balance	10,989	3,544	0	0	0	(14,533)
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	52,186	0	0	0	(52,186)	0
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,150	0	(7,150)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,696	0	0	(2,696)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(1,009)	0	1,009	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(1)	0	0	1
Other Capital receipts in year	101	0	(101)	0	0	0
<u>Adjustments primarily involving the Major Repairs Reserve:</u>						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	12,512	0	(12,512)	0	0
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,688)	438	0	0	0	35,250
Employers pensions contributions and direct payments to pensioners payable in year	17,785	(218)	0	0	0	(17,567)
<u>Adjustments impacting Other Reserves</u>						
Reversal of Accrued Employee benefits	(31)	17	0	0	0	14
Council's share of Movement in Collection Fund Surplus/(Deficit)	6,400	0	0	0	0	(6,400)
Financial Instruments	(184)	(24)	0	0	0	208
Voluntary additional payment of LGR Debt	1,958	0	0	0	0	0
Total Adjustments	(35,790)	49,902	(2,622)	(3,720)	12,270	(18,082)

Notes to the Accounts

2015/16	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
<u>Reversal of items Impacting the Usable Capital Reserves</u>						
Charges for depreciation, impairment and Revaluation Losses of non-current assets	(18,459)	66,619	0	0	0	(48,160)
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
Capital grants and contributions applied	0	0	0	0	69,632	(69,632)
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	(7,099)	2,722	0	0	0	4,377
Use of the Major Repairs Reserve to finance new capital expenditure		15,540				(15,540)
HRA Self Financing	0	0	850	0	0	(850)
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
credited to the Comprehensive Income and Expenditure Statement	56,115	0	0	0	(56,115)	0
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure	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)
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	12	0	(143)	0	0	131
<u>Adjustments primarily involving the Major Repairs Reserve:</u>						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	(2,520)	0	2,520	0	0
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(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)
<u>Adjustments impacting Other Reserves</u>						
Reversal of Accrued Employee benefits	(844)	(62)	0	0	0	906
Council's share of Movement in Collection Fund Surplus/(Deficit)	(3,079)	0	0	0	0	3,079
Financial Instruments	(183)	(22)	0	0	0	205
Voluntary additional payment of LGR Debt	1,962	0	0	0	0	0
Total Adjustments	38,679	72,858	(3,282)	2,520	13,517	(122,195)

Notes to the Accounts

9. 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 2016/17.

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

	Balance at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 31 March 2017 £'000
Adult Social Care Demand Led Reserves	(634)	0	(1,700)	(2,334)	0	(550)	(2,884)
Budget Rollovers Reserve	(2,792)	870	(1,203)	(3,125)	1,165	(379)	(2,339)
Capital Reserve - General Fund	(1,803)	13,139	(19,164)	(7,828)	10,810	(14,718)	(11,736)
Infrastructure Reserve	(3,598)	0	(2,786)	(6,384)	2,231	(4,650)	(8,803)
Local Government Reorganisation Debt Reserve	(2,751)	0	(2,163)	(4,914)	0	(2,164)	(7,078)
New Homes Bonus Reserve	(13,390)	11,232	(10,884)	(13,042)	11,471	(13,134)	(14,705)
NDR Funding Volatility Reserve	(2,483)	87	(4,837)	(7,233)	6,432	(135)	(936)
One-Off Expenditure Reserve	(10,352)	12,886	(14,815)	(12,281)	12,537	(10,071)	(9,815)
Other Earmarked Reserves	(21,553)	10,873	(9,252)	(19,932)	14,867	(14,675)	(19,740)
Tariff & HCA Risk Reserve	(2,611)	0	(580)	(3,191)	0	(580)	(3,771)
Waste Cashflow Reserve	(1,500)	0	(500)	(2,000)	1,761	(4,875)	(5,114)
Total General Fund Earmarked Reserves	(63,467)	49,087	(67,884)	(82,264)	61,274	(65,931)	(86,921)
Capital Reserve - HRA	(12,263)	0	(18,641)	(30,904)	3,971	(11,985)	(38,918)
Other Earmarked Reserves	(6,094)	2,069	(3,118)	(7,143)	1,036	(1,174)	(7,281)
Total HRA Earmarked Reserves	(18,357)	2,069	(21,759)	(38,047)	5,007	(13,159)	(46,199)
Total Schools Balances	(10,275)	2,490	(3,846)	(11,631)	3,675	(1,614)	(9,570)
Total Earmarked Reserves	(92,099)	53,646	(93,489)	(131,942)	69,956	(80,704)	(142,690)

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

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. This reserve has been fully committed to fund the first five years of debt costs for the assets belonging to Milton Keynes Development Partnership; schemes in the Medium Term Capital Programme and against the risk of future delays in the Residual Waste Treatment Facility.

NDR Funding Volatility Reserve

Government proposals 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 the Council's liability under the risk sharing agreement on the Tariff.

Waste Cash flow Reserve

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

Notes to the Accounts

10. 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.

2015/16 (Surplus) / Deficit £'000		2016/17 Expenditure £'000	2016/17 Turnover £'000	2016/17 (Surplus)/ Deficit £'000
(608)	Commercial Properties	1,156	(1,608)	(452)
(76)	Small Building Maintenance Work	315	(326)	(11)
129	Commercial Services	0	0	0
206	Emberton Park	217	(278)	(61)
0	Hospitality Catering Services	11	(11)	0
660	Woughton Leisure Centre	459	(24)	435
(7)	Woughton on the Green Sports Ground	55	3	58
156	Windmill Hill Golf Centre	32	(30)	2
(183)	Sponsorship- Advertising space on roundabouts	112	(544)	(432)
62	Connect MK- Broadband to Residents and Businesses	131	(41)	90
(86)	Community Learning	511	(648)	(137)
0	Finance Services	60	(71)	(11)
34	IT Service Desk and Technical Support Services	274	(361)	(87)
(4)	HR Advisory and Payroll services	119	(160)	(41)
283	Net (Surplus)/Deficit on Trading Accounts	3,452	(4,099)	(647)

11. 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 £1.759m (2015/16 £1.596m) 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 £0.031m (£0.064m in 2015/16) and will be recovered. Therefore, the net cost to the Council is nil.

12. COUNCILLOR'S ALLOWANCES

The Authority paid the following amounts to Councillors during 2016/17

2015/16 £'000		2016/17 £'000
567	Basic Allowances	569
210	Other Allowances	214
7	Expenses	7
784	TOTAL	790

Notes to the Accounts

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

13. 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:

2015/16 £'000		2016/17 £'000
177	Fees payable with regard to external audit services carried out by the appointed Auditor	190
40	Fees payable for the certification of grant claims and returns	16
217		206

14. 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.

2015/16 £'000		2016/17 £'000
	Expenditure	
1,592	Contractors Management Fee	1,642
88	Pay and Display Installation Costs	153
91	Staffing Cost	171
145	Supplies and Services	149
466	Support Costs	189
12	Surveys and Fees	8
36	Decriminalised Costs	34
2	Signing Costs	0
2,432	Total Expenditure	2,346
	Income	
(829)	Excess Charge/Penalty Charge Notices	(792)
(3,139)	Business Permits	(4,016)
(67)	Suspensions	(79)
(462)	Scratch Cards	(287)
(9,077)	Pay and Display Income	(8,376)
(13,574)	Total Income	(13,550)
(11,142)	Surplus achieved in year	(11,204)
147	Transfer to Special Parking Reserve	0
(176)	Transfer from Special Parking Reserve	(350)
176	Transfer to Capital Programme	50
(10,995)	Surplus for the year	(11,504)

Notes to the Accounts

The surplus of (£11.504m) has been fully spent during the year to fund a variety of traffic and transportation projects. Examples of such projects undertaken include capital investment in Highways £4.650m, Highway improvement design and project management £0.317m street lighting £0.084m, off-street car parks £0.385m, the passenger transport team, publicity, Routel, studies and project development, Real Time Passenger Transport Information, Coachway and bus infrastructure £0.866m. This surplus has also contributed towards concessionary fares and bus subsidies. In total the council spends £4.261m on concessionary fares and £1.667m on bus subsidies.

15. 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:

2015/16 £'000		2016/17 £'000
	Integrated Community Equipment Service (ICES)	
	Gross Funding	
(236)	Milton Keynes Council	(331)
(813)	Milton Keynes Clinical Commissioning Group (CCG) - Millbrook	(993)
(1,049)	Total Funding	(1,324)
1,526	Expenditure	1,535
1,526	Total Expenditure	1,535
477	Net (Surplus)/Deficit	211
199	MKC share of deficit	53
278	CCG share of deficit	158
0	Net (Surplus) / Deficit Carried Forward	0

Notes to the Accounts

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:

2015/16 £'000	Learning Disability	2016/17 £'000
	Gross Funding	
(21,084)	Milton Keynes Council	(19,543)
(1,427)	Milton Keynes Clinical Commissioning Group (CCG)	(1,443)
(22,511)	Total Funding	(20,986)
	Expenditure	
22,511	Pooled Expenditure	20,986
22,511	Total Expenditure	20,986
0	Net (Surplus) / Deficit Carried Forward	0

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.

2015/16 £'000	Better Care Fund	2016/17 £'000
	Gross Funding	
(990)	Milton Keynes Council - Capital Funding	(871)
(13,594)	Milton Keynes Clinical Commissioning Group (CCG)	(14,085)
(14,584)	Total Funding	(14,956)
	Expenditure	
14,054	Expenditure	14,683
14,054	Total Expenditure	14,683
(530)	Net (Surplus)/Deficit	(273)
(76)	MKC share of underspend	(167)
(454)	CCG share of underspend	(106)
0	Net (surplus) / Deficit Carried Forward	0

Notes to the Accounts

16. OFFICERS REMUNERATION

The remuneration paid to the Council's senior employees during 2016/17 whose salary was between £50,000 and £150,000 was as follows:

Total			Total
2015/16	Note	Salary	Expense Allowances
£		£	£
154,386	Corporate Director, Resources	101,096	136
-	Corporate Director, Resources	79,581	491
124,599	Director of Strategy	106,050	121
142,200	Corporate Director, People	121,200	0
87,298	Strategic Director Adult Social Care and Health	0	0
127,300	Corporate Director, Place	130,290	63
0	Acting Director, Policy, Insight & Communications	74,913	230
			Pension Contributions
			£
			18,703
			14,723
			19,619
			22,422
			0
			24,104
			13,859
			Total
			2016/17
			£
			119,935
			94,795
			125,790
			143,622
			0
			154,457
			89,002

Notes

1. Employment ended 08.11.2016
2. Employment started 09.11.2016
3. Employment ended 31.12.2015
4. Employment started 17.02.2017

The remuneration paid to the Council's senior employees during 2016/17 whose salary is more than £150,000 was as follows:

Total			Total
2015/16	Note	Salary	Expense Allowances
£		£	£
189,219	Chief Executive - C Mills	155,540	527
			Pension Contributions
			£
			28,775
			Total
			2016/17
			£
			184,842

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:

Notes to the Accounts

2015/16		2016/17
Number of Employees	£ Band	Number of Employees
45	£50,000 - £54,999	52
34	£55,000 - £59,999	48
37	£60,000 - £64,999	36
21	£65,000 - £69,999	22
11	£70,000 - £74,999	12
7	£75,000 - £79,999	4
4	£80,000 - £84,999	6
7	£85,000 - £89,999	4
3	£90,000 - £94,999	1
169		185

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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
							£'000	£'000
£0 - £20,000	28	18	22	12	50	30	359	167
£20,001 - £40,000	19	22	9	40	28	62	404	667
£40,001 - £140,000	9	4	5	19	14	23	263	410
Total Exit packages charged to the Comprehensive Income & Expenditure Statement	56	44	36	71	92	115	1,026	1,244

The total cost of £1.244m 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.

17. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding and Skills 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.

The Dedicated Schools Grant has been deployed in accordance with regulations. Details of the deployment of DSG receivable for 2016/17 are as follows:

Notes to the Accounts

2015/16	2016/17		Total
Total £'000	Central Expenditure £'000	ISB £'000	£'000
218,882 Final DSG for 2016/17 before academy recoupment			224,140
67,395 Less: Academy figure recouped for 2016/17			75,648
<u>151,487</u> Total DSG after academy recoupment for 2016/17			<u>148,492</u>
1,659 Plus: Brought forward from 2015/16			210
(1,200) Less: Carry forward to 2016/17 agreed in advance			37
154,346 Final Allocation in 2016/17			148,665
154,346 Agreed initial budgeted distribution in 2016/17	28,090	120,575	148,665
272 In year adjustments	0	85	85
154,618 Final budgeted distribution for 2016/17	28,090	120,660	148,750
27,592 Less: Actual central expenditure	28,582		28,582
125,617 Less: Actual ISB deployed to schools		120,262	120,262
<u>209</u> In year Carry forward to 2016/17*	<u>(492)</u>	<u>435</u>	<u>(57)</u>

18. GRANT INCOME

The Council has been credited with the following grants and contributions in the Comprehensive Income and Expenditure Statements during 2016/17. The balances at the year end are as follows:

2015/16 £'000	Credited to Taxation and Non Specific Grant Income	2016/17 £'000
(36,959)	Revenue Support Grant	(26,534)
(3,222)	Central Education Grant	(2,864)
(77)	Other Grants	(718)
<u>(40,258)</u>	Total Non-Ringfenced Government Grants	<u>(30,116)</u>
(99,120)	Council Tax Income	(105,171)
(47,055)	Redistributed National Non-Domestic Rate Income	(48,587)
(56,115)	Capital Grants and Contributions	(52,186)
<u>(242,548)</u>	Total Credited to Taxation and Non Specific Grant Income	<u>(236,060)</u>
	Credited to Services	
	<i>Grants:</i>	
(153,210)	Dedicated Schools Grant	(148,844)
(67,059)	Mandatory Rent Allowance: Subsidy	(62,071)
(30,336)	Mandatory Rent Rebates	(30,572)
(10,752)	New Homes Bonus	(12,458)
(10,226)	Public Health Grant	(11,996)
(8,220)	Pupil Premium Grant	(7,756)
(7,158)	Young People's Learning Agency	(6,089)
(3,660)	Universal Infant Free School Meals	(2,909)
(1,704)	Benefits Administration Grant	(1,529)
(9,627)	Other Grant Income	(8,465)
	<i>Contributions:</i>	
(13,594)	Better Care Fund Contributions	(14,516)
(9,653)	Social Care Client Contributions	(9,131)
(5,195)	Milton Keynes Hospital NHS Foundation Trust and Clinical Commissioning Group Contributions	(5,497)
(1,058)	Other Contributions	(1,419)
<u>(331,452)</u>	Total Grant Income credited to Cost of Services	<u>(323,252)</u>

Notes to the Accounts

Receipts in Advance

The council has received a number of grants, contributions and donations that have conditions attached to them these 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 March 2017 are £11.648m. This includes:

- Revenue receipts in advance of £4.055m, of which £1.722m is mainly from Developer S106 contributions; £0.576m was received for the Strengthening Family Grant and £0.486m for the Special Educational Needs Grant.
- Capital receipts in advance of £7.593m include the Go Ultra Low Grants of £5.295m.

The long term Grants and Contributions receipts in advance at the 31 March 2017 are £25.630m. This includes Revenue receipts in advance of £23.257m which is mainly from Developer S106 Contributions and Capital receipts in advance of £2.373m.

Notes to the Accounts

19. PROPERY, PLANT AND EQUIPMENT

The tables on the following pages show the movements in year for PPE in 2016/17 and the 2015/16 comparative movement.

Movement in 2016/17	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 2016	586,813	438,108	2,315	17,731	218,366	1,945	3,756	51,253	1,320,287
Additions	11,430	1,054	0	1,798	18,595	85	0	64,261	97,223
Revaluation recognised in the Revaluation Reserve	0	35,451	0	0	0	0	683	0	36,134
Revaluation recognised in the Surplus/Deficit on the Provision of Services	30,175	(1,955)	0	0	0	0	0	0	28,220
Derecognitions and disposals	(3,628)	(69,179)	0	(78)	0	0	0	0	(72,885)
Assets Reclassified (to)/from other asset classes	1,171	67,347	0	642	1,579	1,314	(1,253)	(71,520)	(720)
Other Movements in cost or valuation	0	0	(1)	0	0	0	0	(2)	(3)
At 31 March 2017	625,961	470,826	2,314	20,093	238,540	3,344	3,186	43,992	1,408,256
Accumulated Depreciation and Impairment									
Depreciation value at 1 April 2016	0	(27,505)	(2,311)	(10,886)	(44,698)	(9)	(56)	0	(85,465)
Impairment value at 1 April 2016	(643)	(33,043)	0	(131)	0	0	(250)	0	(34,067)
Depreciation charge	(8,992)	(10,236)	0	(1,526)	(5,486)	(10)	(27)	0	(26,277)
Depreciation written out to the Revaluation Reserve	0	19,061	0	0	0	0	25	0	19,086
Depreciation written out to the Surplus/Deficit on the Provision of Services	10,467	6,412	0	0	0	0	0	0	16,879
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	8,347	0	0	0	0	0	0	8,347
Impairment losses/(reversals) recognised in the Surplus/Deficit on the provision of Services	(1,455)	1,616	0	0	0	0	0	0	161
Derecognitions and disposals	268	(115)	(4)	73	0	0	0	0	222
Assets Reclassified (to)/from other asset classes	(304)	59	1	0	0	0	245	0	1
At 31 March 2017	(659)	(35,404)	(2,314)	(12,470)	(50,184)	(19)	(63)	0	(101,113)
Net Book Value									
as at 31 March 2017	625,302	435,422	0	7,623	188,356	3,325	3,123	43,992	1,307,143
as at 31 March 2016	586,170	377,560	4	6,714	173,668	1,936	3,450	51,253	1,200,755

Notes to the Accounts

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)
At 31 March 2016	586,813	438,108	2,315	17,731	218,366	1,945	3,756	51,253	1,320,287
Accumulated Depreciation and Impairment									
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
At 31 March 2016	(643)	(60,548)	(2,311)	(11,017)	(44,698)	(9)	(306)	0	(119,532)
Net Book Value									
as at 31 March 2016	586,170	377,560	4	6,714	173,668	1,936	3,450	51,253	1,200,755
as at 31 March 2015	512,434	365,297	347	7,055	154,011	1,928	2,482	13,692	1,057,246

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.

2015/16 Depreciation Charge		Potential Useful Life of Asset Years	Actual Useful Life of Asset Years	2016/17 Depreciation Charge £'000
9,305	Council Dwellings	10 - 85 *	10 - 85 *	8,992
9,981	Other Properties	20 - 60 **	20 - 60 **	10,269
1,475	Vehicles, Plant and Equipment	3 - 40 ***	3 - 25	1,526
343	Leased VPE	3 - 40 ***	3 - 8	4
4,875	Infrastructure	40	40	5,486
	Infrastructure - Other	20	20	
25,979				26,277

* 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 21 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 March 2017, including those with a commitment of less than £2.0m totalled £35.5m.

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 March 2017 with a commitment of £2.0m or more are shown in the table overleaf.

Notes to the Accounts

Segment: Scheme Name	Scheme Description	2016/17 £'000	Period of Investments Years
Children Services:			
Community Schools:			
Shenley Wood	New Primary School	2,024	1
Kents Hill	New Secondary and SEN school	8,353	1
Kents Hill	New Primary School	2,142	1
		12,519	
Resources			
Future Working Programme	Remodelling and Refurbishing Civic Offices	6,906	2
		6,906	
Strategy			
Go Ultra Low Cities Scheme	To increase the uptake in Ultra Low Emission Vehicles in MK	6,627	5
		6,627	
Community Facilities Unit			
MK Museum	Expansion of MK Museum	2,889	1
		2,889	
Grand Total		28,941	

Valuation of Non-Current Assets

The Council has a five year rolling programme for undertaking valuations of its property assets. In the 2016 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 April 2016.

A property review has also been undertaken of the Council's entire property portfolio, excluding Council Dwellings, as at 31 March 2017. 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 March 2017, where relevant a land value of £700,000 acre (£1,729,500 per ha) has been applied, previous valuations had a land value of £601,000 per acre (£1,485,000 per ha) an increase of 16%. 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 March 2017.

Notes to the Accounts

The valuations were prepared in accordance with the Practice Statements in the RICS Red Book 2014, revised in April 2016, 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:

- That there are no burdensome incidents of tenure, legal rights, restrictive covenants, charges or outgoings, 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 April 2016 based on a desk top review and a full property review has been undertaken as at 31 March 2017. 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 March 2017, some of the revaluation losses charged in previous years have been reversed.

Revaluation of Non-Current Assets

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

Notes to the Accounts

	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	7,623	188,356	3,325	0	43,992	243,296
Revalued Assets in:								
2016/17	625,302	293,443	0	0		3,123	0	921,868
2015/16	0	11,799	0	0		0	0	11,799
2014/15	0	54,644	0	0		0	0	54,644
2013/14	0	28,925	0	0		0	0	28,925
2012/13	0	46,611	0	0		0	0	46,611
Total Valuation of Revalued Assets	625,302	435,422	0	0	0	3,123	0	1,063,847
The Carrying amount for revalued assets had they been carried under the cost model	625,302	435,694				1,766		1,062,762
Revaluation surplus for revalued assets including the charge in year	0	-272				1,357		1,085

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 2016/17 no schools transferred to foundation status but there were 2 conversions to academy status. 2 other Community Schools also converted to Academies.

At 31 March 2017, there were 13 foundation schools with an estimated asset valuation of £71.893m (15 schools at £117.315m as at 31 March 2016).

Effects of Changes in Estimates

There are no changes in estimates for 2016/17

Material Losses

During 2016/17, the Council has not recognised any material impairment losses, however; the Council has reversed impairment losses for an amount of £2.600m which had previously been charged to the Comprehensive Income and Expenditure Statement.

20. INVESTMENT PROPERTIES

In 2016/17 the annual rental income from investment properties is £0.070m.

The movement in the fair value of investment properties during 2016/17 comprised of:

- a revaluation decrease of (£5.750m) which reflected market conditions and renewed negotiations on future development.

Notes to the Accounts

The total value of the Council's investment property at the 31 March 2017 is £64.128m (£69.878m at 31 March 2016).

Fair Value Hierarchy

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

	Quoted 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 31 March 2017 £'000
Recurring fair value measurements using:				
Farm Land in the Western Expansion Area	0	59,750	4,000	63,750
Miscellaneous pieces of land	0	312	66	378
Total	0	60,062	4,066	64,128

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.

21. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

Notes to the Accounts

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.

31 Mar 2016 £'000		31 Mar 2017 £'000
543,191	Opening Capital Financing Requirement	543,325
	Capital Investment	
87,030	Assets	98,321
18,067	Revenue Expenditure Funded from Capital under Statute	11,838
105,097	Total	110,159
	Sources of Finance	
(1,095)	Capital Receipts	(2,698)
0	Supported Borrowing	0
(8,259)	Prudential Borrowing	(12,341)
(15,540)	Major Repairs Reserves	(8,792)
(84,978)	Other Government Grants & Contributions	(71,548)
4,775	Revenue Contributions	(14,780)
(105,097)	Total	(110,159)
	Capital Financing Requirement	
309,589	Non-HRA Capital Financing Requirement	320,456
233,736	HRA Capital Financing Requirement	232,304
543,325	Total	552,760
(7,315)	Increase in underlying need to borrow (supported by government financial assistance)	(933)
7,449	Increase in underlying need to borrow (unsupported by government financial assistance)	10,368
134	Increase/(Decrease) in Capital Financing Requirement	9,435

22. DEBTORS

Long Term Debtors

31 Mar 2016 £'000		31 Mar 2017 £'000
31,511	Milton Keynes Development Partnership Loan*	31,511
113	Bodies External to Central Government	62
9,797	Payments in advance	7,838
41,421	Total	39,411

*The council created a Limited Liability Partnership to manage and exploit the commercial assets purchased from the Homes and Communities Agency, known as the Milton Keynes Development Partnership (MKDP). The council funded the purchase of the assets through prudential borrowing and this is reflected in the council's Balance Sheet as Long Term Borrowing. This debt has been passed on to MKDP along with the assets. The council therefore holds a long term debtor of £32m on its Balance Sheet to reflect the amount owed by the MKDP which will reduce as the assets are developed and sold by the MKDP or as the economic benefit is used (in the case of operational assets).

Notes to the Accounts

Short Term Debtors

Total 31 Mar 2016 £'000		Debtors 31 Mar 2017 £'000	Bad Debt Impairment 31 Mar 2017 £'000	Total 31 Mar 2017 £'000
	Short Term Debtors			
7,984	Central Government Bodies	6,459	0	6,459
1,057	Other Local Authorities	1,427	(44)	1,383
1,969	NHS Bodies	2,199	0	2,199
9,696	Bodies External to Central Government	18,238	(10,197)	8,041
3,129	Council Tax Arrears	4,919	(1,953)	2,966
1,025	NNDR Arrears	1,908	(854)	1,054
2,856	Housing Rents	4,586	(1,206)	3,380
27,716	Total Short Term Debtors before Payments in Advance	39,736	(14,254)	25,482
7,068	Payments in Advance	6,164	0	6,164
34,784	Total Short Term Debtors	45,900	(14,254)	31,646

23. CREDITORS

The analysis of short term creditors is as follows:

31 Mar 2016 £'000		31 Mar 2017 £'000
(18,290)	Central Government Bodies	(25,073)
(5,072)	Other Local Authorities	(5,193)
(3,504)	NHS Bodies	(3,748)
(40,161)	Bodies External to Central Government	(38,136)
(4,383)	Council Staff Creditors	(2,803)
(1,859)	Housing Rent Prepayments	(1,627)
(2,331)	Council Tax Prepayments	(2,464)
(1,180)	NDR Prepayments	(1,742)
(76,780)	Total Short Term Creditors	(80,786)

24. BORROWING REPAYABLE

Analysis of Loans by type:

31 Mar 2016 £'000	Source of Loan	Range of Interest Rates - 31 March 2017	31 Mar 2017 £'000
(472,955)	Public Works Loan Board	Lowest: 3.37% / Highest: 10.875%	(470,456)
(15,256)	Market Loans	Lowest: 3.75% / Highest: 6.62%	(15,253)
(7,281)	Other Loans	Zero interest rate	(7,462)
(495,492)	Total		(493,171)

Notes to the Accounts

Analysis of Loans by maturity:

31 Mar 2016 £'000		31 Mar 2017 £'000
	<u>Borrowing repayable on demand or within 12 months</u>	
(7,599)	Borrowing repayable on demand or within 12 months	(7,692)
(2,212)	Accrued interest on borrowing repayable within a period in excess of 12 months	(2,185)
(9,811)	Total Borrowing repayable on demand or within 12 months	(9,877)
	<u>Borrowing repayable within a period in excess of 12 months</u>	
(2,568)	Maturing in 1 to 2 years	(9,104)
(39,740)	Maturing in 2 to 5 years	(30,550)
(58,346)	Maturing in 5 to 10 years	(66,710)
(385,027)	Maturing in more than 10 years	(376,930)
(485,681)	Total Borrowing repayable within a period in excess of 12 months	(483,294)
(495,492)	Total	(493,171)

25. PROVISIONS

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

	Balance at 31 March 2016 £'000	Additional provisions made in 2016/17 £'000	Amounts used in 2016/17 £'000	Balance at 31 March 2017 £'000	Short Term £'000	Long Term £'000
Appeals Provision	(16,287)	(4,029)	2,154	(18,162)	(9,889)	(8,273)
Other Provisions	(1,239)	(2,311)	578	(2,972)	(2,302)	(670)
Total	(17,526)	(6,340)	2,732	(21,134)	(12,191)	(8,943)

Appeals Provision

Under business rates retention, Milton Keynes Council has 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 at 1 April 2017. This has therefore meant a shift in potential settlement of appeals to 2017/18 financial year and beyond.

Other provisions

The largest provision within this category is Insurance. Historically the Council has not accrued for insurance claims but has instead recognised these liabilities at the point the claim has been settled. At the 31st March the Council has outstanding insurance liabilities (estimated claims for which liability was accepted) totalling £2.104m. A provision has

Notes to the Accounts

been charged to the Comprehensive Income & Expenditure Account to fund this and recognises this liability with funding met through reserves.

26. CONTINGENT GAINS AND LOSSES

The most significant contingent gains and losses disclosed in the Council's accounts for the year ending 31 March 2017 are 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 £22.0m of any deficit in the proportion 10:5:7. The Council will be liable for any tariff deficit in excess of the risk share. The Council is currently of the view that there will be no deficit share for which it will be liable.
- b. 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 March 2017 the value of receipts that were not allocated to a specific project was £4.605m.
- c. 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 March 2017 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.
- d. 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.
- e. The Council is involved in 4 large scale appeals against the refusals or non-determination of planning permission where claims for costs have been put in, which may give rise to costs in the region of £0.450m to £0.600m.

Notes to the Accounts

27. RESERVES

Usable Reserves

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

31 Mar 2016 £'000		31 Mar 2017 £'000
	Usable Reserves	
(7,000)	General Fund Balance	(7,000)
(82,266)	Earmarked General Fund Reserves	(86,921)
(11,631)	Schools Balance Reserve	(9,570)
(5,480)	Housing Revenue Account	(6,236)
(38,047)	Earmarked HRA Reserves	(46,199)
(15,677)	Major Repairs Reserve	(19,399)
(46,141)	Capital Grants Unapplied	(33,873)
(13,983)	Capital Receipts Reserve	(16,605)
(220,225)	Total Usable Reserves	(225,803)

The movements in the authority's usable reserves are detailed in the Movement in Reserves Statement on page 57 and note 9 to the Financial Statements.

Unusable Reserves

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

31 Mar 2016 £'000		Notes	31 Mar 2017 £'000
	Unusable Reserves		
(648,221)	Capital Adjustment Account	a	(689,940)
(112,611)	Revaluation Reserve	b	(163,849)
(166)	Financial Instruments Adjustment Account		43
326,401	Pensions Reserve	c	410,932
4,065	Collection Fund Adjustment Account	d	(2,335)
(100)	Deferred Capital Receipts		(97)
1,893	Accumulated Absences Account		1,904
262	Available for Sale Financial Instruments		493
(428,477)	Total Unusable Reserves		(442,849)

The material unusable reserves are as follows:

a) 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

Notes to the Accounts

with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority.

Note 21 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2015/16 £'000	Capital Adjustment Account	2016/17 £'000	£'000
(477,824)	Balance at 1 April		(648,221)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
26,569	Charges for depreciation and impairment of non-current assets	26,119	
(74,729)	Revaluation losses on Property, Plant and Equipment	(45,296)	
301	Amortisation of Intangible Assets	42	
498	Revenue Expenditure Funded from Capital Under Statute	4,499	
	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	72,659	
<u>4,377</u>			
(42,984)			58,023
(3,715)	Adjusting amounts written out of the Revaluation Reserve		(12,131)
(524,523)	Net written out amount of the cost of non-current assets consumed in the year		(602,329)
	Capital financing applied in the year:		
(992)	Use of the Capital Reserve to finance new capital expenditure	(2,696)	
(15,540)	Use of the Major Repairs Reserve to finance new capital expenditure	(8,792)	
(38,358)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(33,114)	
(31,274)	Application of grants to capital financing from the Capital Grants Unapplied Account	(31,342)	
(6,440)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,959)	
6,996	Capital expenditure charged against the General Fund and HRA balance	(14,533)	
(85,608)			(92,436)
(37,375)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		5,750
(850)	HRA Self Financing		(925)
135	Reversal of Voluntary Set Aside from 2001/02		0
<u>(648,221)</u>	Balance at 31 March		<u>(689,940)</u>

Notes to the Accounts

b) 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 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16 £'000	Revaluation Reserve	2016/17 £'000
(99,598)	Balance at 1 April	(112,611)
(19,112)	Upward revaluation of assets	(66,488)
2,384	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	3,119
(16,728)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(63,369)
2,802	Difference between fair value depreciation and historical cost depreciation	2,882
913	Accumulated gains on assets sold or scrapped	9,249
3,715	Amount written off to the Capital Adjustment Account	12,131
(112,611)	Balance at 31 March	(163,849)

c) 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

2015/16 £'000		2016/17 £'000
336,641	Balance at 1 April	326,401
(50,406)	Actuarial gains or losses on pensions assets and liabilities	66,848
56,442	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	35,250
(16,276)	Employer's pension contributions and direct payments to pensioners payable in the year	(17,567)
326,401	Balance at 31 March	410,932

d) 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.

2015/16 £'000		Council Tax 2016/17 £'000	NDR 2016/17 £'000	Total 2016/17 £'000
986	Balance at 1 April	(3,532)	7,597	4,065
3,079	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	198	(6,598)	(6,400)
4,065	Balance at 31 March	(3,334)	999	(2,335)

28. CASH AND CASH EQUIVALENTS

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

	Balance 31 Mar 2016 £'000	Balance 31 Mar 2017 £'000	Movement In Year £'000
Cash held by the Authority	11,835	3,747	(8,088)
Short-term deposits with Financial Institutions	13,701	96,645	82,944
Bank Overdraft*	(16,662)	(13,007)	3,655
Total Cash & Cash Equivalents	8,874	87,385	78,511

At the 31 March 2017, the Council held £96.645m invested with various financial institutions as short term deposits (£13.701m at the 31 March 2016). 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 risk of change in value. Due to the nature of these investments, the balance will vary year on year.

Notes to the Accounts

The Council has arrangements in place with certain Milton Keynes school to manage surplus funds on their behalf. The bank overdraft position includes the £13.007m debit balance of a bank account that's sole purpose is to consolidate these aggregate credit balances for investment purposes. The debit balance held in this account is therefore fully offset by corresponding credit balances held in each participating School's bank account. Accounting practice means that despite formal set-off arrangements in place with the Council's bankers, this managed debit position is reported as an overdraft as (although the balance fluctuates during the year) it always remains in debit.

29. 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.

2015/16 £'000		2016/17 £'000
150,412	Net Surplus/(Deficit) on the provision of services	25,618
	<u>Adjustments to net Surplus or deficit on the provision of services for non-cash movements</u>	
(47,380)	Depreciation and Impairment of non-current assets	(19,126)
(37,375)	Investment Assets Revaluation Gains & Losses	5,750
(56,115)	Capital Grants & Contributions	(52,189)
(5,630)	(Increase) / decrease in Creditors	(3,083)
822	Increase / (decrease) in Debtors	3,971
73	Increase / (decrease) in Inventories and Work in Progress	167
3,214	(Increase) / decrease in Provisions	3,608
40,166	Pension Assets / Liabilities	17,683
(1,452)	Carrying amount of non-current assets sold	65,499
848	Housing Capital Receipts Pool	1,009
(1,962)	Local Government Reorganisation Transferred Debt	(1,959)
	Other non-cash items charged to the net surplus or deficit on the	
(17,525)	Provision of Service	(26,790)
(122,316)	Total Non-Cash Items in the Provision of Services	(5,460)
19,317	Reversal of operating activity items included in the net surplus or deficit on the Provision of Services that are shown separately	24,788
	<u>Cash flow from interest received and paid</u>	
(26,869)	Interest Paid	(27,357)
(12)	Interest element of Finance Leases	0
2,208	Interest Received	2,096
(24,673)	Total Cash Flow from Interest Received and Paid	(25,261)
22,740	Net Cash flow from Operating Activities	19,685

30. 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.

Notes to the Accounts

a. Financial Instrument Balances

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

	Long Term		Short Term	
	31 Mar 2016 £'000	31 Mar 2017 £'000	31 Mar 2016 £'000	31 Mar 2017 £'000
Loans at amortised cost				
Principal sum borrowed	(478,400)	(475,832)	(7,599)	(7,692)
Accrued interest	0	0	(2,212)	(2,185)
EIR adjustments (soft loans received)	(7,281)	(7,462)	0	0
Total Borrowing	(485,681)	(483,294)	(9,811)	(9,877)
Loans at amortised cost				
Bank overdraft	0	0	(16,662)	(13,007)
Total Cash Overdraft	0	0	(16,662)	(13,007)
Financial Liabilities at Amortised Cost				
Trade Payables	(26,050)	(25,441)	(30,603)	(32,627)
Included in Creditors	(26,050)	(25,441)	(30,603)	(32,627)
Total Financial Liabilities	(511,731)	(508,735)	(57,076)	(55,511)

The total short-term borrowing includes £2.473m (£2.473m in 2015/16) representing the short-term principal liability of long-term annuity loans.

The short-term creditor's lines on the Balance Sheet include £48.159m (£46.581m in 2015/16) that does not meet the definition of a financial liability. See note 22 for further information.

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

	Long Term		Short Term	
	31 Mar 2016 £'000	31 Mar 2017 £'000	31 Mar 2016 £'000	31 Mar 2017 £'000
Loans and Receivables				
Principal at amortised cost	31,036	27,910	202,034	135,503
Accrued interest	69	61	659	222
Available-for-sale Financial Assets				
Principal at amortised cost	14,737	14,507	0	0
Accrued interest	0	0	137	166
Total Investments	45,842	42,478	202,830	135,891
Loans and Receivables				
Cash (inc bank accounts)	0	0	11,835	3,747
Cash equivalents at amortised cost	0	0	13,670	96,630
Accrued interest	0	0	31	15
Total Cash and Cash Equivalents	0	0	25,536	100,392
Loans and Receivables				
Trade receivables	31,623	44,636	12,888	17,289
Included in Debtors	31,623	44,636	12,888	17,289
Total Financial Assets	77,465	87,114	241,254	253,572

Notes to the Accounts

The total short-term investments includes £0.062m (£0.224m in 2015/16) representing the short-term interest accrued due on long-term investments.

The debtors lines on the Balance Sheet include £14.357m (£21.330m in 2015/16) short-term and £0.008m (£0.10m in 2015/16) long-term debtors that do not meet the definition of a financial asset. See note 22 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 £8.0m from HCA for short term cash flow financing of the Milton Keynes Tariff. The movements on material soft loans balances are:

2015/16 £000		2016/17 £000
(7,104)	Opening carrying amount of soft loans on 1 April	(7,281)
0	Cash value of new loans made in year	0
0	Fair value adjustment on initial recognition	0
(177)	Increase in discounted amount due to passage of time	0
<u>(7,281)</u>	Closing Carrying Amount of Soft Loans on 31 March	<u>(7,281)</u>

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.

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.

Notes to the Accounts

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:

2015/16 Total £000		Financial Liabilities	Financial Assets		2016/17 Total £000
		Amortised Cost £000	Loans & Receivables £000	Available- for-sale assets £000	
(21,996)	Interest expense	(21,506)	0	0	(21,506)
(21,996)	Interest payable and similar charges	(21,506)	0	0	(21,506)
2340	Interest income	0	1,884	0	1,884
533	Dividend income	0	0	739	739
2,873	Interest and investment income	0	1,884	739	2,623
553	(Loss)/Gains on revaluation	0	0	(230)	(230)
553	Impact in Other Comprehensive Income	0	0	(230)	(230)
(18,570)	Net Gain/(Loss) for the year	(21,506)	1,884	509	(19,113)

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 March 2017, using the following methods and assumptions:

- 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 March 2017, using the following methods and assumptions:

- Loans to 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.

Notes to the Accounts

- 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 March 2017.
- 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.

Fair Values of financial liabilities:

31 Mar 2016			31 Mar 2017	
Balance sheet	Fair Value		Balance Sheet	Fair Value
£000	£000	Fair Value levels	£000	£000
		Financial liabilities held at amortised cost:		
472,955	572,199	2	470,456	630,996
15,256	23,826	2	15,253	24,840
7,281	7,281	2	7,462	7,462
495,492	603,306		493,171	663,298
		Recorded on Balance Sheet as:		
30,603			80,786	
9,811			9,877	
485,681			483,294	
526,095			573,957	

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

Notes to the Accounts

loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Fair Values of Financial Assets:

31 Mar 2016			Fair Value levels	31 Mar 2017	
Balance sheet £000	Fair Value £000			Balance Sheet £000	Fair Value £000
		<i>Financial assets held at fair value:</i>			
13,676	13,676	Money market funds	1	74,646	74,646
14,874	14,874	Bond, equity and property funds	1	14,672	14,672
15,643	15,643	Corporate, covered and government bonds	2	14,432	74,646
		<i>Financial assets held at amortised cost:</i>			
20,500	20,937	Long-term loans to local authorities	2	18,500	19,030
64,693	65,130	Total		122,250	182,994
242,190	0	Assets for which fair value is not disclosed		214,561	0
306,883	65,130	Total Financial Assets		336,811	182,994
		Recorded on Balance Sheet as:			
12,888		Short-term debtors		31,646	
202,830		Short-term investments		135,891	
31,623		Long-term debtors		39,411	
45,842		Long-term investments		42,478	
13,701		Cash and Cash Equivalents		87,385	
306,884		Total Financial Assets		336,811	

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

Notes to the Accounts

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

Credit Risk

During 2016/17, 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 March 2017 were held with institutions that fall into the summarised categories outlined below:

Counterparty Limits:

- UK Central Government – Unlimited
- Other Local Authorities – Unlimited
- Money Market Funds – max. £150m in total
- Any single organisation or group under same ownership – max. £40m each secured, max. £15m each unsecured
- Building Societies – max. £80m sector total (no more than 20% unrated)
- Any group of pooled funds under same management – max. £15m 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:

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Credit Rating	Long Term		Short Term	
	31 Mar 17 £000	31 Mar 16 £000	31 Mar 17 £000	31 Mar 16 £000
AAA	9,420	10,605	79,658	13,676
AA+	0	5,000	0	10,056
AA	0	0	0	0
AA-	0	0	23,057	97,321
A+	0	0	0	26,073
A	0	0	14,995	16,077
A-	0	0	0	0
Unrated local authorities	18,550	15,500	114,661	52,190
Unrated building societies	0	0	0	1,001
Unrated Pooled Funds	14,508	14,737	166	137
Total Investments	42,478	45,842	232,537	216,531

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.

2015/16 £'000		2016/17 £'000
9,811	Less than one year	9,877
2,568	Between one and two years	9,104
39,740	Between two and five years	30,550
58,346	Between five and ten years.	66,710
123,469	Between ten and twenty years	127,604
101,198	Over 20 years but not over thirty years	78,967
60,000	Over thirty years but not over forty	75,000
100,360	Over forty years	95,359
495,492	Total	493,171

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.

Notes to the Accounts

2015/16 £'000		2016/17 £'000
0	Increase in interest payable on variable rate borrowings	0
(822)	Increase in interest receivable on variable rate investments	(849)
(4,257)	Increase in government grant receivable for financing costs	(4,086)
(5,079)	Impact on Surplus or Deficit on the Provision of Services	(4,935)
<u>1,344</u>	Decrease in fair value of fixed rate investment assets Impact on Other Comprehensive Income and Expenditure	<u>1,212</u>
<u>75,466</u>	Decrease in fair value of fixed rate borrowings liabilities	<u>86,623</u>

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 £15.0m 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 March 2017 would have resulted in either a £0.725m 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.

31. 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:

Notes to the Accounts

31 Mar 2016 £'000		31 Mar 2017 £'000
2,510	Not later than one year	2,646
6,561	Later than one year and not later than five years	7,106
15,566	Later than five years	15,250
24,637		25,002

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 2016/17 £0.098m contingent rents were receivable by the Council (£0.098m in 2015/16).

32. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties - bodies or individuals which 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 18 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 15.

Councillors

Councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid during 2016/17 is shown in note 12. During 2016/17, works and services to the value of £2.388m were commissioned from organisations in which 31 councillors had an interest. Of this sum, £1.692m was paid to the Parks Trust for Campbell Bell Parks Pavilion. £0.033m was paid to the City Discovery Centre as a contribution to the educational activities of the charity.

In addition, the Council paid grants totalling £0.205m to voluntary and charitable organisations in which 24 councillors had positions on the governing bodies. Of this sum £0.064m was paid to MK Arts Centre as their annual grant to fund Arts & Learning within Milton Keynes. In all cases, grants were made with proper consideration of declarations of

Notes to the Accounts

interest. The relevant councillors did not take part in any discussion or decision relating to the grants.

Income received during 2016/17 totalled £0.012m (£0.056m in 2015/16) from 17 organisations in which 20 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>.

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 March 2017 totalled £0.006m (£0.112m at 31 March 2016).

The outstanding amount owed to related parties at the end of 31 March 2017 totalled £0.014m (£0.316m at 31 March 2016).

Details of all transactions are included elsewhere in the 2016/17 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 2016/17, the Council provided the MK Dons Sport and Education Trust with £0.040m for works & services which includes £0.014m for Falls Prevention service to prevent falls to over 60's, this consists of seated exercises including Tai Chi, Pilates and Boccia.

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.

LGSS

LGSS is the shared service partnership set up by Cambridgeshire County Council (CCC) and Northamptonshire County Council (NCC) in 2010. Milton Keynes Council joined as a third Partner from 1 April 2016.

Notes to the Accounts

LGSS seeks to reduce the cost of business services through the consolidation of resources, process redesign and exploitation of technology.

The Statement of Accounts for LGSS will be available on LGSS website www.lgss.co.uk.

33. GROUP ACCOUNTS

During 2016/17, the Council had an interest in three entities:

- Milton Keynes Development Partnership (MKDP) LLP
- Milton Keynes Business Excel (MKBE) Ltd
- YourMK LLP

Milton Keynes Development Partnership

The Milton Keynes Development Partnership LLP (MKDP) was incorporated on 7th December 2012, 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 this entity 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 112 (Group Accounts).

MK Business Excel

MK Business Excel Ltd (formerly known as MKSP Direct Ltd) is wholly owned by Milton Keynes Council.

MKBE was a full-service business support organisation formed to provide business management solutions to customers in Milton Keynes and across the region.

After receiving legal advice, many of the trading activity of the company transferred to the Council leaving very little trading activity going through MKBE. The trading activity of MKBE has now ended in October 2016. Turnover for 2016/17 totalled £0.007m with a balance on reserves of around £0.024m.

Due to materiality of MKBE, the Council has taken the view that the activity does not warrant full Group Accounts disclosures.

YourMK LLP

YourMK LLP is a 50:50 partnership of Milton Keynes Council and Mears Group PLC incorporated on 25 February 2016.

Notes to the Accounts

The partnership provides a repairs and maintenance service for over 11,500 homes across the city and leads on a regeneration programme which, over the next 15 years, will make long lasting changes to areas in the borough through investment and community engagement.

YourMK turnover was £0.201m; therefore the Council has determined that we do not consider YourMK LLP to be material to consolidate in Group Accounts for 2016/17.

34. TRUST FUNDS

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 March 2017 was £10,974 (£10,974 at 31 March 2016).

b. The Norman Hawes Memorial Trust Fund (Charity No 310620)

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 March 2017 was £112,537 (£100,856 in 2015/16). In 2016/17 dividends and donations received generated an income of £3,840 (£3,799 in 2015/16) and expenditure totalling £6,800 was paid out in grants (£9,500 in 2015/16). The Council acts as administrator for the Trust.

35. RETIREMENT BENEFITS

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 April 2013 the statutory responsibility for Public Health activities transferred to the Council from the NHS Primary Care Trusts. There were 14 members of staff who transferred along with their pensions in the NHS Pensions Scheme to the Council, of which only 6 members remain. This scheme is not available to other current Milton Keynes

Notes to the Accounts

Council staff. The pension contributions are included within the Comprehensive Income and expenditure Statement but full disclosure is not considered to be material for inclusion 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:

2015/16 £'000		2016/17 £'000
	<u>Comprehensive Income and Expenditure Statement</u>	
	Cost of Services	
	<i>Service cost comprising:</i>	
24,161	Current Service Cost	25,922
21,005	(Gain)/Loss from Settlements	(3,616)
268	Past Service Costs	865
333	Administration expenses	379
	<i>Financing and Investment Income and Expenditure</i>	
10,675	Net interest expense	11,700
56,442	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	35,250

Notes to the Accounts

2015/16 £'000		2016/17 £'000
	<i>Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</i>	
	Remeasurement of the net defined benefit liability comprising:	
6,720	Return on plan assets (excluding the amount included in the net interest expense)	(65,651)
0	Actuarial gains and losses arising on changes in demographic assumptions	(9,155)
(57,127)	Actuarial gains and losses arising on changes in financial assumptions	183,285
1	Experience gain/ (loss) on defined benefit obligation	(48,368)
0	Other actuarial gains/ (losses) on assets	6,737
(50,406)	Total remeasurement of the net benefit liability (asset)	66,848
6,036	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	102,098
2015/16 £'000	<u>Movement in Reserves Statement</u>	2016/17 £'000
(56,442)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for Post Employment Benefits in accordance with the code.	(35,250)
	<i>Actual Amount Charged Against the General Fund Balance for Pensions in Year:</i>	
16,276	Employers Contributions Payable to Scheme	17,567

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:

2015/16 £'000		2016/17 £'000
(805,176)	Present Value of the defined obligations	(961,411)
478,775	Fair Value of plan assets	550,479
(326,401)	Net liability arising from defined benefit obligation	(410,932)

Notes to the Accounts

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

2015/16		2016/17
£'000		£'000
431,387	Opening fair value of scheme assets	478,775
14,229	Interest on assets	17,631
	<i>Remeasurement gain/(loss):</i>	
	The return on plan assets, excluding the amount included in the net interest	
(6,720)	expense	65,651
	Other actuarial gains/(losses)	(6,737)
16,276	Contribution by employer	17,567
5,488	Contribution by Scheme participants	5,932
(14,270)	Estimated Benefits paid	(23,939)
32,718	Settlement prices received/(paid)	(4,022)
(333)	Administration expenses	(379)
478,775	Closing fair value of scheme assets	550,479

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

2015/16		2016/17
£'000		£'000
768,028	Opening balance at 1 April	805,176
24,161	Current Service Cost	25,922
24,904	Interest Cost	29,331
5,488	Contribution by scheme participants	5,932
	<i>Measurement gain/(loss):</i>	
0	Actuarial gains/losses arising from changes in demographic assumptions	(9,155)
(57,127)	Actuarial gains/losses arising from changes in financial assumptions	183,285
1	Experience loss/(gain) on defined benefit obligation	(48,368)
268	Past Service cost, including curtailments	865
53,723	Liabilities assumed / (extinguished) on settlements	(7,638)
(13,676)	Estimated benefits paid net of transfer in	(23,350)
(594)	Unfunded pension payments	(589)
805,176	Closing balance at 31 March	961,411

Local Government Pension Scheme Assets comprised:

The return on the pension fund for the year to 31 March 2017 is estimated to be 17%. The actual return on Fund assets over the year may be different.

The estimated assets allocation for Milton Keynes Council as at 31 March 2017 is as follows:

Notes to the Accounts

31 Mar 2016			31 Mar 2017	
£'000	%		£'000	%
58,625	12%	Gilts	64,915	12%
256,250	54%	Equities	310,308	56%
58,360	12%	Other Bonds	67,356	12%
45,431	10%	Property	42,004	8%
12,260	3%	Cash	18,692	3%
6,522	1%	Alternative Assets	6,627	1%
20,027	4%	Hedge Funds	20,058	4%
21,300	4%	Absolute return Portfolio	20,519	4%
478,775	100%	Total Assets	550,479	100%

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 March 2017.

The significant assumptions used by the actuary have been:

2015/16		2016/17
£'000		£'000
3.7%	Long term expected rate of return on assets in the scheme:	2.8%
	<i>Mortality assumptions:</i>	
	Longevity at 65 for current pensioners:	
23.8	Men	23.9
26.2	Women	26.0
	Longevity at 65 for future pensioners	
26.1	Men	26.1
28.5	Women	28.3
3.3%	Rate of inflation (RPI)	3.6%
2.4%	Rate of inflation (CPI)	2.7%
4.2%	Rate of inflation in salaries	4.2%
2.4%	Rate of increase in pensions	2.7%
3.7%	Rate for discounting scheme liabilities	2.8%

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 analysed 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.

Notes to the Accounts

Sensitivity Analysis	2016/17		
	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.00%	-0.1%
Present value of total obligation	£943,040	£961,411	£980,158
Projected service cost	£37,891	£38,819	£39,770
Adjustment to long term salary increase	+0.1%	0.00%	-0.1%
Present value of total obligation	£963,524	£961,411	£959,314
Projected service cost	£38,819	£38,819	£38,819
Adjustment to pension increases and deferred revaluation	+0.1%	0.00%	-0.1%
Present value of total obligation	£978,045	£961,411	£945,101
Projected service cost	£39,770	£38,819	£37,890
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	£997,547	£961,411	£926,625
Projected service cost	£40,057	£38,819	£37,619

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.

36. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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 2016/17, the Council paid £9.123m (£8.924m in 2015/16) to Teachers Pensions in respect of teachers' retirement benefits. This was equivalent to 16.48% (14.1% in 2015/16) of total pensionable pay. 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.

2015/16 £'000		2016/17 £'000
	Expenditure	
10,393	Repairs and Maintenance	10,814
8,145	Supervision and Management	7,410
2,947	Special Services	2,791
382	Rent, Rates, Taxes and Other Charges	169
	Depreciation of Non-Current Assets	
9,304	Dwellings	9,812
613	All Other HRA Assets	127
	Impairment of Non-Current Assets	
(76,538)	Dwellings	(40,067)
480	All Other HRA Assets	70
0	Amortisation of Intangible Fixed Assets	0
745	Revenue Expenditure Funded by Capital Under Statute	426
237	Debt Management Costs	219
186	Movement in allowance for bad debts	257
(43,106)	Total Expenditure	(7,972)
	Income	
(54,707)	Dwelling Rents	(53,773)
(1,167)	Non-Dwelling Rents	(331)
	Charges for Services and Facilities	
(908)	Tenants	(979)
(1,012)	Leaseholders	(1,081)
(13)	Contribution towards expenditure	(6)
(207)	Reimbursement Costs	(208)
(58,014)	Total Income	(56,378)
(101,120)	Net Expenditure of HRA Services as included in the whole authority	(64,350)
	Comprehensive Income and Expenditure Statement	
288	HRA Share of Corporate and Democratic Core	267
(100,832)	Net Expenditure of Housing Revenue Account Services	(64,083)
(2,722)	(Gain) / Loss on Sale of HRA Non-Current Assets	(3,574)
10,157	Interest Payable and Similar Charges	9,485
(413)	HRA Interest and Investment Income	(495)
353	Net Interest on the Defined Benefit Liability (Asset)	(145)
(93,457)	(Surplus) / Deficit for the Year on HRA Services	(58,812)

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.

2015/16 £'000		2016/17 £'000
(4,569)	Housing Revenue Account Balance as at 1 April 2016	(5,478)
(93,457)	(Surplus) / Deficit on HRA Income and Expenditure Statement	(58,812)
72,858	Adjustments between Accounting Basis and Funding Basis Under Regulations	49,902
<hr/>		
(20,599)	Net (Increase) / Decrease before Transfers to/from Earmarked Reserves	(8,910)
19,690	Transfer to / (from) Reserves	8,152
(909)	(Increase)/Decrease in year on Housing Revenue Account	(758)
<hr/>		
(5,478)	Housing Revenue Account Balance as at 31 March 2017	(6,236)

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, in accordance 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.

2015/16 £'000		2016/17 £'000
66,619	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	30,059
2	Revenue Expenditure Funded from Capital Under Statute	0
2,722	Net Gain or Loss on Sale of Non-Current Assets	3,574
(22)	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	(24)
(1,334)	Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	220
(8,087)	Capital Expenditure funded from the Housing Revenue Account	3,544
(62)	Accumulated Absence Account	17
13,020	Transfer to/(from) the Major Repairs Reserve	12,512
<hr/>		
72,858	Adjustments between accounting basis & funding basis under regulations	49,902

Supplementary Financial Statements

4. TRANSFERS TO/FROM EARMARKED RESERVES

The following Reserves were held at 31 March 2017.

	Balance at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 31 March 2017 £'000
Allow for Non-Payment of Debt Reserve	(561)	561	0	0	0	0	0
Other Earmarked Reserves	(5,533)	1,508	(3,118)	(7,143)	1,036	(1,174)	(7,281)
Capital Reserve - HRA	(12,263)	0	(18,641)	(30,904)	3,971	(11,985)	(38,918)
Total HRA Earmarked Reserves	(18,357)	2,069	(21,759)	(38,047)	5,007	(13,159)	(46,199)

5. HOUSING STOCK

At 1 April 2016 the HRA housing stock was 12,221. During the 2016/17 financial year stock numbers reduced as 65 properties were sold to tenants (includes part-sales of shared ownership dwellings), 2 were sold on the open market, 12 dwellings were acquired from the private sector, 1 dwelling was converted from a temporary guest flat to permanent residential use, 2 dwelling were repossessed, and 32 decommissioned for redevelopment. Therefore as at 31 March 2017 the Council HRA was responsible for managing a housing stock of 12,137 dwellings of which 967 is the Council's portion of shared ownership dwellings. The analysis of the remaining 11,170 dwellings is as follows:

	Houses	Flats	Total	Houses Built	No. of Houses
1 Bedroom	1,474	2,293	3,767	Pre - 1919	43
2 Bedrooms	1,788	836	2,624	1919 - 1944	334
3 or more Bedrooms	4,603	176	4,779	1945 - 1964	1,477
				Post - 1964	6,011
Total	7,865	3,305	11,170		7,865

Supplementary Financial Statements

6. ASSET VALUES

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

	31 March 2016 £'000	1 April 2016 £'000	31 March 2017 £'000
<u>Operational Assets</u>			
Council Dwellings	586,170	577,178	625,302
Other Land & Buildings	3,210	5,185	5,330
Equipment	72	55	141
<u>Non Operational Assets</u>			
Surplus Assets	781	775	330
Assets Under Construction	45	45	2,723
Investment Properties	22	22	22
	<u>590,300</u>	<u>583,260</u>	<u>633,848</u>

As at 1 April 2016, the vacant possession value of the Council's dwellings is estimated at £1.832000m compared with the Balance Sheet value of £577.178m 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 £50.588m between 1 April 2016 and 31 March 2017 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.

2015/16 £'000		2016/17 £'000
(18,199)	Balance at 1 April	(15,679)
(13,020)	Amounts transferred to the Major Repairs Reserve from the HRA during the year	(12,512)
15,540	Debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on land, houses, and other properties within the HRA	8,792
<u>(15,679)</u>	Balance at 31 March	<u>(19,399)</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 2016/17 is shown in the table below.

2015/16 £'000		2016/17 £'000
	<u>Capital Spending</u>	
6,735	- Dwellings	11,430
1,647	- Other HRA Assets	2,765
743	- Revenue expenditure funded from capital under statute	426
<u>9,125</u>		<u>14,621</u>
	<u>Funded By</u>	
(854)	- Usable Capital Receipts	(1,817)
(15,540)	- Major Repairs Allowance	(8,792)
(73)	- Government Grant	(41)
7,342	- Revenue Contributions	(3,971)
<u>(9,125)</u>		<u>(14,621)</u>

9. CAPITAL RECEIPTS

The following capital receipts were received during 2016/17:

2015/16 £'000		2016/17 £'000
	Sales of Dwellings*:	
4,106	Council Houses	5,412
1,219	Shared Ownership	1,193
6	Land	0
33	Recovered Discount	79
498	Non Right to Buy Sales	469
<u>5,862</u>	HRA Receipts in Year	<u>7,153</u>
(848)	Less: Statutory Pooling	(1,009)
<u>5,014</u>	Total HRA Useable Receipts in year	<u>6,144</u>

* 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:

2015/16 £'000		2016/17 £'000
9,304	Dwellings	9,812
613	Other Assets	127
9,917	Gross Balance Sheet Value	9,939

The charge for depreciation on dwellings from 1 April 2016 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 2015/16 £'000		Impairment Loss Charged to HRA 2016/17 £'000	Reversal of Impairment Loss charged to HRA 2016/17 £'000	Revaluation - on 2016/17 £'000	Reversal of Revaluation- on Loss charged to HRA 2016/17 £'000	Total Impairment 2016/17 £'000
(76,537)	Dwellings	634	0	5,838	(46,539)	(40,067)
479	Other Assets	0	0	95	(25)	70
(76,058)	Total Impairment	634	0	5,933	(46,564)	(39,997)

12. PENSION RESERVE

The transfer to the Pensions Reserve in respect of the Housing Revenue Account is £0.220m. Details of the background to, and reasons for this adjustment, may be found in note 22 to the Statement of Accounting Policies, and note 35 to the Financial Statements.

13. RENTS ARREARS

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 £0.328m from the 2015/16 value of £0.788m to £0.460m in 2016/17. 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 March 2017, 0.53% of the housing stock was vacant (0.64% at 31 March 2016).

Supplementary Financial Statements

Rents are expressed in terms of a 50-week year and were decreased from 6 April 2016 by an average of 1%. The average weekly rent at the end of 2016/17 was £88.57 (£89.17 in 2015/16).

The Housing Revenue Account shows rent income and other miscellaneous charges (for example service charges). Arrears of all charges at 31 March 2017 amounted to £3.809m (£3.604m at 31 March 2016). During the year ending 31 March 2017 arrears of £0.206m were written off as irrecoverable, which includes rent debt written off amounting to £0.194m.

The Council has made a total provision against all housing-related debts of £1.206m. This figure includes a provision against rent arrears, in the sum of £1.066m

14. SUBSIDY LIMITATION TRANSFER TO THE GENERAL FUND

Rent Rebates are available under the Housing Benefit scheme for those on low incomes. During 2016/17 59.90% of the Council's tenants received some help with the cost of their rent.

From 1 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 2016/17 HRA average rents were below the Limit rent value, therefore, the cost to HRA was nil.

Supplementary Financial Statements

15. COLLECTION FUND

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 for Council Tax and non-domestic rates.

Business Rates £'000	Council Tax £'000	2015/16 £'000	Collection Fund	Business Rates £'000	Council Tax £'000	2016/17 £'000
INCOME						
0	(117,148)	(117,148)	Council Tax Receivable	0	(124,168)	(124,168)
(166,990)	0	(166,990)	Business Rates Receivable	(167,044)	0	(167,044)
(166,990)	(117,148)	(284,138)		(167,044)	(124,168)	(291,212)
EXPENDITURE						
Apportionment of Previous Year (Surplus)/ Deficit						
1,712	0	1,712	Central Government	0	0	0
1,678	2,882	4,560	Billing Authority	0	2,633	2,633
34	141	175	Fire Authority	0	125	125
0	384	384	Police Authority	0	351	351
3,424	3,407	6,831		0	3,109	3,109
Apportionment of Previous Year Deficit/ (Surplus)						
0	0	0	Central Government	(5,778)	0	(5,778)
0	0	0	Billing Authority	(5,662)	0	(5,662)
0	0	0	County Council	0	0	0
0	0	0	Fire Authority	(115)	0	(115)
0	0	0		(11,555)	0	(11,555)
Precepts, Demands and Shares						
77,601	0	77,601	Central Government	78,906	0	78,906
76,049	96,442	172,491	Billing Authority	77,327	102,735	180,062
1,552	4,595	6,147	Fire Authority	1,578	4,798	6,376
0	12,849	12,849	Police Authority	0	13,417	13,417
155,202	113,886	269,088		157,811	120,950	278,761
Charges to Collection Fund						
1,069	134	1,203	Less write offs of uncollectable	692	489	1,181
(620)	(32)	(652)	Less: Increase/ Decrease(-) in Bad Debt Provision*	(2,410)	(132)	(2,542)
11,898	0	11,898	Less: Increase/ Decrease(-) in Provision for Appeals	8,224	0	8,224
376	0	376	Less: Cost of Collection	488	0	488
1,510	0	1,510	Less: Disregarded Amounts	329	0	329
14,233	102	14,335		7,323	357	7,680
5,869	247	6,116	(Surplus)/Deficit arising during the year	(13,465)	248	(13,217)
9,638	(4,416)	5,222	(Surplus)/Deficit b/fwd 1 April	15,507	(4,169)	11,338
15,507	(4,169)	11,338	(Surplus)/Deficit c/fwd 31 March	2,042	(3,921)	(1,879)

Supplementary Financial Statements

16. RATEABLE VALUE

The total rateable value of business property as at the end of 2016/17 was £375,777,460 (as compared to £371.074m in 2015/16) and the rate multiplier applied was £0.497 (as compared to £0.493 in 2015/16) with a reduced multiplier of £0.484 for those businesses receiving Small Business Relief (as compared to £0.480 in 2015/16).

17. WRITE OFFS

Council Tax debt of £0.489m was written off in 2016/17 (£0.134m in 2015/16). National Non domestic rates debt of £0.692m was written off in 2016/17 (£1.069m in 2015/16).

18. TAX BASE

The Council Tax base for 2016/17, 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	7.23
A	6/9	9,184.02
B	7/9	21,361.10
C	8/9	22,691.34
D	9/9	12,621.00
E	11/9	12,609.94
F	13/9	7,546.13
G	15/9	4,406.66
H	18/9	232.50
		<hr/>
		90,659.92
Anticipated changes during the year		860.00
Provision for non-collection		(1,052.46)
		<hr/>
		90,467.46
Impact of Council Tax Reductions		(10,106.77)
		<hr/>
Council Tax Base		80,360.69

19. COLLECTION FUND BALANCE APPORTIONMENT

The Collection Fund is a Statutory Fund in which the Council records transactions for Council Tax, Business Rates. In 2016/17 the fund is in deficit and the proportionate shares are as follows:

Supplementary Financial Statements

2015/16 Total £'000		2016/17 Council Tax £'000	2016/17 NDR £'000	2016/17 Total £'000
4,067	Milton Keynes Council	(3,334)	999	(2,335)
7,752	Central Government	0	1,019	1,019
(468)	Thames Valley Police Authority	(431)	0	(431)
(13)	Buckinghamshire and Milton Keynes Fire Authority	(156)	24	(132)
11,338	Total	(3,921)	2,042	(1,879)

The Council Tax element of the Collection Fund had an estimated surplus of (£2.600m) when the 2016/17 Council Tax was set. The final outturn as above was (£3.921m) surplus, leaving the balance of (£1.321m) to be a contribution to the Collection Fund in 2017/18. The Business Rates element of the Collection Fund has a final outturn of £2.042m deficit which will need to be funded in 2018/19.

Supplementary Financial Statements

20. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

2015/16 Total		2016/17 Council Tax Precept / Demand	2016/17 NDR Precept / Demand	2016/17 Total Precept / Demand	Council Tax Share of 2016/17 Surplus	NDR Share of 2016/17 Deficit	Total Share of 2016/17 (Surplus)/ Deficit	2016/17 Total
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000
176,558	Milton Keynes Council	102,735	77,327	180,062	(3,334)	999	(2,335)	177,727
85,353	Central Government	0	78,906	78,906	0	1,019	1,019	79,925
12,381	Police & Crime Commissioner for Thames Valley	13,417	0	13,417	(431)	0	(431)	12,986
6,134	Buckinghamshire and Milton Keynes Fire Authority	4,798	1,578	6,376	(156)	24	(132)	6,244
280,426		120,950	157,811	278,761	(3,921)	2,042	(1,879)	276,882

GROUP ACCOUNTS

Group Accounts

INTRODUCTION

The Council has an interest in the Milton Keynes Development Partnership.LLP, MK Business Excel Ltd and Your MK LLP

Milton Keynes Development Partnership

The Milton Keynes Development Partnership LLP (MKDP) was incorporated on 7 December 2012 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 March 2017 was a profit of £0.859m.

Due to the materiality of MKDP, the Council has taken the view that its activity warrants full group accounts disclosures.

MK Business Excel Ltd (MKBE)

MK Business Excel Ltd (formerly known as MKSP Direct Ltd) is wholly owned by Milton Keynes Council.

MKBE was a full-service business support organisation formed to provide business management solutions to customers in Milton Keynes and across the region.

After receiving legal advice, many of the trading activity of the company transferred to the Council leaving very little trading activity going through MKBE. The trading activity of MKBE ended in October 2016. Turnover for 2016/17 totalled £0.007m with a balance on reserves of around £0.024m.

Due to materiality of MKBE, the Council has taken the view that the activity does not warrant full Group Accounts disclosures.

YourMK LLP

YourMK was formed on 25 February 2016 as Limited Liability Partnership as a Joint Venture arrangement between Milton Keynes Council and Mears Group PLC.

YourMK LLP was set up to deliver the following range of activities including:

- Regeneration activities in the priority areas;
- Total asset management of all Council owned housing stock; and
- Development opportunities on Council owned sites in non-priority regeneration areas.

YourMK is in the early stages of developing their Business Plan and has yet to grow into their full potential. At December 2016 the forecast turnover was £0.201m with a forecast loss of (£0.164m). This position was expected in the early years of the Business.

Group Accounts

The council has determined that we do not consider YourMK LLP to be material to consolidate in Group Account for 2016/17. However, as YourMK grows, it's the Councils expectation that YourMK's position will be considered material and group consolidation would be required.

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 March 2017, 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 32 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 is wholly liable for the assets and liabilities of both subsidiaries and would provide financial support to a consolidated entity, including events or circumstances

Group Accounts

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.

	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
2016/17 Current Year								
Balance at 31 March 2016	(105,536)	(43,525)	(15,679)	(46,143)	(14,984)	(225,867)	(434,429)	(660,296)
Total Comprehensive Expenditure and Income	28,325	(58,812)	0	0	0	(30,487)	3,895	(26,592)
Adjustments between Accounting Basis & Funding Basis under Regulations	(29,589)	49,902	(3,720)	12,270	(8,612)	20,251	(18,290)	1,961
Net (Increase) / Decrease in 2016/17	(1,264)	(8,910)	(3,720)	12,270	(8,612)	(10,236)	(14,395)	(24,631)
Balance at 31 March 2017	(106,800)	(52,435)	(19,399)	(33,873)	(23,596)	(236,103)	(448,824)	(684,927)
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
2015/16 Comparative year								
Balance at 31 March 2015	(86,271)	(22,926)	(18,199)	(59,660)	(10,701)	(197,757)	(221,707)	(419,464)
Total Comprehensive Expenditure and Income	(81,605)	(93,457)	0	0	0	(175,062)	(67,717)	(242,779)
Adjustments between Accounting Basis & Funding Basis under Regulations	62,340	72,858	2,520	13,517	(4,283)	146,952	(145,005)	1,947
Net (Increase) / Decrease in 2015/16	(19,265)	(20,599)	2,520	13,517	(4,283)	(28,110)	(212,722)	(240,832)
Balance at 31 March 2016	(105,536)	(43,525)	(15,679)	(46,143)	(14,984)	(225,867)	(434,429)	(660,296)

Group 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 2016 - Restated			31 March 2017			
Gross Income £'000	Gross Exp £'000	Net Exp £'000	Comprehensive Income and Expenditure	Gross Income £'000	Gross Exp £'000	Net Exp £'000
(19,752)	86,617	66,865	Adult Social Care and Health	(17,026)	76,864	59,838
(29,212)	97,323	68,111	Children and Families	(180,007)	241,151	61,144
(10,373)	11,203	830	Public Health	(12,221)	12,361	140
(59,337)	195,143	135,806	Total People	(209,254)	330,376	121,122
(4,267)	8,419	4,152	Housing and Community	(11,611)	20,785	9,174
(58,014)	(43,109)	(101,123)	Housing Revenue Account	(56,377)	(7,971)	(64,348)
(17,580)	24,775	7,195	Growth, Economy and Culture	(12,676)	11,294	(1,382)
(25,145)	60,621	35,476	Public Realm	(27,297)	56,829	29,532
(105,006)	50,706	(54,300)	Total Place	(107,961)	80,937	(27,024)
(14,156)	3,985	(10,171)	Resources delegated to LGSS	(7,726)	8,577	851
(124,370)	123,408	(962)	Resources retained MKC	(105,756)	103,954	(1,802)
(138,526)	127,393	(11,133)	Total Resources	(113,482)	112,531	(951)
(297)	3,407	3,110	Total Corporate Core	(1,803)	4,029	2,226
(213)	0	(213)	Corporate Items	(2,164)	587	(1,577)
(303,379)	376,649	73,270	Cost of Services	(434,664)	528,460	93,796
			Other Operating Expenditure			
		5,992	Parish Precepts			6,346
		446	Levies			458
		848	Payment to the Government Housing Capital Receipt Pool			1,009
		(1,452)	(Gain)/Loss on Disposal of Non-Current Assets			65,509
		5,834	Total Other Operating Expenditure			73,322
			Financing and Investment Income and Expenditure			
		22,075	Interest Payable and Similar Charges			27,385
		(2,769)	Interest Receivable and Similar Income			(2,598)
		283	(Surplus)/Deficit on Trading Operations			(647)
		(42,708)	Income and Expenditure in relation to Investment Properties and Changes in their Fair Value			2,613
		11,500	Net Interest on the net defined benefit liability (asset)			11,702
		(11,619)	Total Financing and Investment Income and Expenditure			38,455
			Taxation and Non-Specific Grant Income			
		(99,120)	Council Tax Income			(105,171)
		(47,054)	Non-Domestic Rate Income			(48,587)
		(56,115)	Capital Grants & Contributions			(52,186)
		(40,258)	Non-Ringfenced Government Grants			(30,116)
		(242,547)	Total Taxation and Non-Specific Grant Income			(236,060)
		(175,062)	(Surplus) or Deficit on Provision of Services			(30,487)
		(16,728)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment			(63,369)
		(281)	(Surplus) or deficit on revaluation of available-for-sale financial asset.			231
		(50,708)	Remeasurements of the net benefit liability (asset)			67,033
		(67,717)	Other Comprehensive Income and Expenditure			3,895
		(242,779)	Total Comprehensive Income and Expenditure			(26,592)

Group Balance Sheet

The Group 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 Group.

31 March 2016 £'000		Note	31 March 2017 £'000
1,200,753	Property, Plant & Equipment		1,307,143
784	Heritage Assets		784
107,226	Investment Property		101,888
110	Intangible Assets		1,165
45,955	Long Term Investments		42,639
9,910	Long Term Debtors		7,900
1,364,738	Long Term Assets	2	1,461,519
203,081	Short Term Investments	2	136,033
1,125	Assets held for sale	2	1,845
244	Inventories	2	77
32,660	Short Term Debtors	3	31,911
13,553	Cash and Cash Equivalents		98,874
250,663	Current Assets		268,740
(9,811)	Short Term Borrowing	2	(9,877)
(73,861)	Short Term Creditors	4	(82,499)
(1,076)	Short Term Provisions	5	(12,191)
(5,340)	Short Term Capital Grants & Contributions Receipts in Advance	2	(7,593)
(4,177)	Short Term Revenue Grants & Contributions Receipts in Advance	2	(4,055)
(94,265)	Current Liabilities		(116,215)
(16,450)	Long Term Provisions	5	(8,943)
(485,681)	Long Term Borrowing	2	(483,294)
(326,480)	Liability Related to Defined Benefit Pension Scheme	2	(411,250)
(6,424)	Long Term Capital Grants & Contributions Receipts in Advance	2	(2,373)
(25,805)	Long Term Revenue Grants & Contributions Receipts in Advance	2	(23,257)
(860,840)	Long Term Liabilities		(929,117)
660,296	Net Assets		684,927
(225,867)	Usable reserves	6	(236,103)
(434,429)	Unusable Reserves	6	(448,824)
(660,296)	Total Reserves		(684,927)

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 authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2015/16 £'000		2016/17 £'000
175,061	Net surplus or (deficit) on the provision of services	30,487
(150,282)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(9,368)
(5,356)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(473)
19,423	Net Cash flow from Operating Activities	20,646
	<u>Investing Activities</u>	
(88,183)	Purchase of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	(99,450)
(247,789)	Purchase of short-term and long-term investments	(139,958)
(848)	Other payments for investing activities	(1,009)
6,938	Proceeds of Property, Plant & Equipment, Investing Properties and Intangible Fixed Assets	14,414
157,718	Proceeds of short-term and long-term investments	210,488
68,292	Other receipts from investing activities	77,468
(103,872)	Net cash flows from investing activities	61,953
	<u>Financing Activities</u>	
0	Cash receipts of short and long-term borrowing	0
4,998	Other receipts from financing activities	4,709
(13,534)	Repayment of short and long-term borrowing	(2,473)
499	Other payments for financing activities	485
(8,037)	Net cash flows from financing activities	2,721
(92,489)	Net increase or (decrease) in cash and cash equivalents	85,320
106,042	Cash and cash equivalents at the beginning of the reporting period	13,553
13,553	Cash and cash equivalents at the end of the reporting period	98,873

Notes to the Group Accounts

1. ACCOUNTING POLICIES

In preparing the Group Accounts, the Council has:

- Aligned the accounting policies of the subsidiaries with those of the Council and made consolidation adjustments where necessary;
- Consolidated the financial statements of the subsidiaries 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 Milton Keynes Business Excel and 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 2015/16 £'000	Milton Keynes Council 2016/17 £'000	Milton Keynes Development Partnership 2016/17 £'000	Intra- Company Transactions 2016/17 £'000	Group Total 2016/17 £'000
1,364,738 Long Term Assets	1,455,109	37,921	(31,511)	1,461,519
203,081 Short Term Investments	135,891	142	0	136,033
1,125 Assets held for sale	1,845	0	0	1,845
244 Inventories	77	0	0	77
32,660 Short Term Debtors	31,646	847	(582)	31,911
13,553 Cash and Cash Equivalents	87,385	11,489	0	98,874
(9,811) Short Term Borrowing	(9,877)	0	0	(9,877)
(73,861) Short Term Creditors	(80,786)	(2,295)	582	(82,499)
(1,076) Short Term Provisions	(12,191)	0	0	(12,191)
(9,517) Short Term Grants & Contributions Receipts in Advance	(11,648)	0	0	(11,648)
(16,450) Long Term Provisions	(8,943)	0	0	(8,943)
(485,681) Long Term Borrowing	(483,294)	0	0	(483,294)
0 Other Long Term Liabilities	0	(31,511)	31,511	0
(326,480) Liability Related to Defined Benefit Pension Scheme	(410,932)	(318)	0	(411,250)
(32,229) Long Term Grants & Contributions Receipts in Advance	(25,630)	0	0	(25,630)
660,296 Net Assets	668,652	16,275	0	684,927

Notes to the Group Accounts

3. DEBTORS

Short term debtors including payments in advance held by the group at 31 March 2017 are detailed in the table below.

Group Total 2015/16 £'000	Milton Keynes Council 2016/17 £'000	Milton Keynes Development Partnership 2016/17 £'000	Intra- Company Transactions 2016/17 £'000	Group Total 2016/17 £'000
7,923 Central Government Bodies	6,459	130	0	6,589
(2,051) Other Local Authorities	1,383	113	(582)	914
1,969 NHS Bodies	2,199	0	0	2,199
10,633 Bodies External to Central Government	8,041	525	0	8,566
3,129 Council Tax Arrears	2,966	0	0	2,966
1,025 NNDR Arrears	1,054	0	0	1,054
2,856 Housing Rents	3,380	0	0	3,380
25,484 Total Short Term Debtors before Payments in	25,482	768	(582)	25,668
7,176 Payments in Advance	6,164	79	0	6,243
32,660 Total Short Term Debtors	31,646	847	(582)	31,911

4. CREDITORS

Creditors held by the Group at 31 March 2017 are detailed below.

Group Total 2015/16 £'000	Milton Keynes Council 2016/17 £'000	Milton Keynes Development Partnership 2016/17 £'000	Intra- Company Transactions 2016/17 £'000	Group Total 2016/17 £'000
(18,629) Central Government Bodies	(25,073)	(132)	0	(25,205)
(360) Other Local Authorities	(5,193)	(341)	289	(5,245)
(3,504) NHS Bodies	(3,748)	0	0	(3,748)
(40,455) Bodies External to Central Government	(38,136)	(762)	293	(38,605)
(4,383) Staff Creditors	(2,803)	0	0	(2,803)
(3,019) Housing Rent Prepayments	(1,627)	(1,060)	0	(2,687)
(2,331) Council Tax Prepayments	(2,464)	0	0	(2,464)
(1,180) NDR Prepayments	(1,742)	0	0	(1,742)
(73,861) Total Short Term Creditors	(80,786)	(2,295)	582	(82,499)

Notes to the Group Accounts

5. PROVISIONS

There are no provisions to disclose within the Milton Keynes Development Partnership.

6. RESERVES

The reserves held by the Milton Keynes Council and Milton Keynes Development Partnership at 31 March 2017 are detailed below:

Group Total		Milton Keynes Council	Milton Keynes Development Partnership	Group Total
31 Mar 2016		31 Mar 2017	31 Mar 2017	31 Mar 2017
£'000		£'000	£'000	£'000
(220,225)	Milton Keynes Council's Usable Reserves	(225,803)	0	(225,803)
(5,642)	LLP Retained Earnings	0	(10,300)	(10,300)
(225,867)	Total Usable Reserves	(225,803)	(10,300)	(236,103)
(428,477)	Milton Keynes Council's Unusable Reserves	(442,849)	0	(442,849)
(5,952)	LLP Non-Distributed Reserves	0	(5,975)	(5,975)
(434,429)	Total Unusable Reserves	(442,849)	(5,975)	(448,824)
(660,296)	Total Reserves	(668,652)	(16,275)	(684,927)

Notes to the Group Accounts

7. 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 Group Cash Flow Statement.

Group Total		Milton Keynes Council	Milton Keynes Development Partnership	Intra-Company Transactions	Group Total
31 Mar 2016			31 Mar 2017		
175,061	Net Surplus/(Deficit) on the provision of services	25,618	4,869	0	30,487
	<u>Adjustments to net Surplus or deficit on the provision of services for non-cash movements</u>				
(49,457)	Depreciation and Impairment of non-current assets	(19,126)	0	0	(19,126)
(37,991)	Investment Assets Revaluation Gains & Losses	5,750	(257)	0	5,493
(56,115)	Capital Grants & Contributions	(52,189)	0	0	(52,189)
(12,868)	(Increase) / decrease in Creditors	(3,083)	5,788	(582)	2,123
3,001	Increase / (decrease) in Debtors	3,971	(3,480)	582	1,073
73	Increase / (decrease) in Inventories and Work in Progress	167	0	0	167
3,214	(Increase) / decrease in Provisions	3,608	0	0	3,608
19,679	Pension Assets / Liabilities	17,683	49	0	17,732
(1,452)	Carrying amount of non-current assets sold	65,499	0	0	65,499
848	Housing Capital Receipts Pool	1,009	0	0	1,009
(1,962)	Local Government Reorganisation Transferred Debt	(1,959)	0	0	(1,959)
(17,252)	Other non-cash items charged to the net surplus or deficit on the Provision of Service	(26,790)	(6,008)	0	(32,798)
(150,282)	Total Non-Cash Items in the Provision of Services	(5,460)	(3,908)	0	(9,368)
19,317	Reversal of operating activity items included in the net surplus or deficit on the Provision of Services that are shown separately	24,788	0	0	24,788
	<u>Cash flow from interest received and paid</u>				
(26,869)	Interest Paid	(27,357)	0	0	(27,357)
(12)	Interest element of Finance Leases	0	0	0	0
2,208	Interest Received	2,096	0	0	2,096
(24,673)	Total Cash Flow from Interest Received and Paid	(25,261)	0	0	(25,261)
19,423	Net Cash flow from Operating Activities	19,685	961	0	20,646

Glossary

Accruals

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

Actuary

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

Actuarial Basis

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

Actuarial Valuation

An actuary undertakes valuations by checking what a pension scheme's assets are worth compared to its liabilities. The actuary then works out how much needs to be paid into the scheme by the employer and the members to make sure that there will be enough money to pay the pensions when they are due.

Admitted Bodies

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

Amortisation

The process of reducing the value of an asset or liability over its useful life.

Capital Receipts

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing loan debt.

Community Assets

Assets which are held for the benefit of the community where there is no determinable useful life, such as works of art.

Council Tax

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services

Creditor

Represents the amount that the Council owes other parties.

Debtor

Represents the amounts owed to the Council.

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

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a long-term asset.

Dividend

The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall.

Earmarked Reserves

Reserve balances which have been set aside for future spending in a specific area.

Fair Value

Usually the amount that would be paid for an asset in an active market, however where there is no market for a certain type of asset (such as schools) other methods to determine fair value are used.

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.

Grants

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

Impairment

Impairment of an asset is caused either by a consumption of economic benefits, a deterioration in the service provided by an asset, or by a general fall in prices of that particular asset.

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

Non-monetary assets that cannot be seen, touched or physically measured, but can be identified as a separate asset.

International Financial Reporting Standards (IFRS)

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

Inventory

Fair value of current assets purchased which have not yet been consumed.

LOBO

Lender Option Borrower Option (Loans at market rates).

Glossary

Minimum Revenue Provision (MRP)

This is the amount we have to set aside out of our revenue to repay loans.

Net Book Value (NBV)

The value of an asset after depreciation.

Non-Distributable Costs

Costs that cannot be specifically applied to a service and are held centrally.

Payment in Advance

A charge taken into account when preparing the financial statements, which are for benefits to be received in a period after the accounting date.

Precept

This is an amount we collect on behalf of Parish and Town Councils on their behalf. This money is collected by MKC and paid to the relevant body.

Provision

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

Provision for Bad and Doubtful Debts

A prudent reduction in the reported level of income owed to the Authority for non-payment of invoices and other debt.

Prudential Borrowing

Borrowing which is financed from the Council's own resources and conforms to the Prudential Code.

Public Works Loan Board (PWLB)

A government body set up specifically to lend money to local authorities.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revenue Support Grant (RSG)

Government funding which provides general support for council services.

Surplus

The remainder after taking away all expenses from income.

Useful Life

The period with which an asset is expected to be useful to the Authority in its current state.