Milton Keynes Council

Statement of Accounts for the year 2018/19

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Introduction

This document presents the statutory financial statements for Milton Keynes Council (the council) for the period 1 April 2018 to 31 March 2019 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 2018/19 (the Code). Our core financial statements use this format and meet the conditions of the Code.

This narrative report provides a summary of the most significant matters reported within the accounts and of the council's current financial position and performance. It also looks forward to future years and how the council will continue to meet its responsibilities for the people of Milton Keynes.

The Council's Strategic and Operational Overview

Priorities

Milton Keynes Council operated through 2018/19 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 with a growing population of c272,000 and is the landlord for approximately 12,000 properties, whose income and expenditure is operated through a Housing Revenue Account (HRA).

Partnerships

A partnership exists between Milton Keynes Council and Mears Group LLP to regenerate and manage the housing stock. All activity within YourMK is community led and commercially framed. Further information on YourMK and how it supports the council's priorities can be found on https://www.mearsgroup.co.uk/news/article/27/changes-to-yourmk

Milton Keynes Council also wholly owns Milton Keynes Development Partnership (MKDP), a body set up to facilitate growth and economic success in line with the corporate plan. MKDP estate comprises around 265 developable acres which are used to develop Milton Keynes in line with the Council Plan. In 2018/19, MKDP appointed Greig & Stephenson Architects (GSA) to develop ideas for the open market next to the shopping centre, Centre:MK, to "cater for the community and make it a destination in its own right" (Adam Parker GSA). Further information on MKDP and its up and coming projects can be found at www.mkdp.org.uk

Milton Keynes Council is a partner of Local Government Shared Services (LGSS) with Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC). For the start of 2018/19 LGSS delivered a new integrated finance and HR system (ERP Gold) over 9 bodies. ERP Gold will make combined savings of £10m (approx.) for Cambridgeshire County Council, Milton Keynes Council and Northamptonshire County Council in the first seven years of operation.

The overall LGSS performance for 2018/19 is as follows:

	2018/19 Budget £'000	2018/19 Expenditure £'000	2018/19 Variance £'000
LGSS Overall Performance	28,824	28,635	(189)

The outturn position for LGSS split over the 3 partners is as follows:

	CCC £'000	MKC £'000	NCC £'000	Total £'000
(Under)/overspend position by Council	(112)	(148)	71	(189)

LGSS provides a wide range of strategic, professional, operational and internal transactional services including finance, procurement, internal 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. LGSS are strategically placed to identify and apply further innovative savings for Milton Keynes Council and its partners.

The partners have commissioned a review of the LGSS model and this will conclude in the spring of 2020.

Milton Keynes Council is a partner of a shared Public Health function with two other Unitary Authorities (Bedford Borough Council and Central Bedfordshire Council). Since September 2017 the Parties collaborate and co-operate to ensure that service activities are delivered efficiently and actions are taken on a joint basis. The shared function also provide the core offer to the Bedfordshire Clinical Commissioning Group (BCCG) and Milton Keynes Clinical Commissioning Group (MKCCG). The Parties work together to constantly improve their service and create efficiencies for the future.

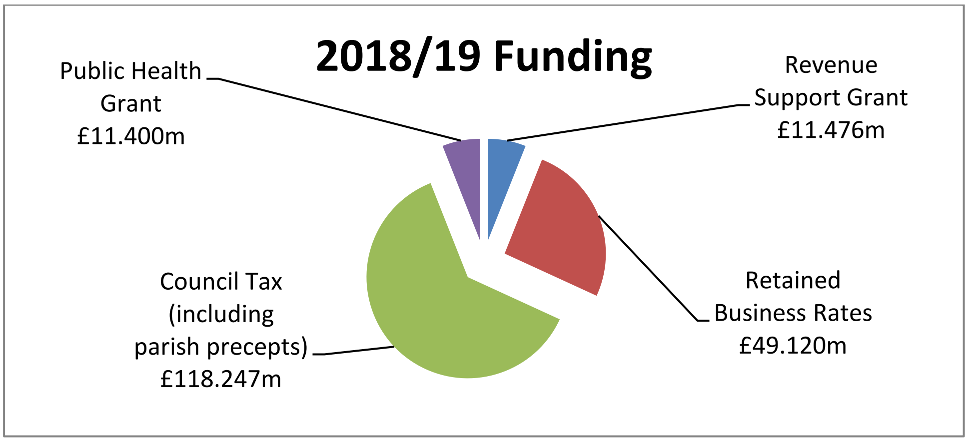
In September 2018 Milton Keynes Council was admitted as a shareholder in Opus LGSS People Solutions Ltd, a Joint Venture with Opus (wholly owned by Suffolk CC), NCC and CCC to provide more cost effective interim and permanent employment services. Whilst the company is performing well the Council has not received any dividend to date and it is not viewed as material for Group Accounts.

Workforce

In order to meet the above aims, Milton Keynes Council had a total establishment of 2,066 FTE at 31 March 2019. This workforce reflects the diversity of the residents of the City.

Income from Grants, Local Tax Payers and Other Sources

Milton Keynes Council's net cost of service is funded through Council Tax, Business Rates and Grants. The chart below details how the 2018/19 budget requirement of £190.243m was financed.



In addition, some services receive specific grants, which are held within the relevant service 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.

Governance

The council 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 and published alongside the 2018/19 accounts. Four significant Issues arising in 2018/19 that are considered to have governance implications include:

- ERP
- LGSS
- Contract Management
- Planning Services.

Further detail on these issues can be found within the 2018/19 Annual Governance Statement. More information on the significant risks and opportunities can be found on page 15.

The Council's 2018/19 Financial Position

Service Expenditure – General Fund

The Council has managed to deliver a positive General Fund Revenue outturn for the year of £0.271m surplus. This equates to an underspend of 0.15% of the net General Fund budget. This is despite significant challenges in areas of high demand such as Homelessness, Adults and Children's Social Care and Waste. This has been achieved through a combination of demand management interventions as well as activity to reduce spending in non-critical areas, through the generation of additional income and further one off government grant income on Social Care and the Homelessness Reduction Act.

The outturn position is explained in detail in the cabinet report of the 4 June 2019, further details of this can be found on the council's website.

General Fund Revenue – Performance, Risks and Actions

The council continues to work within a very challenging financial environment, having made budget reductions of £144m between 2011/12 and 2018/19. The council's Medium Term Financial Plan (February 2019) forecast a requirement for a further £19m savings to be identified in the period to 2022/23 this is after already identifying £12m budget reductions. Meanwhile, MK continues to grow and there are increasing demands on council services.

The following are significant ongoing risks the council is facing as at 31 March 2019:

- Homelessness
  The level of homelessness demand within the borough has increased sharply during 2018/19, due to a combination of factors. This has resulted in a significant increase in the level of enquiries following the introduction of the Homelessness Reduction Act which extended the Council's legal duties beyond those in priority need. The level of households in temporary accommodation has risen sharply during the year despite a range of measures being put in place to reduce this (increase of 166 households in temporary accommodation 2018/19). The Council has invested significantly in Homelessness Prevention to support those in need, however due to the unprecedented level of demand and shortage of affordable housing, overall numbers and costs continue to rise. This presents a significant risk to the Council's budget over the period of the Medium Term Financial Plan.

- Adult Social Care – Older People
  The level and complexity of demand relating to Home Care Packages for Older People increased expenditure in 2018/19 by £0.710m. Interventions were put in place and helped to manage this pressure. Moving forward it is expected that rising demand will outpace the impact of the interventions that the Council can implement and therefore this presents a financial risk for the Council.

- Social Care – Staffing
  The Council as with other local authorities has experienced staff recruitment and retention challenges with social care professionals. Within Children's Services there were a total of 35 agency staff required during the year, at March 2019 this figure was 22.

  The Council was successful in major recruitment activity in the second half of 2018/19 following the adoption of more attractive packages. However, the demand for professionals in this area will continue to present an on-going risk for the Council and the current demand for interim / agency staff is likely to continue, albeit at lower levels than 2018/19.

- Waste Recycling – Contamination
  The Council resolved an outstanding claim relating to residual waste contamination in 2018/19. The Council will need to manage levels of future contamination to recyclate material to avoid additional costs of treatment and landfill.

General Fund - Income & Expenditure Forecast Summary at 31 March 2019.

	GF High Level Revenue Summary		
	2018/19 Budget	2018/19 Outturn	2018/19 Outturn Variance to Budget
	£m's	£m's	£m's
Place	61.948	62.69	0.742
People	121.692	119.947	(1.745)
Resources	14.617	14.385	(0.232)
Corporate Core	1.241	1.183	(0.058)
Corporate Items	9.28	10.302	1.022
Net Cost of Services	208.778	208.507	(0.271)
Reversal of Capital Charges	(26.03)	(26.03)	0
General Fund Requirement	182.748	182.477	(0.271)
Total Financing	(182.748)	(182.748)	0
Net Surplus / Deficit	0	(0.271)	(0.271)

Significant Overall Revenue Variances

The significant variances are explained in detail in the Cabinet report for the 4 June 2019. A summary of the variances are listed below:

Place Directorate – Overspend £0.742m

- Growth, Economy and Culture – An overspend for the year of £0.556m. The main areas impacting this included a provision in Planning Development Management of £0.400m for expected planning appeal costs. In addition, Development Management income had a shortfall of £0.310m due to a drop in Statutory Fees and Planning Performance Agreements compared to budget. This has been partly offset by £0.200m salary savings.

- Public Realm – An overspend for the year of £0.110m. There was a significant financial pressure in year resulting from the Residual Waste Treatment Facility where the Income target of £1.347m was not achieved due to the plant operating below capacity. A further £0.700m cost was incurred in relation to waste contamination at the Waste Recycling Plant. The Street lighting budget was overspent by £0.446m in year due to additional maintenance, energy costs and scouting inspections. These were offset by Highways Adoptions Income £0.671m net, savings on Traffic Management £0.178m, Parking income was higher than budget £0.240m and delays in the commencing on site in building the new Multi Storey Car Park resulted in savings in debt financing costs of £0.331m. There was also savings made in year on the street cleansing contract of £0.286m.

- Housing and Regeneration – An overspend for the year of £0.076m. Homelessness Temporary Accommodation was overspent by £0.258m. This was offset by an unexpected government grant of £0.412m which was announced in March 2019. Pressures from homelessness and the threat of homelessness, and the shortage of new affordable housing are continuing to increase. Although additional mitigation measures are being implemented, the level of overspend will continue to increase. There was also an overspend of £0.179m on agency staff premia as a result of the delayed restructuring. Neighbourhood Housing was overspent by £0.062m as a result of Travellers sites and Hostel management costs.

People Directorate – Underspend £1.745m

- Children's Services – There was an overspend across the service of £0.300m in 2018/19. The main variances included an overspend on frontline social care agency staff in order to cover maternity leave, sickness absence and vacant posts (£0.668m). Of the total number of 172 posts in the service, there are currently 22 agency staff. Legal costs were £0.225m over budget due to caseloads and complexity. There was additional costs resulting from placing children on a special guardianship. The overspends were partly reduced through savings on the placements budget (£0.772m), due to a change in the mix of placements with a shift to the lower cost placement (e.g. fostering instead of residential). High cost residential placements have reduced from 28 in March 2018 to 21 in March 2019 (each placement costs an average of £0.165m per annum).

- Adults Social Care – There was an underspend in year of £2.045m. The main variances included an overspend on Older People care packages and placements of £0.710m, which was offset by the receipt of an unexpected government grant £0.906m. Further underspends across the service included Mental Health residential placements £0.567m, Contracts and Commissioning underspend £0.632m (includes the MKC share of underspends against the pooled budgets with the CCG), Learning Disability underspend of £0.985m, additional health funding awarded for three placements and additional client contributions (£0.323m), staffing underspends (£0.486m) and an overspend of £0.454m on Older People Community Support Services.

Corporate Resources Directorate – Underspend £0.232m

- There was an underspend of £0.232m in year. The main variances included an underspend of £0.326m on Housing Benefits as a result of a lower than planned contribution to the Benefit Subsidy Reserve. The other significant movement related to an overspend on Health & Safety of £0.159m due to the use of external contractors. The contractors carried out a detailed review of the health and safety position of the councils building stock during the year as this information is vital to feed into a revised, long term asset management plan.

Corporate Items – Overspend £1.022m

- The overspend was as a result of the transfer of £1.022m of roll over requests relating to projects and initiatives which could not be finalised in 2018/19. Details of these are included in the Cabinet report of the 4th June 2019.

Service Expenditure – Cost Reductions and Income

Savings of £14.661m were approved for implementation in 2018/19 and £2.924m savings carried forward from 2017/18, with £14.976m (85%) of these being delivered in year and £2.609m (15%) will either not be delivered until next year or are now undeliverable.

The main undeliverable Cost Reductions or Income proposals are:

- Residual waste income stream from other Authorities for waste processed at the Residual Waste Treatment Facility (RWTF), targeted income £1.282m. The agreed operational level of the RWTF means that this income target will not be achieved. The 2019/20 budget was adjusted to reflect this.
- Income from Renewable Obligation Certificates anticipated through the new waste facility £0.250m. The agreed operational level of the RWTF means that this income target will not be achieved. The 2019/20 budget was adjusted to reflect this.

The main cost reduction and income proposals that have been part delivered or delayed are:

- Temporary Accommodation (TA) Savings made through a combination of:
    1. Reducing the number of people placed in TA and reducing the length of time they remain in TA once there.
    2. Commissioning TA at a low cost per night that the current rates paid.
    3. Securing additional permanent accommodation to discharge duty.

Service Expenditure – Capital

An overall programme forecast outturn of £556.325m compared to an approved budget of £562.2m gives a total projected underspend of £5.875m to 2022/23. For 2018/19 the total budgeted programme spend was £164.928m, against which £81.812m was spent.

The main areas of expenditure included:

- £22.206m expenditure in Public Realm, including £6.456m for Carriageway Resurfacing and £6.383m on Street Lighting improvements including column and LED replacement.

- There has been £14.524m investment within People Services to build, maintain and expand new schools and to enhance Social Care services. £2.141m was spent on three Secondary Schools, £6.642m was spent on five new Primary Schools.

- The council's social Housing portfolio has seen investment of £20.349m in 2018/19, including £6.756m on building new council houses and purchasing existing houses.

- The council has also purchased land at Tickford fields for £11.540m for future development. Other expenditure in year includes £2.269m into the Whitehouse Health Facility which the Council is leading on behalf of NHS partners and will include consulting rooms, minor surgery and recovery rooms, as well as a pharmacy and £2.054m for a similar facility in Brooklands.

Non-Current asset Disposals

Major non-current asset disposals during the year include the conversion of two schools to Academy status:

- Heronshaw
- Kents Hill

Other non-current asset disposals include the sale of council dwellings main stock of (£2.059m) and council dwellings shared ownership stock of (£0.206m).

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 2018/19, principal repayments on annuity loans (£2.666m) 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.

At the end of the financial year the council had outstanding borrowing totalling £482.943m of this total, £476.606m (including accrued interest of £3.179m) represents funding of capital projects and the remaining £6.337m represents cashflow loans pursuant to the transfer of assets from Homes and Communities Agency. Further details of the composition of this sum can be found in the note 27 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 2019.

At the 31 March 2019, the council held £236.538m invested with various financial institutions (including total accrued interest of £0.685m); of this amount £107.466m has been classified as cash equivalents in accordance with Accounting Policy note 6.

Service Expenditure – Investments

The Treasury Management Strategy Statement (TMSS) for 2018/19, which included the Annual Investment Strategy was and approved by council on 20 February 2018. It set out the investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

Interest rates expectations within the 2018/19 strategy are low. Short-term borrowing rates are expected to be the cheaper form of borrowing should funds have needed to be raised, long-term borrowing rates are forecast to rise modestly.

Continued market risks promoted a cautious approach to investments, whereby options would continue to be dominated by low counterparty risk appetite, resulting in relatively low returns (when compared to borrowing rates).

Contingencies and Material Write-offs

During 2018/19 Milton Keynes Council raised general debts (including adult social care, rents and traded services) totalling £77.737m. There were no material write-offs actioned during 2018/19, this is currently being reviewed.

The council has 5 Contingent Assets and Liabilities which are detailed in note 29 to the accounts.

The 2018/19 Accounts

The council is required to present a complete set of financial statements (including comparative information). The core financial statements are set out on pages 53 to 57 and are presented as follows (The Expenditure & Funding Analysis (EFA) is not a core financial statement but is detailed below to aid users of the accounts):

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 to the 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. 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).

There have not been any unusual transactions in the 2018/19 year.

Balance Sheet

This sets 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 decreased by £6.4m in 2018/19. 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.

Movement in Reserves Statement (MIRS)

This statement represents 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). 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. 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

This 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:

Housing Revenue Account (HRA)

The Housing Revenue Accounts shows the in year cost of providing housing services in accordance with generally accepted accounting practices.

Collection Fund

The transactions of the billing authority are shown on the Collection Fund Statement in accordance with the code of accounting practice.

Group Accounts

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.

The Milton Keynes Development Partnership (MKDP)

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 and this is reflected in the balance sheet as a long term debtor to reflect the amount owed by MKDP. This debt was passed on to MKDP along with the assets. 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. In 2019/20 the loan is due to be repaid by MKDP and the balance of the loan has been moved to short term debtors in 2018/19.

During the year, Milton Keynes Council (MKC) decided that the monies advanced to Milton Keynes Development Partnership (MKDP), in accordance with the provisions of the initial LLP agreement, constituted State Aid, and, accordingly, rather than interest free until March 2018, interest at the prevailing rate is to be charged to MKDP by MKC from the inception of the advance.

The monies advanced were applied for the purposes of acquiring property assets from the Homes and Communities Agency, and, therefore, a provision in respect of historic interest is required for the periods to 31 March 2018 in the sum of £5.542 million. Interest for the current year of £1.061m is provided in the normal way.

The interest due for prior years is set out below:

	£000
Period ended 31 March 2014	1,289
Year ended 31 March 2015	1,065
Year ended 31 March 2016	1,012
Year ended 31 March 2017	1,115
Year ended 31 March 2018	1,061
Total	**5,542**

Risks and opportunities

The aim of Risk Management 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:

- Safeguarding and caring for Children and Adults – Failure of Social Workers, care providers, foster carers and care homes. Mitigated by regular staff training and an effective Quality assurance framework.
- Fulfil Statutory or Legislative Responsibilities - Ineffective procedures and protocols to ensure the organisation is aware of new and existing statutory and legislative responsibilities. Mitigated by Business Planning process within services used to identify and address changes to legislative/regulatory requirements.
- City Growth and Infrastructure - Inability to delivery infrastructure. Lack of infrastructure to cope with growth (e.g. road, housing and schools). Mitigated by MK50 Futures Strategy and The Local Leaders Board.
- Effective Financial and Contract Management and Governance Controls. The Council regularly monitors revenue and capital budgets and corrective action is taken as necessary.
- Managing Reputation. There is a strong focus in following plans like The Council Plan and the MTFP.
- Organisational Capacity at a time of increasing demand and declining resources – Lack of clarity on the long term vision and role of the council. This is mitigated through an

integrated approach to corporate and services planning and maintenance of a robust level of reserves.

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

The 2019/20 Budget and Medium Term Outlook

The 2019/20 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 2019/20 Budget has been set against a background of tough financial conditions, mainly due to continued cuts to Government funding and substantial increases in demand for services.

Five risks have been identified that could increase costs to the council.

- Brexit
  There remains significant uncertainty over the impact of Brexit on the UK economy and how this might translate locally. Whilst an assessment has been made and is reflected in the view on the level of GF reserves this will need to be kept under regular review in light of circumstances. An update will be provided as part of the Council's quarterly financial monitoring reporting to Cabinet.

- Government Funding
  The current financial settlement runs until the end of 2019/20. Currently there is no clear direction from government on the future of local government funding. In 2019/20 the Council is reliant on £66.821m of government funding to deliver core services to residents and businesses. The Council does not expect to receive any clear indication on its future funding position until December 2019 and then this is likely to be a short term settlement for 1 year. It is also expected that the planned reform of local government finance will be delayed. The uncertainty presents a significant challenge for local government in terms of planning service delivery and commissioning services. The Council is addressing this through its Reserves Strategy to ensure that any significant variations can be managed.

- Homelessness and Temporary Accommodation
  The projections for reductions in the demand for temporary accommodation are based on investment in a range of measures including prevention and alternative lower cost

accommodation. The budget position based these reductions on recent trends in 2018/19. This will continue to remain one of the key risks in 2019/20.

- Social Care Demand and Provision
  The Council as with other local authorities has experienced staff recruitment and retention challenges with social care professionals. The Council was successful in major recruitment activity in the second half of 2018/19 following the adoption of more attractive packages. However, the demand for professionals in this area will continue to present an on-going risk for the Council and the current demand for interim / agency staff is likely to continue, albeit at lower levels than 2018/19.

  Increases in population in Milton Keynes continue to place pressure on the demand for Children's and Adults social care services (in particular due to rises in the age ranges of 0-19 and over 65 years). We currently have a number of measures to mitigate the pressure, including government funding, working with Health and managing demand.

- Business rates
  The earmarked reserve to mitigate against Business Rate fluctuations is currently £5.1m. Over the last five years the Business Rate Retention scheme has seen considerable fluctuations of between £6m benefit to £5m loss. This area therefore remains a risk and to ensure the council is well placed to manage this risk the surplus from the projected Collection Fund Adjustment Account will be transferred to this reserve.

  There has been no real change to the level of appeals settled and actively under Check, Challenge, Appeal and our view over both the level of reserves and appeals provision for 2019/20 is that this is sufficient.

Reserves

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 actual spend
- To hold ring-fenced balances for example, specific grants, trusts, schools or the Housing Revenue Account

Details of the council's earmarked reserves can be found in note 9 to the Financial Statement.

Capital

The Medium Term Capital Programme was approved at February 2019 Council. As part of the process for developing the 2019/20 capital programme, existing schemes have been reviewed to identify any uncommitted resources which can be reallocated and new schemes for 2019/20 have been prioritised.

The 2019/20 Capital Programme in the Medium Term is projected to spend £108.440m.

The main General Fund capital projects include construction of a new secondary school £20m, school expansions £8.175m, investment in highway improvements £4.4m, new health facilities £4.3m and new leisure facilities of £2.3m. Funding is also included within the programme for asset management of highways, property and the stock within the Housing Revenue Account. The Council does not plan to undertake any investment activity that would be classed as capital expenditure.

Further details on the Council's Capital Strategy that was published alongside the Council's 2019/20 budget report.

Annual Investment Strategy

Both the CIPFA Code and the Ministry of Housing, 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.

The council aims to maintain the diversity of its investments as a means of limiting exposure to credit risk. This will represent a continuation of the strategy that has been implemented since 2015/16. For short-term investments a range of unsecured certificates of deposit, money market funds and loans to other local authorities will be utilised. For longer-term investments then higher yielding asset classes and/or more secure (collateralised/asset-backed) options will be sought. Milton Keynes Council is a going concern and this is the basis the 2018/19 accounts have been prepared under.

Outlook

Milton Keynes turned 50 years old in 2017.

The MK Futures 2050 Report (http://www.mkfutures2050.com) which was endorsed by council in July 2016 sets out how the City will to continue to grow and develop to maintain its success.

This includes 6 key projects:

- Hub of the Cambridge – Milton Keynes – Oxford Arc
  To realise the arc's full economic potential as a single knowledge-intensive cluster as envisaged by HM Treasury and the National Infrastructure Commission.
- MK:U

To provide lifelong learning opportunities at a new university to promote research, teaching and practice which provide realistic solutions to the problems facing fast-growing cities everywhere.

- Learning 2050
  To ensure that the city provides, and is known for providing, world-class education for all of its young people; and the Milton Keynes Promise.
- Smart, Shared, Sustainable Mobility
  That everyone who lives, works, studies or does business in the city is able to move freely and on-demand by harnessing the flexibility of the city's grid roads and Redways.
- Renaissance CMK
  To recreate or create an even stronger city centre fit for the 21 century.
- Cultured and Creative city
  To harness the energy and motivation of the city's most important asset – its people.

The Council Plan supports the aspiration that MK should grow to a population of 500,000 and beyond by 2050, supporting the growth of housing within the Borough securing the future of Milton Keynes by continuing to support Plan:MK. The Council Plan prioritises new infrastructure to support growth including investment in the development of a new university, and city centre college campus, regeneration, growth in school places, development of plans for a mass transport system in Milton Keynes and commitment to continue to develop the Strategy for 2050, responding ambitiously to the National Infrastructure Commission East-West corridor report.

COVID19 Pandemic

On the 12 March 2020 the World Health Organisation declared COVID-19 a world Pandemic and the subsequent UK lockdown which started on the 23 March 2020. The COVID-19 pandemic has brought further demands and pressures to the services provided by the Council and the population of Milton Keynes.

As a Category 1 responder, MKC has been providing a wide range of support to vulnerable residents, businesses and partner organisations. This has required the Council to incur additional costs outside of our approved budget and take decisions in line with new government direction and guidance to ensure that essential services are able to continue in what is an extremely challenging situation.

Local Government has received two initial allocations of funding from government to help meet the costs of dealing with the emergency and to recognise the wider financial impact that this is having in terms of lost fees and charges, taxation revenues and delays to planned savings. Nationally a total of £3.2bn has been provided, with Milton Keynes receiving £13.5m.

On 18 March 2020 in response to COVID-19 MKC set up a Financial Authorisation Board (FAB). The Board's key responsibility was to ensure that the Council could fund the continued delivery of critical frontline services and make urgent decisions relating to all financial matters relating to COVID-19. All decisions are made in line with the Council Constitution.

The Council has been undertaking financial modelling work to try and understand the financial impact both now and in future years of COVID-19. A Cabinet report has been published which sets out the results of this initial work against 3 possible scenarios (High, Medium and Low Impact). Further details can be found in Note 8 - Events after the Balance Sheet Date and the Cabinet report which can be found under the following link https://milton-keynes.cmis.uk.com/milton-keynes/Calendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/6542/Committee/1353/Default.aspx

Milton Keynes has been declared as a leader in terms of covid19 response. See attached a link of the work done by council the end of May 2020 with Stakeholders to support members of the public in line with the council plan.
https://content.govdelivery.com/attachments/UKMK/2020/05/29/file_attachments/1461946/MKC%20COVID%2019%20Progress.pdf

Further Information

For information please contact: CorporateFinance@milton-keynes.gov.uk
Our accounts are audited by Ernst & Young LLP.

Independent Auditor’s Report to the Members of Milton Keynes Council

Opinion

We have audited the financial statements of Milton Keynes Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Comprehensive Income and Expenditure Statement,
- Authority Movement in Reserves Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement,
- Accounting policies and the related notes 1 to 36,
- Collection Fund and the related notes,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes
- Group Movement in Reserves Statement,
- Group Comprehensive Income and Expenditure Statement,
- Group Balance Sheet,
- Group Cash Flow Statement;
- the related group 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Milton Keynes Council and Group as at 31 March 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Disclosure in relation to the effects of COVID-19

We draw attention to Accounting Policy a) - General Principles - and Note 8 – Events after the Balance sheet date, which describe the financial and operational consequences the Group is facing as a result of COVID-19 and the additional pressure that this presents to expenditure and funding. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director for Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director for Finance and Resources' has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Director for Finance and Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- Working with partners and other third parties

In April 2016, the Council set up YourMK as a joint venture between a key supplier and the Council to oversee contracts in place with the supplier to cover repairs, maintenance and planned works.

YourMK was set up as a Board to oversee these contracts, however, there were weak governance arrangements and contract monitoring processes in place in relation to this contract. The key issues identified were;

- no clear documented evidence was available which showed the approved terms of reference of the Board, or minutes to evidence that this was agreed and understood by those involved;
- the representation of the Board in relation to contract review was not maintained: the Milton Keynes Council representatives on the YourMK Board had all resigned by July 2018, which meant that the Board only included representatives from the supplier;
- a lack of financial and performance monitoring processes in place which meant that there was no evidence that a number of the key figures and calculations were reviewed or challenged;
- a lack of documented evidence of oversight of the Board on the performance of the contracts.

The issues above are evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance and understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, 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 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director for Finance and Resources

As explained more fully in the Statement of the Director for Finance and Resources' Responsibilities set out on page 27, the Director for Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director for Finance and Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

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 2017, as to whether Milton Keynes Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 [name of body] had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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.

Use of our report

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 Milton Keynes Council and Milton Keynes Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
16th July 2020

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.

Peter Cannon
Chair of the Audit Committee
Date: 15th July 2020

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 2019.

Steve Richardson
Director of Finance and Resources
Date: 15th July 2020

Accounting Policies

a) General Principles

The Statement of Accounts summarises the council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 Local Government Act 2003 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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.

Going Concern

The Statement of Accounts are prepared on a going concern basis on the assumption that the Authority will continue in operational existence for the foreseeable future.

The Council has been undertaking financial modelling work to evaluate the financial impact both now and in future years of COVID-19. A Cabinet report has been published which sets out the results of this initial work against 3 possible scenarios (High, Medium and Low Impact). Further details can be found in Note 8 - Events after the Balance Sheet Date and the Cabinet report which can be found under the following link https://milton-keynes.cmis.uk.com/milton-keynes/Calendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/6542/Committee/1353/Default.aspx

Cabinet has considered the outcome of these scenarios and is satisfied that the Council remains a going concern as its combined cash and short-term investment holdings as at June 2020 are £288mexceed the liquidity shortfall that would be required within the high impact model.

b) 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 31 March is accrued and full details can be found in Accounting Policy note 8 – Employee Benefits.

c) 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.

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.

d) 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.

e) 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.

f) 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 highly liquid 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.

g) 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.

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 contribution from revenue towards the reduction in its overall borrowing requirement calculated in accordance with accounting policy 11 (Minimum Revenue Provision or MRP). Depreciation, revaluation and impairment losses and amortisation are adjusted through the Capital Adjustment Account in the Movement in Reserves Statement in order that there is no impact on the level of Council Tax.

h) 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 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 2019 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:

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

Post-Employment Benefits

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

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

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

On 1 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 8 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 36 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, and projected earnings for current employees).

Liabilities are discounted to their value at current prices using a discount rate of 2.55% (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:

Service cost comprising:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past Service Cost – the increase 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;
- Any gain or loss on settlement – arising when an authority enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is

calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuary has updated its assumptions – charged to the Pensions Reserve as other Comprehensive Income and Expenditure.

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balance to be charged with the amount payable by the council 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 36 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.

i) 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 8 to the Financial Statements.

j) 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 (there were none in 2018/19).

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.

k) 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 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.

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 local authorities to make a prudent provision for General Fund debt redemption. No statutory MRP charge is required for debt related to the Housing Revenue Account, although councils may set aside a voluntary provision. 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.

For 2018/19, 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 adjusted 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.

Where assets are purchased for confirmed future development and it is anticipated that future sale proceeds will offset the cost, then the repayment of debt will be funded from those 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. The council expects its investment to be returned in full with surpluses accruing from capital growth and so has chosen not to set aside a Minimum Revenue Provision. The values of the fund and the underlying assets will be kept under review, and an MRP provision may be instated if prudent to do so.

Debt Restructuring:

The council did not undertake any debt restructuring activity during 2018/19.

Financial Assets:

Financial Assets are classified based upon a classification and measurement approach that best reflects the business model for holding such assets and their cashflow characteristics. The three main classes are:

- Amortised cost;
- Fair Value through profit or loss (FVPL), and;
- Fair Value through other comprehensive income (FVOCI).

The council’s policy is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost, except those whose contractual payments are not solely either payments of principal or interest.

Amortised cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at Fair Value. They are subsequently measured at their amortised cost. Credits to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset at the effective rate of interest. For most of the financial assets held by the council, this means the amount presented on the Balance Sheet is the outstanding principal receivable plus accrued interest. Interest credited to the Comprehensive Income and Expenditure Statement is therefore the amount receivable for the year per the contractual provisions.

Fair Value through Profit or Loss:

Financial assets that are measured at Fair Value through Profit or Loss are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument and are measured at Fair Value. Fair Value gains and losses are recognised in the Surplus or Deficit on the Provision of Services line of the Comprehensive Income and Expenditure Statement.

The fair value measurements are based on the following techniques:

- Instruments with quoted market prices, or;
- Discounted cashflow analysis based on fixed and determinable payments.

The inputs to measurement techniques are categorised in accordance with the following three levels:

- Level 1 – quoted prices in active markets for an identical asset that the council can access at the measurement date;

- Level 2 – inputs other than quoted prices included with Level 1 that are observable for the asset, either directly or indirectly, or;
- Level 3 – unobservable inputs for the asset.

Any gains or losses that arise on derecognition of the assets are credited or debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Fair Value through Other Comprehensive Income:

Financial assets that are measured at Fair Value through Other Comprehensive Income (FVOCI) are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument and are measured at Fair Value. Fair Value gains and losses are recognised in the Financial Instruments Revaluation Reserve on the Balance Sheet.

The council has irrevocably elected to present changes in the Fair Value of the following equity type investments as permitted by the IFRS:

- CCLA Property Fund

Investments purchased after the transition to IFRS 9 may also be elected to FVOCI upon acquisition, subject to review.

Any gains or losses that arise on derecognition of the assets are credited or debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model:

IFRS 9 has introduced a new <u>Expected</u> Credit Loss model requirement for impairment of financial assets, in contrast to the <u>Incurred</u> Credit Loss model under previous accounting regulations. The Expected Credit Loss model requires the Council to assess the potential probability risk of default, the likely loss given default, and the altered timing of payments on relevant financial assets rather than an assessment based on evidence that a default has taken place.

The Council recognises material expected credit losses on financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivable.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could potentially default on their obligations. The councils Treasury Management Strategy sets out the framework for assessing counterparty credit risk and the techniques applied to monitor, manage and mitigate those risks. Credit risk plays a crucial part in assessing potential losses. Where the risk has not increased significantly since initial measurement or remains low, losses are assessed on the basis of 12-month expected losses. Where the risk has increased significantly since initial measurement, losses are assessed on a lifetime basis.

Loss allowances reduce the carrying amount of financial assets on the Balance Sheet and are charged either against the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, or for financial assets classed as capital expenditure, the Capital Adjustment Account. On derecognition, the loss allowance is reversed and the carrying amount of financial assets on the Balance Sheet reinstated.

l) 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.

A Business Improvement Districts (BID) scheme applies across the whole authority. The scheme is funded by a BID levy paid by non-domestic ratepayers. The authority acts as a principle under the scheme, and accounts for income received ad expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

m) 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.

n) Insurance

To obtain insurance cover in the most cost effective manner the council arranges its insurance by utilising a mix of self-insured and externally insured arrangements. Where the council buys external insurance it generally does so with substantial self-insurance arrangements (excesses) for any claims and always via fully regulated and recognised insurance providers.

Internal funds are maintained to cover those claims that fall below the policy excess or are not catered for within the council's insurance arrangements. These funds are based on an actuarial review of the total potential liability that the council could incur up to the 31 March 2019. Set out below are the risks and levels to which the council self-insures or is responsible for self-financing, anything in excess of these figures would be, subject to insurance policy terms and conditions, insured.

Insurance Class	Maximum Self Retention Each Claim (£)	Maximum Self Retained Amount Each Policy Period (£)	Notes
Casualty - Public & Employers Liability	100,000	2,000,000	
Material Damage	100,000	0	
Business Interruption	50,000	0	Linked to Material Damage
Property Owners (Commercial)	250	Unlimited	
Property Owners (Leasehold)	0	0	Excess on claims payable by leaseholders not MKC
Contract Works	1,000	Unlimited	
Terrorism	100,000	Unlimited	
Motor	500	Unlimited	Note any one event with more than one vehicle involved subject to a limit of £2,000
Crime	50,000	Unlimited	

Computer	50,000	Unlimited	
Engineering	100	Unlimited	
Contents Accidental Damage (General Properties)	100% Self insured	Unlimited	Uninsured

o) 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 too many entities of local, regional and national significance. These appointments have been examined; together with councillors' own declarations of interest and also those of the Corporate Leadership Team. No material reportable interests were identified. Minority interests in companies are detailed in note 35 to the Financial Statements.

The council has an interest in two entities, Milton Keynes Development Partnership LLP (MKDP) and YourMK. Group Accounts have been prepared to reflect the council's ownership in MKDP. After a full review YourMK is deemed immaterial and should not be treated as group accounts in compliance with the definition in the Code of Practice.

p) 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. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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.

Gains and losses on revaluation are posted to the Financing and Investment Income and expenditure line in the Comprehensive Income and expenditure Statement. The same treatment is applied to gains and losses on disposal. See accounting policy note 3 on Fair Value Measurement for a more detailed explanation of the valuation techniques adopted.

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

q) 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.

r) 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 Ministry of Housing, Communities and Local Governmnent guidance requires each billing authority to 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 reductions to the rating list. 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 reduction 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.

s) 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.

t) 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.

Measurement:

Assets are carried in the Balance Sheet using the following measurement bases and with a guideline de-minimus level of £20,000:

- 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.

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 those 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, assets held for sale and land), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.
Depreciation is provided in accordance with the following policy on all assets (except for investment properties) where, at the time of acquisition or revaluation, a finite useful life can be determined:

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

Property, Plant & Equipment: Other Buildings, Community Assets and Surplus Assets	Up to 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.

The council has carried out component based depreciation for Housing Revenue Account properties from financial year 2017/18 onwards.

Revaluation Reserve:

The Revaluation Reserve contains revaluation gains recognised since 1 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.

General Fund 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-minimus threshold level as illustrated on the materiality table for componentisation below:

Average NBV of Asset Group	De-minimus 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-minimus level. The de-minimus 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.

Housing Componentisation

The authority fully componentised its Housing Stock for the first time in 2017/18. The authority provided the Valuer with a list of components required.

In order to achieve this full componentisation, the Valuer prepared an assessment of Life Cycle and Replacement Costs for each Component under review, using their own experience of the sector and also referred to their Building Consultancy Department who are experienced in preparing Stock Condition Surveys and Audits of similar stock.

The Valuer varied their cost assessments by property size (ranked by number of bedrooms) in order to give a more representative assessment overall, further fine-tuned by applying a discount to flats in order to reflect their typically smaller size.

Finally, for each property address, the assessed Life Cycle for each component was compared to the previously assessed Life Cycle for the building element of that property.

Type of Component	% of total cost	Component Useful Life
Land	35	Nil
Kitchen	7	10 – 15 Years
Bathroom	6	10 – 25 Years
Windows/Doors	6	10 – 25 Years
Heating/Lighting/Electrics	10	10 – 25 Years
Roof	8	10 – 65 Years
Structure	28	10 – 85 Years

u) Provisions, Contingent Liabilities And Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charges as an expense to the appropriate service line in the Comprehensive Income and expenditure Statement when the authority has an 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 benefit will now be required, the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation. Its 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.

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).

v) 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 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 or rent 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 30 to the Financial Statements.

w) 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.

x) 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.

y) 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

- 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.

z) 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 2018/19 the fund received £15.6 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.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

	2017/18		Note			2018/19	
Expenditure	Income	Net			Expenditure	Income	Net
£000	£000	£000			£000	£000	£000
93,717	(31,906)	61,811		Adult Social Care and Health	97,995	(38,769)	59,226
228,650	(170,327)	58,323		Children and Families	227,781	(169,428)	58,353
12,218	(11,958)	260		Public Health	11,473	(11,590)	(117)
14,341	(8,250)	6,091		Housing and Community	15,927	(8,067)	7,860
22,520	(55,415)	(32,895)		Housing Revenue Account	27,782	(55,025)	(27,243)
24,492	(16,568)	7,924		Growth, Economy and Culture	14,362	(12,194)	2,168
56,115	(24,478)	31,637		Public Realm	63,610	(25,972)	37,638
10,410	(1,500)	8,910		Resources delegated to LGSS	9,835	(3,816)	6,019
93,112	(102,529)	(9,417)		Resources retained MKC	112,141	(99,466)	12,675
5,168	(2,405)	2,763		Corporate Core	11,563	(1,501)	10,062
334	(22)	312		Corporate Items	2,478	(234)	2,244
561,077	**(425,358)**	**135,719**		**Cost of Services**	**594,947**	**(426,062)**	**168,885**
		37,491	10	Other Operating Expenditure			41,779
		24,444	11	Financing and Investment Income and Expenditure			8,834
		(234,536)	12	Taxation and Non Specific Grant Income			(250,713)
		(36,882)		**Surplus or Deficit on Provision of Services**			**(31,215)**
		(31,889)		Surplus or deficit on revaluation of Property, Plant and Equipment			(17,562)
		(4,448)		Impairment losses on non-current assets charged to the Revaluation Reserve			6,827
		(689)		Surplus or deficit on revaluation of available for sale financial assets and financial instruments at fair value through other comprehensive income and expenditure			(236)
		(45,112)		Remeasurement of the net defined benefit liability / asset			(26,305)
		(82,138)		**Other Comprehensive Income and Expenditure**			**(37,276)**
		(119,020)		**Total Comprehensive Income and Expenditure**			**(68,491)**

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments. Detailed movements to usable reserves are set out at note 30.

	Total General Fund Balance	Total HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Un-applied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	(104,027)	(57,674)	(22,944)	(23,225)	(46,310)	**(254,180)**	(531,535)	**(785,715)**
Movement in reserves during 2018/19								
Surplus or deficit on the provision of services	(15,342)	(15,873)	0	0	0	**(31,215)**	0	**(31,215)**
Other Comprehensive Income / Expenditure	0	0	0	0	0		(37,276)	**(37,276)**
Total Comprehensive Income and Expenditure	**(15,342)**	**(15,873)**	**0**	**0**	**0**	**(31,215)**	**(37,276)**	**(68,491)**
Adjustments between accounting basis and funding basis under regulations	(2,334)	8,792	2,042	(491)	(35,864)	**(27,855)**	27,855	**0**
Net Increase or Decrease before Transfers to Earmarked Reserves	**(17,676)**	**(7,081)**	**2,042**	**(491)**	**(35,864)**	**(59,070)**	**(9,421)**	**(68,491)**
Transfers to / from Earmarked Reserves	0	0				**0**	0	**0**
Increase or Decrease in 2018/19	**(17,676)**	**(7,081)**	**2,042**	**(491)**	**(35,864)**	**(59,070)**	**(9,421)**	**(68,491)**
Balance at 31 March 2019	**(121,703)**	**(64,755)**	**(20,902)**	**(23,716)**	**(82,174)**	**(313,250)**	**(540,956)**	**(854,206)**

	Total General Fund Balance	Total HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Un-applied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2017	(103,493)	(52,433)	(16,605)	(19,399)	(33,873)	**(225,803)**	(442,849)	**(668,652)**
Movement in reserves during 2017/18								
Surplus or deficit on the provision of services	(11,080)	(25,802)	0	0	0	**(36,882)**	0	**(36,882)**
Other Comprehensive Income / Expenditure	0	0	0	0	0		(82,138)	**(82,138)**
Total Comprehensive Income and Expenditure	**(11,080)**	**(25,802)**	**0**	**0**	**0**	**(36,882)**	**(82,138)**	**(119,020)**
Adjustments between accounting basis and funding basis under regulations	10,546	20,561	(6,339)	(3,825)	(12,437)	**8,506**	(6,547)	**1,959**
Net Increase or Decrease before Transfers to Earmarked Reserves	**(534)**	**(5,241)**	**(6,339)**	**(3,825)**	**(12,437)**	**(28,376)**	**(88,685)**	**(117,061)**
Transfers to / from Earmarked Reserves	0	0	0	0	0	**0**	0	**0**
Increase or Decrease in 2017/18	**(534)**	**(5,241)**	**(6,339)**	**(3,825)**	**(12,437)**	**(28,376)**	**(88,685)**	**(117,061)**
Balance at 31 March 2018	**(104,027)**	**(57,674)**	**(22,944)**	**(23,224)**	**(46,310)**	**(254,179)**	**(531,534)**	**(785,713)**

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 2018 £000	Note		31 March 2019 £000
1,505,051	22	Property, Plant and Equipment	1,496,520
853		Heritage Assets	848
69,828	23	Investment Property	95,794
1,065		Intangible Assets	593
28,209	33a	Long-Term Investments	15,962
36,811	25a	Long-Term Debtors	3,929
1,641,817		**Long Term Assets**	**1,613,646**
53,066	33a	Short-Term Investments	113,110
1,840		Assets Held for Sale	10,405
77		Inventories	98
65,463	25b	Short-Term Debtors	98,346
71,414	31	Cash and Cash Equivalents	100,247
191,860		**Current Assets**	**322,206**
(17,729)	27	Short-Term Borrowing	(22,544)
(92,534)	26	Short-Term Creditors	(95,322)
(14,340)	28a	Provisions	(3,343)
(6,656)	21	Grants Receipts in Advance - Revenue	(33,282)
(6,975)	21	Grants Receipts in Advance - Capital	(6,707)
(138,234)		**Current Liabilities**	**(161,198)**
(14,968)	28b	Provisions	(31,591)
(474,344)	27	Long-Term Borrowing	(460,399)
(392,509)	36	Other Long-Term Liabilities	(398,924)
(25,785)	21	Grants Receipts in Advance - Revenue	(27,250)
(2,124)	21	Grants Receipts in Advance - Capital	(2,284)
(909,730)		**Long Term Liabilities**	**(920,448)**
785,713		**Net Assets**	**854,206**
(254,179)	30.1	Usable Reserves	(313,250)
(531,534)	30.2	Unusable Reserves	(540,956)
(785,713)		**Total Reserves**	**(854,206)**

These financial statements replace the unaudited financial statements authorised for issue by the Director of Finance on 15th July 2020

Steve Richardson
Director of Finance and Resources

Cash Flow Statement

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

2017/18 Restated £000	Note		2018/19 £000
(36,882)		Net (surplus) or deficit on the provision of services	(31,215)
(25,791)	32.1	Adjustment to surplus or deficit on the provision of services for noncash movements	(116,227)
64,802	32.1	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	73,327
2,129		**Net cash flows from operating activities**	**(74,115)**
26,338	32.2	Net cash flows from investing activities	50,378
(12,496)	32.3	Net cash flows from financing activities	(5,096)
15,971		**Net (increase) or decrease in cash and cash equivalents**	**(28,833)**
87,385		Cash and cash equivalents at the beginning of the reporting period	71,414
71,414	**31**	**Cash and cash equivalents at the end of the reporting period**	**100,247**

The 2017/18 Comparators have been restated following the implementation of CIPFA's system for the production of the Statement of Accounts which compiles the cash flow in a different format than was used for the production of the 2017/18 Statement of Accounts. The 2017/18 comparators have therefore been adjusted to bring them into line with the format used for 2018/19.

The changes are around the representation of the Cash flows from Operating Activities for which further analysis can be found in Note 32.1 on page 98.

Note 1 – Expenditure and Funding Analysis

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.

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund and HRA Balance	**Adjustments**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund and HRA Balance**	**Adjustments**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
59,546	2,265	61,811	Adult Social Care and Health	57,449	1,777	59,226
50,810	7,513	58,323	Children and Families	49,450	8,903	58,353
11,912	(11,652)	260	Public Health	(191)	74	(117)
6,577	(486)	6,091	Housing and Community	6,217	1,643	7,860
4,908	(37,803)	(32,895)	Housing Revenue Account	(31,939)	4,696	(27,243)
2,189	5,735	7,924	Growth, Economy and Culture	(1,607)	3,775	2,168
45,497	(13,860)	31,637	Public Realm	24,703	12,935	37,638
7,578	1,332	8,910	Resources delegated to LGSS	4,893	1,126	6,019
8,953	(18,370)	(9,417)	Resources retained MKC	(1,980)	14,655	12,675
781	1,982	2,763	Corporate Core	1,019	9,043	10,062
(22,069)	22,381	312	Corporate Items	9,214	(6,970)	2,244
176,682	**(40,963)**	**135,719**	**Net Cost of Services**	**117,228**	**51,657**	**168,885**
(182,457)	9,856	(172,601)	Other Income and Expenditure	(141,985)	(58,115)	(200,100)
(5,775)	**(31,107)**	**(36,882)**	**Surplus or Deficit on Provision of Services**	**(24,757)**	**(6,458)**	**(31,215)**
(155,926)			Opening Combined General Fund and HRA Balance	(161,701)		
(5,775)			Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)	(24,757)		
(161,701)			**Closing Combined General Fund and HRA Balance**	**(186,458)**		

Note 2 – Note to the Expenditure and Funding Analysis

	2018/19			
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Adult Social Care and Health	(66)	1,767	76	1,777
Children and Families	485	8,384	34	8,903
Public Health	0	49	25	74
Housing and Community	1,451	181	11	1,643
Housing Revenue Account	3,809	870	17	4,696
Growth, Economy and Culture	3,319	459	(3)	3,775
Public Realm	12,113	851	(29)	12,935
Resources delegated to LGSS	0	1,175	(49)	1,126
Resources retained MKC	14,148	498	9	14,655
Corporate Core	37	9,004	2	9,043
Corporate Items	(6,734)	(237)	1	(6,970)
Net Cost of Services	**28,562**	**23,001**	**94**	**51,657**
Other Income and Expenditure	(64,158)	9,720	(3,677)	(58,115)
Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement	**(35,596)**	**32,721**	**(3,583)**	**(6,458)**

	2017/18			
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Adult Social Care and Health	(391)	2,082	574	2,265
Children and Families	(225)	8,056	(318)	7,513
Public Health	0	73	(11,725)	(11,652)
Housing and Community	18,698	169	(19,353)	(486)
Housing Revenue Account	(37,949)	490	(344)	(37,803)
Growth, Economy and Culture	4,414	511	810	5,735
Public Realm	967	922	(15,749)	(13,860)
Resources delegated to LGSS	0	1,296	36	1,332
Resources retained MKC	(17,704)	487	(1,153)	(18,370)
Corporate Core	0	1,414	568	1,982
Corporate Items	(42,914)	0	65,295	22,381
Net Cost of Services	**(75,104)**	**15,500**	**18,641**	**(40,963)**
Other Income and Expenditure	20,302	11,189	(21,635)	9,856
Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement	**(54,802)**	**26,689**	**(2,994)**	**(31,107)**

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments - Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences - Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Other non-statutory adjustments represent amounts debited/credited to service segments which need to be adjusted against the 'Other income and expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement:

- For financing and investment income and expenditure the other non-statutory adjustments column recognises adjustments to service segments eg for interest income and expenditure and changes in the fair values of investment properties.

- For taxation and non-specific grant income and expenditure the other non-statutory adjustments column recognises adjustments to service segments eg for unringfenced government grants.

Note 3 – Expenditure and Income Analysed by Nature

2017/18 Restated £000	Note	Nature of Expenditure or Income	2018/19 £000
(107,550)		Fees, charges and other service income	(111,811)
(8,367)	11	Interest and investment income	(22,273)
(162,332)	12	Income from local taxation	(171,428)
(387,423)	12 & 21	Government grants and contributions	(389,868)
(29,488)		Other income	(3,925)
220,221		Employee benefits expenses	224,913
12,754		Depreciation, amortisation and impairment	36,042
32,811	11	Interest payments	31,107
7,731	10	Precepts and levies	8,140
834	10	Payments to Housing Capital Receipts Pool	834
28,925	10	Gain or loss on disposal of non-current assets	32,805
355,002		Other expenditure	334,249
(36,882)		**Surplus or Deficit for Year**	**(31,215)**

The 2017/18 comparators have been restated following the implementation of CIPFA's system for the production of the Statement of Accounts where some elements of expenditure and income were mapped to different lines within the above note to how they were classified within the 2017/18 Statement of Accounts. The 2017/18 comparators have therefore been adjusted to bring them into line with the format used for 2018/19.

The main movements where relating to Pensions £11.189m, Investment properties £5.809m, Traded services £0.431m and income moved from other income to government grants and contributions £32.952m

Note 4 – 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 arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance - The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and 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. [For housing authorities – however, the balance is not available to be applied to funding HRA services.]

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

Major Repairs Reserve - The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. 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.

Capital Grants Unapplied - The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet 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.

2018/19	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Usable Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Reversal of items Impacting the Usable Capital Reserves</u>						
Charges for depreciation, impairment and Revaluation Losses of non-current assets	(30,819)	(4,750)	0	0	0	35,569
Movements in the market value of Investment Properties	12,881	0	0	0	0	(12,881)
Amortisation of intangible fixed assets	(472)	0	0	0	0	472
Capital grants and contributions applied	0	0	0	0	31,944	(31,944)
Revenue Expenditure Funded from Capital Under Statute	(5,535)	(5)	0	0	0	5,540
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(29,297)	(9,025)	0	0	0	38,322
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	12,997	0	(12,997)
HRA Self Financing	0	0	428	0	0	(428)
Statutory provision for the financing of capital investment	6,734	0	0	0	0	(6,734)
Capital expenditure charged against the General Fund and HRA balance	4,928	4,975	0	0	0	(9,903)
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	67,808	0	0	0	(67,808)	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	522	4,935	(5,457)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	6,299	0	0	(6,299)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(834)	0	834	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(1)	0	0	1
Other Capital receipts in year	0	61	(61)	0	0	0
<u>Adjustments primarily involving the Major Repairs Reserve:</u>						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	13,488	0	(13,488)	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	(50,384)	(1,376)	0	0	0	51,760
Employers pensions contributions and direct payments to pensioners payable in year	18,534	506	0	0	0	(19,040)
<u>Adjustments impacting Other Reserves</u>	0	0	0	0	0	0
Reversal of Accrued Employee benefits	(77)	(17)	0	0	0	94
Council's share of Movement in Collection Fund Surplus/(Deficit)	3,877	0	0	0	0	(3,877)
Financial Instruments	(200)	0	0	0	0	200
Voluntary additional payment of LGR Debt						
Total Adjustments	**(2,334)**	**8,792**	**2,042**	**(491)**	**(35,864)**	**27,855**

2017/18	Usable Reserves General Fund Balance £'000	Housing Revenue Account £'000	Usable Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Reversal of items Impacting the Usable Capital Reserves						
Charges for depreciation, impairment and Revaluation Losses of non-current assets	(10,527)	(1,800)	0	0	0	12,327
Movements in the market value of Investment Properties	5,700	0	0	0	0	(5,700)
Amortisation of intangible fixed assets	(382)	0	0	0	0	382
Capital grants and contributions applied	0	0	0	0	40,700	(40,700)
Revenue Expenditure Funded from Capital Under Statute	0	0	0	0	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(42,782)	1,336	0	0	0	41,446
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	9,476	0	(9,476)
HRA Self Financing	0	0	1,477	0	0	(1,477)
Statutory provision for the financing of capital investment	2,095	0	0	0	0	(2,095)
Capital expenditure charged against the General Fund and HRA balance	13,976	8,540	0	0	0	(22,516)
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	53,137	0	0	0	(53,137)	0
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12,520	0	(12,520)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,328	0	0	(4,328)
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	(834)	0	834	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	63	0	0	(63)
Other Capital receipts in year	521	0	(521)	0	0	0
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Notional Major Repairs Allowance credited to the HRA	0	13,301	0	(13,301)	0	0
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(43,884)	(1,434)	0	0	0	45,318
Employers pensions contributions and direct payments to pensioners payable in year	18,040	589	0	0	0	(18,629)
Adjustments impacting Other Reserves						
Reversal of Accrued Employee benefits	969	50	0	0	0	(1,019)
Council's share of Movement in Collection Fund Surplus/(Deficit)	232	0	0	0	0	(232)
Financial Instruments	(194)	(21)	0	0	0	215
Voluntary additional payment of LGR Debt	1,959	0	0	0	0	0
Total Adjustments	**10,546**	**20,561**	**(6,339)**	**(3,825)**	**(12,437)**	**(6,547)**

Note 5 – Accounting Standards Issued, Not Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IAS 40 – Investment Property: Transfers of Investment property. The IFRS Interpretations Committee received a request for clarification of the application of paragraph 57 of IAS 40 Investment Property, which provides guidance on transfers to, or from, investment properties. - Effective for periods beginning on or after 1 January 2019
- IFRS Standards 2014-2016 Cycle – Annual Improvements The IASB has issued 'Annual Improvements to IFRS Standards 2014–2016 Cycle'. The pronouncement contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. IFRS1, IFRS12, IAS 28.
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.
- IFRIC 23 – Uncertainty over Income Tax Treatments. Uncertainty over Income Tax Treatments, was issued in June 2017 to clarify the recognition and measurement requirements in IAS 12 when the tax law or its application is unclear. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
- IFRS 9 – Financial Instruments: Prepayment Features with Negative Compensation. In October 2017, the International Accounting Standards Board (Board) issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). These amendments enable entities to measure at amortised cost some pre-payable financial assets with so-called negative compensation. Effective from, as IFRS 9, (1 January 2018).

Note 6 – Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

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 2019 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 22 and Accounting Policy 20 - Property, Plant & Equipment.

- Properties are classed as Investment Properties when they are held solely to earn rental income or for capital appreciation. The value of the properties is calculated based on the fair value of the asset on a yearly basis, i.e. the price received to sell the asset or transfer the liability.

- Maintained schools are reported on the council's Balance Sheet and the total Foundation schools' assets are reported at nil value. However, capital expenditure incurred on academies, foundation and faith schools is treated as 'revenue expenditure funded from capital under statute' through the Comprehensive Income and Expenditure Account. Details of the schools accounting treatment can be found in Accounting Policy 24.

- 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 centre 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 2018/19 the fund received £15.6 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 25.

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 £1,017.167m. An adjustment to the long-term salary assumption by +0.1% would result in the present value of the total obligation increasing by £1.536m. Sensitivity to some of the key assumptions is provided in note 36. The carrying amount of the liability is £398.924m.
Provisions	The most significant provision the council has disclosed is a provision of £30.919m 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 28 to the Financial Statements.
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 £15.712m.	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 2018/19 the charge is shown as £39.072m.	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 2018/19 would decrease to £5.225m, currently shown as £6.568m in the Financial Statements. Other Property, Plant and Equipment have varying useful lives depending on the type of asset. Full details on Depreciation for each asset type can be found in Accounting Policy note 20, and non-current asset values are provided in note 22 to the Financial Statements.

Valuation of operational property	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £50m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.
Council Dwellings	The HRA residential portfolio is valued based on a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential property, information available at a local level showing house price movement plus regional and National Indices.	A reduction in the estimate value of HRA dwellings would be a reduction in the revaluation reserve or a loss in the CIES. If the value of dwellings were to reduce by 10% this would lead to a reduction in value of about £64m. An increase in estimated valuations would result in increases to the Revaluation Reserve or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.
Fair value measurement of investment property	The Council's external valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the	Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.

	valuers use the best information available.	

Note 7 – Material Items of Income and Expense

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

Note 8 – Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 15th July 2020. 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 2019, the notes in the Financial Statements and notes have been adjusted in all material respects to reflect the impact of this information.

Covid-19

The Council set its 2020/21 Budget in February 2020, prior to the World Health Organisation declaring COVID-19 a world Pandemic on the 12 March 2020 and the subsequent UK lockdown which started on the 23 March 2020.

As a Category 1 responder, Milton Keynes Council has been providing a wide range of support to vulnerable residents, businesses and partner organisations. This has required the Council to incur additional costs outside of our approved budget and take decisions in line with new government direction and guidance to ensure that essential services are able to continue in what is an extremely challenging situation.

The full financial impact of COVID-19 is only just emerging and will not be known for some time, given the uncertainty over the timescale of government measures to control the outbreak, impact on the UK economy and locally for our residents and businesses.

We have modelled 3 different scenarios to illustrate the scale of the financial impact that the Council could face in 2020/21 and over the medium term.

For 2020/21 based on the current level of financial support provided by government these scenarios provide an estimated financial gap of between £13.637m to £44.515m. The estimated cumulative financial gap for the Medium Term Financial Plan (MTFP) up until the end of 2021/22 is between £9.244m to £38.695m. This is assuming no extra funding from central Government, pre-prioritisation of services and alternative service provision.

If government assurances are not forthcoming then further work will be needed to review the level and scope of Council services in 2021/22 to ensure that the Council remains financially sustainable, can support the economic recovery and our most vulnerable residents.

The Financial Statements and notes have not been adjusted for this event which took place after 31 March 2019 as it provides information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date.

Academy Conversions

Since 31 March 2019 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 £8.996m is to transfer from the Council's Balance Sheet in 2019/20. However, these values are subject to further academy conversions that may arise during 2019/20.

The Financial Statements and notes have not been adjusted for this event which took place after 31 March 2019 as it provides information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date.

Pensions

The Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively, has resulted in the pensions actuary providing new information to Milton Keynes Council. The estimated impact on the total liabilities at 31 March 2019 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation as at 31 March 2019. The projected service cost has also increased as a result of this additional allowance by £8.114m.

The Financial Statements and notes have been adjusted for this event which took place after 31 March 2019 as it provides information that is relevant to conditions that existed at that date.

NHS Appeals provision

The High Court judgement in the 'Derby Teaching Hospitals NHS Foundation trust and 16 others Vs Derby City Council and 44 others and the Charity Commission for England and Wales' published in January 2020. At the 31 March 2019 the Authority's share £3.136m of the potential repayment of business rates to the NHS of £6.400m was provided for; as the NHS Foundation Trust lost their case an adjusting post balance sheet event has materialised to reverse the provision.

The Financial Statements and notes have been adjusted for this event which took place after 31 March 2019 as it provides information that is relevant to conditions that existed at that date.

Note 9 – Transfers to/from Earmarked Reserves

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

	Balance at 1 April 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018	Transfers In 2018/19	Transfers Out 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
General Fund Reserves:							
Adult Social Care Demand Led Reserve	(2,884)	0	2,884	**0**	(2,315)	2,315	**0**
Budget Rollovers Reserve	(2,339)	0	2,339	**0**	0	0	**0**
Capital Reserve - General Fund	(11,736)	(6,474)	11,737	**(6,473)**	(17,934)	4,928	**(19,479)**
Corporate Property Reserve	(500)	(2,112)	0	**(2,612)**	(1,603)	0	**(4,215)**
HR Manpower Planning Reserve	(1,443)	(2,020)	740	**(2,723)**	(30)	0	**(2,753)**
Infrastructure Reserve	(8,803)	(7,400)	3,119	**(13,084)**	(6,003)	0	**(19,087)**
Internal Insurance Fund	(50)	(4,035)	617	**(3,468)**	(284)	356	**(3,396)**
Local Government Reorganisation Debt Reserve	(7,078)	0	1,060	**(6,018)**	0	1,960	**(4,058)**
NDR Funding Volatility Reserve	(936)	(2,495)	52	**(3,379)**	(2,915)	1,124	**(5,170)**
New Homes Bonus Reserve	(14,705)	(9,505)	10,345	**(13,865)**	(5,964)	13,631	**(6,198)**
One-Off Expenditure Reserve	(9,815)	(5,515)	15,330	**0**	0	0	**0**
Other Earmarked Reserves	(16,006)	(5,058)	7,958	**(13,106)**	(9,469)	8,662	**(13,913)**
Tariff & HCA Risk Reserve	(3,771)	(580)	0	**(4,351)**	(1,809)	535	**(5,625)**
Strategic Service Investment Fund	(1,741)	(1,899)	206	**(3,434)**	0	0	**(3,434)**
Waste Cashflow Reserve	(5,114)	(10,441)	11,298	**(4,257)**	0	790	**(3,467)**
Schools Balances	(9,570)	0	689	**(8,881)**	(1,338)	0	**(10,219)**
Total General Fund	**(96,491)**	**(57,534)**	**68,374**	**(85,651)**	**(49,664)**	**34,301**	**(101,014)**
Housing Revenue Account Reserves:							
Capital Reserve - HRA	(38,918)	(49,067)	38,918	**(49,067)**	(11,850)	4,975	**(55,942)**
Other Earmarked Reserves	(7,281)	(944)	6,877	**(1,348)**	(206)	0	**(1,554)**
Total Housing Revenue Account	**(46,199)**	**(50,011)**	**45,795**	**(50,415)**	**(12,056)**	**4,975**	**(57,496)**
Total Earmarked Reserves	**(142,690)**	**(107,545)**	**114,169**	**(136,066)**	**(61,720)**	**39,276**	**(158,510)**

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.

Corporate Property Reserve - This reserve will help meet revenue costs arising from the corporate delivery of the property strategy and Asset Management Plan.

HR Manpower Planning Reserve - This reserve was created to meet the future costs of redundancies arising from reductions and restructuring of services.

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.

Internal Insurance Fund –This fund covers any internal insurance costs of claims notified to the council by 31st March (some risks are not fully funded, with losses up to a specified amount being met from revenue). To obtain cost effective insurance cover the council has chosen to carry excesses in respect of claims made under liability and material damage insurances.

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.

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.

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% per annum, this still creates a significant increase in the potential volatility in this funding stream. This reserve has been created to mitigate the increased risk.

Tariff & HCA Risk Reserve - This reserve was created to mitigate the council's liability under the risk sharing agreement on the Tariff.

Strategic Service Investment fund – This reserve is set up to fund transformation projects which will generate a revenue saving for future years.

Waste Cash flow Reserve - This reserve has been created to manage the difference in timing between the revenue contributions to finance the costs of prudential borrowing for the RWTF and the costs being incurred.

Note 10 – Other Operating Expenditure

2017/18 £000		2018/19 £000
7,271	Precepts	7,677
461	Levies	463
834	Payments to the Government Housing Capital Receipts Pool	834
27,815	Gains/losses on the Disposal of Non-Current Assets	32,805
1,110	Other	0
37,491	**Total Other Operating Expenditure**	**41,779**

Note 11 – Financing and Investment Income and Expenditure

2017/18 £000	Note		2018/19 £000
21,622		Interest payable and similar charges	21,387
11,189		Net interest on the net defined benefit liability (asset)	9,720
(2,169)		Interest receivable and similar income	(9,146)
(5,767)		Income and expenditure in relation to investment properties and changes in their fair value	(12,952)
(431)	13	Trading operations	(175)
24,444		**Total**	**8,834**

Note 12 – Taxation and Non-Specific Grant Income

2017/18 £000		2018/19 £000
(113,661)	Council tax income	(118,153)
(48,671)	Non-domestic rates income and expenditure	(53,275)
(19,067)	Non-ringfenced government grants	(11,476)
(53,137)	Capital grants and contributions	(67,809)
(234,536)	**Total**	**(250,713)**

Note 13 – Trading Operations

The authority has established a number of 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.

2017/18 £000	Emberton Park	2018/19 £000
(310)	Income	(331)
54	Expenditure	104
(256)	**Net Surplus / Deficit for Year**	**(227)**

2017/18 £000	IT Service Desk and Technical Support Services	2018/19 £000
(387)	Income	(531)
289	Expenditure	422
(98)	**Net Surplus / Deficit for Year**	**(109)**

2017/18 £000	Building Control	2018/19 £000
(395)	Income	(344)
293	Expenditure	476
(102)	**Net Surplus / Deficit for Year**	**132**

2017/18 £000	HR Advisory and Payroll Services	2018/19 £000
(131)	Income	(146)
156	Expenditure	175
25	**Net Surplus / Deficit for Year**	**29**

2017/18 £000	Trading Operations Total Income and Expenditure:	2018/19 £000
(1,223)	Income	(1,352)
792	Expenditure	1,177
(431)	**Net Surplus / Deficit for Year**	**(175)**

2017/18 £000	Analysis of Inclusion in The Comprehensive Income and Expenditure Statement:	2018/19 £000
(431)	Net surplus on trading operations	(175)
(431)	**Net surplus / deficit included in Financing and Investment Income and Expenditure**	**(175)**

Note 14 – Agency Services

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 £0.032m (£0.031m in 2017/18) and will be recovered. Therefore, the net cost to the council is nil.

Note 15 – Members' Allowances

The authority paid the following amounts to members of the council during the year.

31 March 2018 £000		31 March 2019 £000
565	Salaries	605
209	Allowances	197
5	Expenses	1
779	**Total Members' Allowances**	803

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

Note 16 – 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:

2017/18 £000		2018/19 £000
182	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	147
57	Fees payable to external auditors for the certification of grant claims and returns for the year	50
0	Fees payable in respect of other services provided by external auditors during the year	12
239	**Total**	**209**

Note 17 – Road Charging Schemes

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.

2017/18 £'000		2018/19 £'000
	Expenditure	
1,527	Contractors Management Fee	1,641
94	Pay and Display Installation Costs	132
184	Staffing Cost	182
163	Supplies and Services	172
177	Support Costs	89
8	Surveys and Fees	23
40	Decriminalised Costs	36
0	Signing Costs	3
2,193	**Total Expenditure**	**2,278**
	Income	
(807)	Excess Charge/Penalty Charge Notices	(750)
(4,853)	Permits	(4,982)
(90)	Suspensions	(632)
(3)	Scratch Cards	0
(8,100)	Pay and Display Income	(7,972)
(13,853)	**Total Income**	**(14,336)**
(11,660)	**Surplus achieved in year**	**(12,058)**
0	Transfer to Special Parking Reserve	667
(300)	Transfer from Special Parking Reserve	0
0	Transfer to/from Capital Programme	(115)
(11,960)	**Surplus for the year**	**(11,506)**

The surplus of (£11.506m) 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 £3.835m, Highway improvement design and project management £0.247m, street lighting £0.105m, off-street car parks £0.202m, the passenger transport team, publicity, Routel, studies and project development, RTP Transport Information, Coachway and bus infrastructure £0.877m. This surplus has also contributed towards concessionary fares and bus subsidies. In total the council spends £4.152m on concessionary fares and £1.973m on bus subsidies.

Note 18 – Pooled Budgets

Integrated Community Equipment

The Integrated Community Equipment pooled budget brings together funding for health and social care equipment. This supports hospital discharges and the maintenance of independence and community living with some efficiency of scale and improved delivery. The Clinical Commissioning Group (CCG) are the Lead partner for the ICES pool.

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

2017/18 £'000	Integrated Community Equipment Service (ICES)	2018/2019 £'000
	Gross Funding	
(551)	Milton Keynes Council	(551)
(1,030)	Milton Keynes Clinical Commissioning Group (CCG)	(1,030)
	Better Care Fund	
(1,581)	**Total Funding**	**(1,581)**
1,343	Expenditure	1,547
1,343	**Total Expenditure**	**1,547**
(238)	**Net (Surplus)/Deficit**	**(34)**
132	MKC share of underspend/ (overspend)	18
106	CCG share of underspend/ (overspend)	16
0	**Net (Surplus) / Deficit Carried Forward**	**0**

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 services. Milton Keynes Council is the Lead Partner for the Learning Disability Pool.

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

2017/18 £'000	Learning Disability	2018/19 £'000
	Gross Funding	
(19,566)	Milton Keynes Council	(20,884)
(1,444)	Milton Keynes Clinical Commissioning Group (CCG)	(1,459)
(21,010)	**Total Funding**	**(22,343)**
	Expenditure	
20,881	Pooled Expenditure	21,290
20,881	**Total Expenditure**	**21,290**
(129)	**Net (Surplus)/Deficit**	**(1,053)**

Better Care Fund

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 non-elective admissions; develop more robust and sustainable community health and social care services; and promote independent living. Milton Keynes Council is the Lead Partner for the Better Care Fund pool.

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

2017/18 £'000	Better Care Fund	2018/19 £'000
	Gross Funding	
(953)	Milton Keynes Council - Capital Funding	(1,158)
0	Improved Better Care Funding	(7,458)
(14,337)	Milton Keynes Clinical Commissioning Group (CCG)	(14,609)
(15,290)	**Total Funding**	**(23,225)**
	Expenditure	
15,219	Expenditure	23,140
15,219	**Total Expenditure**	**23,140**
(71)	**Net (Surplus)/Deficit**	**(85)**
30	MKC share of underspend/ (overspend)	36
41	CCG share of underspend/ (overspend)	49
0	**Net (surplus) / Deficit Carried Forward**	**0**

Note 19 – Officers' Remuneration

Officer Remuneration

The remuneration paid to the council's senior employees during 2018/19 whose salary was between £50,000 and £150,000 was as follows:

2017/18 £		Note	Salary	Expenses Allowance	Pension Contribution	2018/19 £
188,667	Chief Executive - Former	1	54,334	343	10,704	65,381
0	Chief Executive - New*	2	112,079	62	22,080	134,221
0	Deputy Chief Executive **	3	24,510	70	4,828	29,408
157,517	Corporate Director - Place	4	134,225	218	22,035	156,478
151,068	Corporate Director - People	5	44,200	337	8,707	53,245
116,241	Corporate Director - Resources	6	0	0	0	0
43,472	Corporate Director - Resources	7	113,475	5,021	0	118,496
128,292	Director of Strategy and Futures***		109,252	0	21,523	130,775
0	Director - Children´s Services		114,225	0	22,502	136,728
106,550	Director Policy, Insight & Comms****		90,353	46	17,882	108,281
0	Director Adult Services		104,156	663	20,519	125,337

Notes
1. Employment Ended 31.07.2018
2. Employment Started 01.12.2018 (Acting Chief Executive from 01.08.2018 – 30.11.2018)
3. Employment Started on 01.02.2019
4. Employment ended 31.01.2019
5. Employment ended 31.07.2018
6. Employment ended 17.01.2018
7. Employment started 31.12.2017 and ended on 31.01.2019

Milton Keynes Council underwent a restructure in the 2018/19 year.
* The New Chief Executive left his role as Corporate Director People on 31.07.2018. He was acting as Chief Executive until 30.11.2018 and started the new role as Chief Executive on 01.12.2018
** The Deputy Chief Executive left his role as Corporate Director Resources on 31.01.2019 and began his new role as Deputy Chief Executive on 01.02.2019
*** Director of Strategy and Futures position previously Director of Strategy
**** Employee acting as Director of Policy, Insight & Comms was instated as Director of Policy, Insight & Comms

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:

	Number of Employees	
	2017/18 Restated	2018/19
£50,001 to £55,000	112	114
£55,001 to £60,000	58	77
£60,001 to £65,000	46	54
£65,001 to £70,000	34	32
£70,001 to £75,000	19	20
£75,001 to £80,000	20	15
£80,001 to £85,000	8	16
£85,001 to £90,000	5	10
£90,001 to £95,000	10	4
£95,001 to £100,000	4	3
£100,001 to £105,000	2	6
£105,001 to £110,000	1	4
£110,001 to £115,000	0	1
£115,001 to £120,000	0	1
£120,001 to £125,000	2	1
£125,001 to £130,000	1	2
£130,001 to £135,000	2	0
£135,001 to £140,000	0	1
£140,001 to £145,000	1	0
£145,001 to £150,000	1	0
£150,001 to £155,000	0	1
£155,001 to £160,000	0	0
£160,001 to £165,000	0	1
£165,001 to £170,000	0	0
£170,001 to £175,000	0	0
£175,001 to £180,000	1	1
Total	**327**	**364**

The 2017/18 comparators have been restated as the Schools and LGSS employees were found to be missing from the numbers reported within the 2017/18 Statement of accounts, these have therefore been adjusted to be comparable with 2018/19.

Exit Packages

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£’000)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0-£20,000	53	13	40	12	93	25	739	231
£20,001 - £40,000	6	1	5	2	11	3	285	71
£40,001 - £60,000	7	4	3	0	10	4	796	702
Total	**66**	**18**	**48**	**14**	**114**	**32**	**1,820**	**1,004**
Add: Amounts provided for in CIES not included in bandings							0	0
Total cost included in CIES							**1,820**	**1,004**

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 overleaf: The total cost of £0.969m 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.

Note 20 – Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced 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 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/19 are as follows:

2017/18 Total £'000		**2018/19 Central Expenditure £'000**	**ISB £'000**	**Total £'000**
236,040	Final DSG for 2018/19 before academy recoupment			246,108
90,095	Less: Academy figure recouped for 2018/19			104,387
145,945	Total DSG after academy recoupment for 2018/19			141,721
(57)	Plus: Brought forward from 2017/18			1,301
(135)	Less: Carry forward to 2018/19 agreed in advance			1,884
146,023	**Final Allocation in 2018/19**			**141,137**
146,023	**Agreed initial budgeted distribution in 2018/19**	30,867	110,270	**141,137**
(1,187)	In year adjustments	(15)	961	946
144,836	**Final budgeted distribution for 2018/19**	**30,852**	**111,231**	**142,083**
30,279	Less: Actual central expenditure	29,038		29,038
113,121	Less: Actual ISB deployed to schools		111,877	111,877
0	Plus: Local Authority contributions for 2018/19	0	0	0
1,301	**Carry forward to 2019/20**	**1,814**	**1,239**	**3,053**

Note 21 – Grant Income

The council has been credited with the following grants and contributions in the Comprehensive Income and Expenditure Statements during 2018/19.

Credited to Services

31 March 2018 £000		31 March 2019 £000
(145,668)	Dedicated Schools Grant	(140,914)
(58,160)	Mandatory Rent Allowance: Subsidy	(59,747)
(30,464)	Mandatory Rent Rebates	(25,421)
(9,505)	New Homes Bonus	(5,963)
(11,700)	Public Health Grant	(11,399)
(6,541)	Pupil Premium Grant	(5,888)
(6,496)	Young People's Learning Agency	(4,375)
(2,985)	Universal Infant Free School Meals	(2,798)
(1,014)	Other Grants	(15,058)
(12,230)	Benefits Administration Grant	(938)
(14,809)	Better Care Fund Contributions	(14,650)
(7,804)	Social Care Client Contributions	(8,284)
(6,710)	Milton Keynes Hospital NHS Foundation Trust and Clinical Commissioning	(12,114)
(1,133)	Other Contributions	(1,724)
0	Community Learning (16-19+)	(1,310)
(315,218)	**Total**	**(310,583)**

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 2019 are £39.988m. This includes:

- Revenue receipts in advance of £33.282m, of which is mainly £21.840m Developer Tariff contributions; £2.048m is Developer S106 contributions, £3.053m Dedicated Schools Grant and £0.458m SEN reform grant.
- Capital receipts in advance of £6.707m including the Go Ultra Low Grants of £3.124m, Special Education Needs £0.624m and National Productivity grant £0.610m.

The long term Grants and Contributions receipts in advance at the 31 March 2019 are £29.534m. This includes Revenue receipts in advance of £27.250m which is mainly from Developer S106 Contributions £26.935m and Capital receipts in advance of £2.284m.

Note 22.1 – Property, Plant and Equipment

The tables on the following pages show the movements in year for PPE in 2018/19 and the 2017/18 comparative movement.

Movements to 31 March 2019

	Council Dwellings £000	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
at 1 April 2018	646,389	526,329	115,193	261,251	6,752	1,813	56,753	**1,614,480**
Additions	17,055	1,326	947	18,661	18	0	26,726	**64,733**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	236	7,080	0	0	0	4	0	**7,320**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,309	5,153	0	0	0	68	0	**6,530**
Derecognition – disposals	(2,402)	(29,245)	(831)	0	0	(17)	0	**(32,495)**
Derecognition – other	(7,042)	0	0	0	0	0	0	**(7,042)**
Reclassifications and transfer	3,678	50,805	3,072	1,535	0	0	(60,635)	**(1,545)**
Assets reclassified (to)/from Held for Sale	0	(10,117)	0	0	0	0	0	**(10,117)**
at 31 March 2019	**659,223**	**551,331**	**118,381**	**281,447**	**6,770**	**1,868**	**22,844**	**1,641,864**
Accumulated Depreciation and Impairment								
at 1 April 2018	(8,953)	(27,204)	(16,562)	(56,189)	(469)	(51)	0	**(109,428)**
Depreciation charge	(13,297)	(13,705)	(5,338)	(6,568)	(164)	0	0	**(39,072)**
Depreciation written out to the Revaluation Reserve	41	10,200	0	0	0	0	0	**10,241**
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,921	129	0	0	0	0	0	**13,050**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(6,827)	0	0	0	0	0	**(6,827)**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(5,499)	(9,765)	0	0	0	0	0	**(15,264)**
Derecognition – disposals	47	406	823	0	0	17	0	**1,293**
Derecognition – other	371	0	0	0	0	0	0	**371**
Eliminated on reclassification to Held for Sale	0	292	0	0	0	0	0	**292**
at 31 March 2019	**(14,369)**	**(46,474)**	**(21,077)**	**(62,757)**	**(633)**	**(34)**	**0**	**(145,344)**
Net Book Value								
at 31 March 2019	**644,854**	**504,857**	**97,304**	**218,690**	**6,137**	**1,834**	**22,844**	**1,496,520**
at 31 March 2018	**637,436**	**499,125**	**98,631**	**205,062**	**6,283**	**1,762**	**56,753**	**1,505,052**

Movements to 31 March 2018

	Council Dwellings	Land and Building	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
at 1 April 2017	625,961	470,826	22,407	238,540	3,344	3,186	43,992	**1,408,256**
Additions	15,166	2,595	92,904	20,267	0	0	84,475	**215,407**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	15,685	0	0	0	5	0	**15,690**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,167	10,183	(144)	0	0	4	0	**17,210**
Derecognition – disposals	(8,282)	(32,081)	0	0	0	0	0	**(40,363)**
Derecognition – other	0	0	(308)	0	0	0	0	**(308)**
Reclassifications and transfer	6,376	59,120	321	2,444	3,408	(1,420)	(71,715)	**(1,466)**
Other Movements in cost or valuation	0	0	13	0	0	37	0	**50**
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	**0**
at 31 March 2018	**646,388**	**526,328**	**115,193**	**261,251**	**6,752**	**1,812**	**56,752**	**1,614,476**
Accumulated Depreciation and Impairment								
at 1 April 2017	(659)	(35,404)	(14,784)	(50,184)	(19)	(63)	0	**(101,113)**
Depreciation charge	(13,080)	(12,849)	(2,068)	(6,004)	(86)	(37)	0	**(34,124)**
Depreciation written out to the Revaluation Reserve	0	16,142	0	0	0	5	0	**16,147**
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,759	1,580	0	0	0	1	0	**14,340**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	4,448	0	0	0	0	0	**4,448**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(8,258)	(1,530)	0	0	0	0	0	**(9,788)**
Derecognition – disposals	288	20	299	0	0	0	0	**607**
Derecognition – other	0	0	0	0	0	0	0	**0**
Other Movements in depreciation or impairment	0	0	(8)	0	0	44	0	**36**
Eliminated on reclassification to Held for Sale	(1)	386	0	0	(364)	1	0	**22**
at 31 March 2018	**(8,951)**	**(27,207)**	**(16,561)**	**(56,188)**	**(469)**	**(49)**	**0**	**(109,425)**
Net Book Value								
at 31 March 2018	**637,437**	**499,121**	**98,632**	**205,063**	**6,283**	**1,763**	**56,752**	**1,505,051**
at 31 March 2017	**625,302**	**435,422**	**7,623**	**188,356**	**3,325**	**3,123**	**43,992**	**1,307,143**

Depreciations

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.

2017/18 Depreciation Charge £'000		Potential Useful Life of Asset Years	Actual Useful Life of Asset Years	2018/19 Depreciation Charge £'000
13,080	Council Dwellings	10 - 85 *	10 - 85 *	13,297
12,972	Other Properties	20 - 60 **	20 - 60 **	13,873
2,068	Vehicles, Plant and Equipment	3 - 40 ***	3 - 25	5,338
0	Leased VPE	3 - 40 ***	3 - 8	0
6,004	Infrastructure	40	40	6,568
	Infrastructure – Other	20	20	
34,124	**Total**			**39,076**

* 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 20 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 2019, including those with a commitment of less than £2.0m totalled £18.9m.

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.

Contractual commitments as at 31 March 2019 with a commitment of £2.0m or more are shown in the table.

Segment: Scheme Name	Scheme Description	2018/19 £'000	Period of Investments Years
Eagle Farm Primary School	Expand St Mary's Wavendon CE Primary School and transfer to a site out at Eagle Farm South	4,899	1
Whitehouse Health Centre	New Health Centre	8,691	2
Total		**13,590**	

Valuation of Non-Current Assets

General Fund

The Authority groups the programme by property type, this accords with the guidance in the Code and ensures that properties of a similar nature (having regard to the Authority's operations) are valued together. This ensures consistency of valuations across the property types and therefore consistency of valuations (and approach towards these valuations) across the rolling programme. In order to align the programme on this basis, we had to have regard to the previous 5 year rolling programme and in particular the anniversary of the valuation for each property to ensure that the integrity of the rolling programme is maintained. With this in mind, there will be instances within the current 5 year programme where properties will need to be valued outside of their Class of asset and then re-valued in the relevant year.
Annual valuations are carried out on Investment, Asset held for Sale and Surplus Assets.

All 2018/19 valuations, including year-end valuations due to significant expenditure on individual assets, were carried out by Mark Aldis MRICS of Wilks Head and Eve Chartered Surveyors and Town Planners LLP (WHE).

A Property Market Review as a supplementary document of the 2018-19 valuations was carried out by Guy Harbord MRICS Registered Valuer of WHE. It refers to three aspects namely; Material changes that have occurred before the year end, Market review of assets valued during the financial year, Market review on those assets not revalued in the financial year. There were no material changes.

Land values applied in 2018-19 are £2.25m per ha, compared to £2.1m in 2017/18 an increase of 7%. The Authority subsequently procured a desktop review, by WHE, of all school sites this financial year.

The Valuer has completed the valuation report in accordance with the following guidance relating to asset valuation for capital accounting purposes:

- Royal Institution of Chartered Surveyors (RICA) Valuation – Professional Standards 2014 (Revised 2015) & RICS Valuation – Global Standards 2017 ('The Standards').
- International Financial Reporting Standards (IFRS).
- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting ('The CIPFA Code').

Council Dwellings

Council Dwellings have been valued as at 1st April 2018 based on a desk top review and a full property review has been undertaken as at 31st March 2019. Council dwellings were valued by Nicholas G Worman BSc DipSurv MRICS Registered Valuer and Adrian James RICS Registered Valuer both of Bruton Knowles in line with DCLG 2010 Guidance on Stock Valuation and the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards.

At 1st April 2017 componentisation of Council Dwellings was applied for the first time. The Authority applied an approach of Land still at 35% of the total value and the remaining 65% to be divided into the following components:

- Kitchens 7%
- Bathrooms 6%
- Windows/Doors 6%
- Heating/Lighting/Electrics 10%
- Roof 8%
- Structure 28%

A componentised approach to the valuation of Council Dwellings led to a significant increase in capital charges to the Housing Revenue Account.

- Depreciation is once again c£13m.
- Derecognition of Components £6.7m.

The year-end valuation created a total £5.5m Impairments
These impairments resulted from:

- Capital expenditure of £3.5m building 18 new council dwelling, initial valuation resulted in £2.5m Impairment.
- Capital expenditure of £3.9m purchasing of 20 dwelling properties, the change in valuation basis has resulted in impairment of £3.0m.

Property, Plant and Equipment Revaluations

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Community Assets	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	0	6,454	6137	0	12,591
Valued at current value as at:						
31/03/2019	644,854	138,179	90,850	0	1,834	875,717
31/03/2018	0	289,120	0	0	0	289,120
31/03/2017	0	50,074	0	0	0	50,074
31/03/2016	0	6,893	0	0	0	6,893
31/03/2015	0	20,591	0	0	0	20,591
Total Cost or Valuation	**644,854**	**504,857**	**97,304**	**6,137**	**1,834**	**1,254,986**

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 2018-19 there were no schools that transferred to foundation status but 2 converted to an academy - Heronshaw and Kentshill school.

Effects of Changes in Estimates

There are no changes in estimation techniques in 2018/19

Material impairment losses

During 2018/19, the council has recognised material impairment losses totalling £5.5m in relation to Council Dwellings and £16.6m in relation to Other Land and Building assets. The council did not reverse any material impairment losses in 2017-18. Further details can be found in the table below:

Assets		Material Impairment Loss - Recognised in year £'000
Housing Revenue Account		
	Council Dwellings	5,499
Resources: Public Access Group		
	Brooklands Medical Centre	5,595
Children & Families: Education		
	Slated Row School	1,045
Various		
	Various Properties	9,952
Total		**22,091**

Note 22.2 – Assets Held for Sale

Current 31 March 2018 £000	Non-current 31 March 2018 £000		Current 31 March 2019 £000	Non-current 31 March 2019 £000
1,845	0	Balance outstanding at start of year	1,840	0
		Assets newly classified as held for sale:		
1,390	0	- Property Plant and Equipment	9,825	0
0	0	Revaluation losses	(811)	0
0	(9)	Impairment losses	0	0
		Assets declassified as held for sale:		
(15)	0	- Property Plant and Equipment	0	0
0	9	- Other assets/liabilities in disposal groups	0	0
(1381)	0	Assets Sold	(450)	0
1,840	**0**	**Balance Outstanding year end**	**10,405**	**0**

Note 23 – Investment Properties

In 2018/19 the annual rental income from investment properties is £0.059m (£0.066m in 2017/18).

The movement in the fair value of investment properties during 2018/19 comprised of:

- A revaluation increase of £12.881m which reflects market conditions (A revaluation increase of £5.700m in 2017/18).
- Capital Expenditure of £11.539m; the purchase of additional land at Tickford fields Farm of £11.539m.
- Reclassification from AUC £1.546m, western expansion area land value enhancement and common infrastructure projects

The total value of the council's investment property at the 31 March 2019 is £95.794m (£69.828m at 31 March 2018).

Fair Value Hierarchy

Fair value as at 31 March 2018	Recurring fair value measuring usage	Quoted Prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2019
£000		**£000**	**£000**	**£000**	**£000**
63,750	Farm Land in the Western Expansion Area	0	95,145	0	95,145
378	Miscellaneous pieces of land	0	649	0	649
64,128		**0**	**95,794**	**0**	**95,794**

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

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.

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.

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

Note 24 – Capital Expenditure and Capital Financing

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

31 March 2018 £'000	Note		31 March 2019 £'000
552,760		**Opening Capital Financing Requirement**	**687,269**
		Capital Investment:	
215,689		Assets	76,273
4,655	30.2d	Revenue Expenditure Funded from Capital under Statute	5,540
220,344		**Total Capital Spending**	**81,813**
		Sources of Finance:	
(4,917)		Capital Receipts	(8,112)
(45,195)	30.1c	Other Government Grants & Contributions	(31,945)
(9,476)	30.1b	Major Repairs Reserves	(12,997)
		Sums set aside from revenue:	
(22,676)	9	Revenue Contributions	(9,903)
(1,476)	30.1a	HRA Additional Voluntary Payment of Debt	(428)
(2,095)	30.2d	Minimum Revenue Provision	(6,734)
(85,835)		**Total Sources of Finance**	**(70,119)**
687,269		**Closing Capital Financing Requirement**	**698,963**
		Explanation of movements in year:	
(1,483)	30.1a	Decrease in underlying need to borrow (supported by government financial assistance)	(428)
135,992		Increase in underlying need to borrow (unsupported by government financial assistance)	12,122
134,509		**Increase/Decrease in Capital Financing Requirement**	**11,694**

Note 25 – Debtors

a) Long Term Debtors

31 March 2018 £'000		31 March 2019 £'000
30,922	Milton Keynes Development Partnership Loan*	0
11	Bodies External to Central Government	10
5,878	Payments in advance	3,919
36,811	**Total**	**3,929**

b) Short Term Debtors

31 March 2018 Restated £000		31 March 2019 £000
0	Milton Keynes Development Partnership Loan*	37,528
21,794	Trade Receivables	16,675
43,669	Other Receivable Amounts	44,143
65,463	**Total**	**98,346**

The 2017/18 comparators have been restated following the CIPFA code requirement changes for the presentation to simplify the reporting of this disclosure.

*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 held a long term debtor in 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). In 2019/20 MKDP are due to repay the loan of £37.528m (£30.922m capital value plus £6.606m accumulated interest) to MKC, therefore the long term debtor has been moved to short term debtors in year.

Note 26 – Creditors

31 March 2018 Restated £000		31 March 2019 £000
(5,677)	Trade payables	(5,079)
(86,857)	Other payables	(90,243)
(92,534)	**Total Creditors**	**(95,322)**

The 2017/18 comparators have been restated following the CIPFA code requirement changes for the presentation to simplify the reporting of this disclosure.

Note 27 – Borrowing Repayable

Analysis of Loans by type:

31 Mar 2018 £'000	Source of Loan	Range of Interest Rates - 31 March 2019	31 Mar 2019 £'000
(469,170)	Public Works Loan Board	Lowest: 3.37% / Highest: 10.875%	(461,350)
(15,256)	Market Loans	Lowest: 3.75% / Highest: 6.62%	(15,256)
(7,647)	Other Loans	Zero interest rate	(6,337)
(492,073)	**Total**		**(482,943)**

Analysis of Loans by maturity:

31 Mar 2018 £'000		31 Mar 2019 £'000
	Borrowing repayable on demand or within 12 months	
(14,396)	Borrowing repayable on demand or within 12 months	(19,365)
(3,333)	Accrued interest on borrowing repayable within a period in excess of 12 months	(3,179)
(17,729)	**Total Borrowing repayable on demand or within 12 months**	**(22,544)**
	Borrowing repayable within a period in excess of 12 months	
(13,946)	Maturing in 1 to 2 years	(3,287)
(26,856)	Maturing in 2 to 5 years	(39,784)
(70,348)	Maturing in 5 to 10 years	(62,010)
(363,194)	Maturing in more than 10 years	(355,318)
(474,344)	**Total Borrowing repayable within a period in excess of 12 months**	**(460,399)**
(492,073)	**Total**	**(482,943)**

Note 28 – Provisions

a) Current Provisions

2018/19	Appeals Provision £000	Other Provisions £000	Total £000
Opening Balance	(12,114)	(2,226)	(14,340)
Increase in provision during year	0	(960)	(960)
Utilised during year	4,602	(157)	4,445
Other movements	7,512	0	7,512
Closing Balance	**0**	**(3,343)**	**(3,343)**

2017/18	Appeals Provision £000	Other Provisions £000	Total £000
Opening Balance	(9,889)	(2,302)	(12,191)
Increase in provision during year	(27,176)	0	(27,176)
Utilised during year	24,951	76	25,027
Closing Balance	**(12,114)**	**(2,226)**	**(14,340)**

b) Long Term Provisions

2018/19	Appeals Provision £000	Other Provisions £000	Total £000
Opening Balance	(14,296)	(672)	(14,968)
Increase in provision during year	(12,247)	0	(12,247)
Unused Amounts Reversed	3,136	0	3,136
Other movements	(7,512)	0	(7,512)
Closing Balance	**(30,919)**	**(672)**	**(31,591)**

2017/18	Appeals Provision £000	Other Provisions £000	Total £000
Opening Balance	(8,273)	(670)	(8,943)
Increase in provision during year	(54,670)	(29)	(54,699)
Utilised during year	48,647	28	48,675
Other movements	0	(1)	(1)
Closing Balance	**(14,296)**	**(672)**	**(14,968)**

c) Total Provisions

2017/18 £000	Total Provisions	2018/19 £000
(21,134)	Opening Balance	(29,308)
(84,175)	Increase in provision during year	(13,207)
76,001	Utilised during year	4,445
0	Unused Amounts Reversed	3,136
(29,308)	**Closing Balance**	**(34,934)**

d) 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; there is currently no time limit in the regulations. This provision has been calculated based on information provided by the Valuation Office and external bodies, combined with local knowledge of the Rating List.

e) Other Provisions

The largest provision within this category is Insurance. At the 31 March the council has outstanding insurance liabilities (estimated claims for which liability was accepted) totalling £2.301m. A provision has been charged to the Comprehensive Income & Expenditure Account to fund this and recognises this liability with funding met through reserves.

Note 29 - Contingent Liabilities

The most significant contingent gains and losses disclosed in the council's accounts for the year ending 31 March 2019 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 Ministry of Housing, 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. A separate risk reserve is held to mitigate any future impact £5.625m.

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 2019 the value of receipts that were not allocated to a specific project was £4.736m.

c) Due to the uncertainty in terms of both timing and amounts Milton Keynes Council have estimated a provision for future reduction in business rate appeals arising from the business rates revaluation on 1 April 2017. As such, the potential for further reductions above or below this amount 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 implemented the new NJC Green Book formula for Term Time Only employees with effect from 1 April 2019, following changes that were announced in February 2019. The Council has subsequently received a number of claims from staff (via Trade Unions) for this to be backdated for a period of up to 6 years on the basis that the Councils previous calculation was incorrect and resulted in an underpayment of holiday pay. The Council is currently in discussions with Trade Unions to resolve the claim. At this stage the Council cannot estimate the potential size of any claim, an adjustment has therefore not been made to the 2018/19 accounts.

Note 30.1 – Usable Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement.

31 Mar 2018 £'000	Note		31 Mar 2019 £'000
		Usable Reserves	
(18,376)		General Fund Balance	(20,689)
(76,770)	9	Earmarked General Fund Reserves	(90,795)
(8,881)	9	Schools Balance Reserve	(10,219)
(7,259)		Housing Revenue Account	(7,259)
(50,415)	9	Earmarked HRA Reserves	(57,496)
(22,944)	30.1a	Capital Receipts Reserve	(20,902)
(23,225)	30.1b	Major Repairs Reserve	(23,716)
(46,310)	30.1c	Capital Grants Unapplied	(82,174)
(254,180)		**Total**	**(313,250)**

a) Capital Receipts Reserve

31 March 2018 £000		31 March 2019 £000
(16,605)	Balance 1 April	(22,944)
(13,630)	Capital Receipts in year	(5,518)
63	Deferred Receipts realised	(1)
834	Capital Receipts Pooled	834
1,477	Capital Receipts transferred to Capital Adjustment Account to repay debt	428
4,917	Capital Receipts used for financing	6,299
(22,944)	**Balance 31 March**	**(20,902)**

b) Major Repairs Reserve

31 March 2018 £000		31 March 2019 £000
(19,399)	Balance 1 April	(23,225)
(13,302)	Depreciation and Amortisation	(13,488)
9,476	Application to finance capital expenditure	12,997
(23,225)	**Balance 31 March**	**(23,716)**

c) Capital Grants Unapplied

31 March 2018 £000		31 March 2019 £000
(33,873)	Balance 1 April	(46,310)
(53,137)	Capital grants recognised in year	(67,809)
40,700	Capital grants and contributions applied	31,945
(46,310)	**Balance 31 March**	**(82,174)**

Note 30.2 – Unusable Reserves

31 March 2018 £000	Note		31 March 2019 £000
(189,584)	30.2a	Revaluation Reserve	(193,339)
(197)	30.2b	Available for Sale Financial Instruments Reserve	0
0	30.2c	Financial Instruments Revaluation Reserve	(432)
(732,680)	30.2d	Capital Adjustment Account	(740,943)
256	30.2e	Financial Instruments Adjustment Account	457
392,509	30.2f	Pension Reserve	398,924
(159)	30.2g	Deferred Capital Receipts Reserve	(158)
(2,566)	30.2h	Collection Fund Adjustment Account	(6,446)
886	30.2i	Accumulated Absences Account	981
(531,535)		**Total**	**(540,956)**

a) Revaluation Reserve

31 March 2018 £000		31 March 2019 £000
(163,849)	**Balance 1 April**	(189,584)
(42,647)	Upward revaluation of assets	(25,552)
6,309	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	14,817
(36,338)	**Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services**	**(10,735)**
5,172	Difference between fair value depreciation and historical cost depreciation	5,673
5,431	Accumulated gains on assets sold or scrapped	1,307
10,603	**Amount written off to the Capital Adjustment Account**	**6,980**
(189,584)	**Balance 31 March**	**(193,339)**

b) Available for Sale Financial Instruments Reserve

31 March 2018 £000		31 March 2019 £000
493	**Balance 1 April**	(196)
0	Opening balance adjustments on adoption of IFRS9	196
493	**Revised Opening Balance**	**0**
(690)	Upward revaluation of investments	0
(197)	**Balance 31 March**	**0**

c) Financial Instruments Revaluation Reserve

31 March 2018 £000		31 March 2019 £000
0	**Balance 1 April**	0
0	Opening balance adjustments on adoption of IFRS9	(196)
0	**Revised Opening Balance**	**(196)**
0	Upward revaluation of investments	(236)
0	**Total Changes in revaluation and impairment**	**(236)**
0	**Balance 31 March**	**(432)**

d) Capital Adjustment Account

31 March 2018 £000	Note		31 March 2019 £000
(689,940)		**Balance 1 April**	**(732,680)**
50,346		Charges for depreciation and impairment of non-current assets	55,280
(38,019)		Revaluation losses on non-current assets	(19,710)
382		Amortisation of intangible assets	472
0	24	Revenue expenditure funded from capital under statute	5,540
41,446		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	38,322
54,155		Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	79,904
(10,603)		Adjusting Amounts written out of the Revaluation Reserve	(6,980)
43,552		**Net written out amount of the cost of non-current assets consumed in the year**	72,924
(4,328)	30.1a	Use of Capital Receipts Reserve to finance new capital expenditure	(6,299)
(9,476)	30.1b	Use of Major Repairs Reserve to finance new capital expenditure	(12,997)
(40,700)	30.1c	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(31,945)
(2,095)	24	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(6,734)
(22,516)	9	Capital expenditure charged against the General Fund and HRA balances	(9,903)
(79,115)		**Capital financing applied in year:**	(67,878)
(1,477)	30.1a	Borrowing or liabilities met from the UCRR	(428)
(5,700)	23	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(12,881)
		Other movements	0
(732,680)		**Balance 31 March**	**(740,943)**

e) Financial Instruments Adjustment Account

31 March 2018 £000		31 March 2019 £000
43	**Balance 1 April**	**256**
185	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(43)
28	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	244
213	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	201
0	Other movements	0
256	**Balance 31 March**	**457**

f) Pension Reserve

31 March 2018 £000		31 March 2019 £000
410,932	**Balance 1 April**	**392,509**
(45,112)	Remeasurements of the net defined benefit (liability)/asset	(26,305)
45,318	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	51,760
(18,629)	Employer's pensions contributions and direct payments to pensioners payable in the year	(19,040)
392,509	**Balance 31 March**	**398,924**

g) Deferred Capital Receipts Reserve

31 March 2018 £000		31 March 2019 £000
(96)	Balance 1 April	(159)
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(63)	Transfer to the Capital Receipts Reserve upon receipt of cash	1
(159)	**Balance 31 March**	**(158)**

h) Collection Fund Adjustment Account

31 March 2018 £000		31 March 2019 £000
(2,335)	Balance 1 April	(2,566)
(231)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,880)
(2,566)	**Balance 31 March**	**(6,446)**

i) Accumulated Absences Account

31 March 2018 £000		31 March 2019 £000
1,906	**Balance 1 April**	886
(1,906)	Settlement or cancellation of accrual made at the end of the preceding year	(886)
886	Amounts accrued at the end of the current year	981
(1,020)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	95
886	**Balance 31 March**	**981**

Note 31 – Cash and Cash Equivalents

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

31 March 2018 £000		31 March 2019 £000
(4,641)	Cash and Bank balances	(7,219)
76,055	Short Term Deposits	107,466
71,414	**Total Cash and Cash Equivalents**	**100,247**

At the 31 March 2019, the council held £107.466m invested with various financial institutions as short term deposits (£76.055m at the 31 March 2018). 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.

Note 32.1 – Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2018 £000		31 March 2019 £000
(2,075)	Interest received	(2,540)
22,907	Interest paid	21,232
20,832	**Total**	**18,692**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2018 Restated £000		31 March 2019 £000
(12,328)	Depreciation & Impairment and downward valuations	(35,570)
(382)	Amortisation	(472)
1,459	(Increase)/decrease in impairment for bad debts	1,376
(9,347)	(Increase)/decrease in creditors	(16,897)
38,311	Increase/(decrease) in debtors	(702)
0	Increase/(decrease) in inventories	21
(26,689)	Movement in pension liability	(32,720)
(40,091)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(38,322)
23,276	Other non-cash movements charged to the surplus or deficit on provision of services	7,059
(25,791)	**Total**	**(116,227)**

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

31 March 2018 Restated £000		31 March 2019 £000
11,665	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,518
53,137	Any other items for which the cash effects are investing or financing cash flows	67,809
64,802	**Total**	**73,327**

The 2017/18 comparators have been restated following the implementation of CIPFA's system for the production of the Statement of Accounts which compiles the cash flow in a different format than was used for the production of the 2017/18 Statement of Accounts. The 2017/18 comparators have therefore been adjusted to bring them into line with the format used for 2018/19.

This affects the split between the surplus or deficit the provision of services adjusted for "non-cash movements" and "items which are investing and financing activities" tables above and where these movements fall within these two categories; overall the two tables come back to the same value reported within the 2017/18 Statement of Accounts £39.011m.

The £53.137 Capital Grants which are for investing cashflows have moved tables along with the £11.665m investing Proceeds from the sale of property, plant and equipment, investment property and intangible assets as these are also cashflows for investing activities; the £1.379m included in Investing and Financing activities in the 2017/18 Statement of Accounts has moved to the non cash movements table within Debtors.

Note 32.2 – Cash Flow from Investing Activities

31 March 2018 £000		31 March 2019 £000
214,202	Purchase of property, plant and equipment, investment property and intangible assets	76,023
37,960	Purchase of short-term and long-term investments	170,063
834	Other payments from investing activities	0
(11,665)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,519)
(135,891)	Proceeds from short-term and long-term investments	(122,500)
(79,103)	Other receipts from investing activities	(67,689)
26,338	**Net cash flows from investing activities**	**50,378**

Note 32.3 – Cash Flow from Financing Activities

31 March 2018 £000		31 March 2019 £000
(14,236)	Other receipts from financing activities	(13,624)
2,384	Repayments of short-term and long-term borrowing	9,166
(644)	Other payments for financing activities	(638)
12,496	**Net cash flows from financing activities**	**(5,096)**

Note 33 – Financial Instruments

The Council has made use of transitional provisions in IFRS9 to not restate the prior year's financial statements. Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financial Assets

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial Assets
- Fair value Through Other Comprehensive Income (FVOCI)
- Fair Value Through Profit and Loss (FVTPL)

a) Financial Instrument Balances

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

	Non-Current Financial Assets				Current Financial Assets					
	Investments		Debtors		Investments		Debtors		Cash	
	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000
Amortised cost	13,013	530	28,209	0	52,897	112,947	17,362	37,712	71,414	100,247
Fair value through other comprehensive income – other	15,196	15,432	0	0	170	163	0	0	0	0
Total financial assets	**28,209**	**15,962**	**28,209**	**0**	**53,067**	**113,110**	**17,362**	**37,712**	**71,414**	**100,247**
Non-financial assets	0	0	0	0	0	0	0	0	0	0
Total	**28,209**	**15,962**	**28,209**	**0**	**53,067**	**113,110**	**17,362**	**37,712**	**71,414**	**100,247**

The debtor's lines on the Balance Sheet include £60.634m (£55.060m in 2017/18) short-term and £3.929m (£8.602m in 2017/18) long-term debtors that do not meet the definition of a financial asset. See note 25 for further information.

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

	Non-Current Financial Liabilities				Current Financial Liabilities			
	Borrowings		Creditors		Borrowings		Creditors	
	1 April 2018	31 March 2019	1 April 2018	31 March 2019	1 April 2018	31 March 2019	1 April 2018	31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(474,344)	(460,399)	(28,068)	0	(17,729)	(22,544)	(41,995)	(20,026)
Total financial liabilities	**(474,344)**	**(460,399)**	**(28,068)**	**0**	**(17,729)**	**(22,544)**	**(41,995)**	**(20,026)**
Non-financial liabilities	0	0	0	0	0	0	0	0
Total	**(474,344)**	**(460,399)**	**(28,068)**	**0**	**(17,729)**	**(22,544)**	**(41,995)**	**(20,026)**

The short-term creditor's lines on the Balance Sheet include £75.296m (£56.330m in 2017/18) that does not meet the definition of a financial liability. See note 26 for further information.

b) Material Soft Loans Made by the Authority

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 £6.337m from HCA for short term cash flow financing of the Milton Keynes Tariff. The movements on material soft loans balances are:

	31 March 2018	31 March 2019
	£000	£000
Opening Balance	**(7,462)**	**(7,647)**
Loans Repaid	**0**	1,500
Increase in discounted amount	**(185)**	(190)
Closing balance at end of year	**(7,647)**	**(6,337)**

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.

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:

2017/18 Total		Financial Liabilities	Financial Assets		2018/19 Total
		Amortised Cost	Amortised Cost	Fair value through other comprehensive income	
£000		£000	£000	£000	£000
(21,665)	Interest expense	(21,335)	0	0	(21,335)
(21,665)	**Interest payable and similar charges**	**(21,335)**	**0**	**0**	**(21,335)**
1,458	Interest income	0	1,801	0	1,801
762	Dividend income	0	0	739	739
2,220	**Interest and investment income**	**0**	**1,801**	**739**	**2,540**
689	Gains/(Loss) on revaluation	0	0	(236)	(236)
689	**Impact in Other Comprehensive Income**	**0**	**0**	**(236)**	**(236)**
(18,756)	**Net Interest or Gain/(Loss) for the year.**	**(21,335)**	**1,801**	**503**	**(19,031)**

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 2019, 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 2019, 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.
- 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 2019.
- 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 2018				31 Mar 2019	
Balance Sheet	**Fair Value**		**Fair Value levels**	**Balance Sheet**	**Fair Value**
£000	**£000**			**£000**	**£000**
		Financial liabilities held at amortised cost:			
469,170	602,948	Loans from PWLB	**2**	461,350	592,372
15,256	23,649	Market Loans	**2**	15,256	23,204
7,647	7,647	Other Loans	**2**	6,337	6,337
492,073	**634,244**	**Total Financial Liabilities**		**482,943**	**621,913**
		Recorded on Balance Sheet as:			
41,995		Short-term creditors		20,026	
17,729		Short-term borrowing		22,544	
474,344		Long-term borrowing		460,399	
534,068		**Total Financial Liabilities**		**502,969**	

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

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

Fair Values of Financial Assets:

31 Mar 2018				31 Mar 2019	
Balance sheet	**Fair Value**		**Fair Value levels**	**Balance Sheet**	**Fair Value**
£000	**£000**			**£000**	**£000**
		Financial assets held at fair value:			
76,055	76,055	Liquid Instruments (Money market funds & bank call accounts)	**1**	77,452	77,400
37,578	37,576	Certificates of Deposit	**1**	100,392	100,366
		Deposits with UK Government	**1**	30,015	30,015
15,366	14,960	Property funds	**1**	15,594	15,193
9,239	9,258	Corporate, covered and government bonds	**2**	4,006	4,006
		Financial assets held at amortised cost:			
10,033	10,111	Short-term loans to local authorities		6,546	6,589
8,467	8,656	Long-term loans to local authorities		2,003	2,016
510	470	Long-term loans to companies		530	543
157,248	**157,086**	**Total**		**236,538**	**236,128**
109,316		Assets for which fair value is not disclosed		110,572	
266,564	**157,086**	**Total Financial Assets**		**347,110**	**236,128**
		Recorded on Balance Sheet as:			
72,422		Short-term debtors		75,449	
53,067		Short-term investments		113,110	
36,811		Long-term debtors		35,124	
28,209		Long-term investments		15,962	
76,055		Cash and Cash Equivalents		107,466	
266,564		**Total Financial Assets**		**347,110**	

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

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

i) Nature and Extent of Risks Arising from Financial Instruments

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

- Credit Risk – the possibility that other parties might fail to pay amounts due to the council;

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

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a treasury team, under policies approved by the council in the annual Treasury Management Strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

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

These risks are minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits with financial institutions. The Council's Investment Strategy for 2018/19 was approved by Council in February 2018, forming part of the Treasury Management Strategy, and is available on the Council's website.

Customers for the Council's goods and services are assessed for their ability to pay in accordance with parameters set by the Council. The Council does not allow credit for its trade receivables beyond the standard 30-day period and makes prudent financial provision for bad debts based on an assessment of each type of debt and the age of those debts.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed in a generalised manner, as the risk of each institution failing to make interest payments or repay the principal sum will be specific to that institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk to recovery applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise. No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The value of these amounts would be impaired if it's felt that that this debt would not be recoverable.

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. £15m each
- Building Societies – max. £80m sector total (no more than 20% unrated)

- Any group of pooled funds under same management – max. £15m each
- Loans to unrated companies – max. £25m in total

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 Council's investment criteria ensured that financial assets held by at 31 March 2019 were with institutions that fall into the summarised categories outlined below:

The table below summaries the credit risk for investments:

	Long Term		Short Term	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018
Credit Rating	**£000**	**£000**	**£000**	**£000**
AAA	0	4,003	81,443	81,291
AA+	0	0	0	0
AA	0	0	0	0
AA-	0	0	50,242	20,047
A+	0	0	40,145	10,020
A	0	0	0	7,511
A-	0	0	10,020	0
UK Government	0	0	30,015	0
Unrated Local Authorities	0	8,500	8,549	10,083
Unrated Building Societies	0	0	0	0
Unrated Pooled Fund	15,432	15,196	163	170
Unrated Companies	530	510	0	0
Total Investments	**15,962**	**28,209**	**220,577**	**129,122**

Exposure to Risk

Unimpaired Past Due Amount Analysed by Age:

2017/18 £'000		2018/19 £'000
3,004	Less than three months	802
280	Three to six months	369
2,601	Six months to one year	2,735
1,075	More than one year	1,701
6,960		**5,606**

Impaired Past Due Amount Analysed by Age:

2017/18 £'000		2018/19 £'000
0	Less than three months	888
179	Three to six months	621
169	Six months to one year	646
1,260	More than one year	2,014
1,608		**4,169**

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.

2017/18 £'000		2018/19 £'000
17,729	Less than one year	22,544
13,946	Between one and two years	3,287
26,856	Between two and five years	39,784
70,348	Between five and ten years	62,010
140,298	Between ten and twenty years	138,059
52,536	Between twenty years and thirty years	46,899
75,000	Between thirty years and forty years	92,000
95,360	Over forty years	78,360
492,073		**482,943**

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.

2017/18 £'000		2018/19 £'000
0	Increase in interest payable on variable rate borrowings	0
(1,226)	Increase in interest receivable on variable rate investments	(1,144)
(3,923)	Increase in government grant receivable for financing costs	(3,766)
(5,149)	Impact on Surplus or Deficit on the Provision of Services	(4,910)
1,212	Decrease in fair value of fixed rate investment assets Impact on Other Comprehensive Income and Expenditure	284
86,623	Decrease in fair value of fixed rate borrowings liabilities	76,664

Price Risk

The Council does not invest in equity shares and therefore is not exposed to losses arising from movements in the prices of shares.

Foreign Exchange Risk

The Council does not hold any financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

Note 34 – 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:

Authority as Lessor - Operating Leases

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

31 March 2018 £000		31 March 2019 £000
2,394	Not later than one year	1,902
6,795	Later than one year and not later than five years	6,022
14,900	Later than five years	13,808
24,089	**Total**	**21,732**

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 2018/19 £0.040m contingent rents were receivable by the council (£0.098m in 2017/18).

Note 35 – Related Parties

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

a) 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 21 to the Financial Statements.

b) 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 18.

c) Councillors

Councillors have direct control over the council's financial and operating policies. The total of councillors' allowances paid during 2018/19 is shown in note 15. During 2018/19, works and services to the value of £0.170m were commissioned from organisations in which 25 councillors had an interest.

In addition, the council paid grants totalling £0.225m to voluntary and charitable organisations in which 2 councillors had positions on the governing bodies. In all cases, grants were made with proper consideration of declarations of interest. The relevant councillors did not take part in any discussion or decision relating to the grants.

Income received during 2018/19 totalled £0.046m (£0.030m in 2017/18) from 9 organisations in which 16 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.

d) 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. One senior officer is on the Parks Trust Events Board.

e) Outstanding Balances

The outstanding amounts owed by related parties at the end of 31 March 2019 totalled £0.005m (£0.001m at 31 March 2018).

The outstanding amount owed to related parties at the end of 31 March 2019 totalled £0.047m (£0.013m at 31 March 2018).

Details of all transactions are included elsewhere in the 2018/19 accounts.

f) LGSS

LGSS is the shared back office 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, pensions, legal, procurement, audit, HR, IT and transactional financial services.

It is governed by a Joint Committee with the financial transactions of each shareholder council included in the respective council's statutory accounts.

All surpluses and deficits, after any retained earnings re-invested by LGSS, are shared on a 33.3% arrangement via a dividend to each of the shareholder councils.

g) Council Owned Companies

The Council wholly owns the Milton Keynes Development Partnership (MKDP) LLP and part owner of Your MK a Joint Venture with Mears Group PLC. All surpluses and deficits are retained within the companies as retained earnings, either to re-invest or held to pay back the liability owed to the Council. Further details can be found in the Group Accounts note.

h) Public Health service

The shared Public Health service operates with three partners – Milton Keynes Council (MKC), Bedford Borough Council (BBC) and Central Bedfordshire Council (CBC). The shared service commenced in September 2017 and provides a joint collaborative service to deliver Public Health services between the three Unitary Authorities. Public Health professionals support people to live healthy lifestyles and make healthy choices by either directly commissioning services, informing commissioning decisions of partner or through directly providing services.

The Parties adhere to the twelve attributes of good governance for shared services as developed by CIPFA and the on-going supervision of operations is the responsibility of the SLA Management Group. Each SLA Management meeting is chaired by one of the Council's representatives and includes representatives from each Public Health Service specification. Key Performance Indicators and targets are applied to monitor the service delivery.

The total cost of services and staffing is split as agreed by the three authorities following a restructure in September 2017:

	BBC	CBC	MKC
BBC/CBC/MKC Costs	26.9%	37.9%	35.2%

Note 36 – Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of postemployment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Buckinghamshire County Council (LGPS) is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of Buckinghamshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee. The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie largescale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note. We recognise 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of postemployment/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 via the Movement in Reserves Statement during the year.

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 8 members remain. This scheme is not available to other current Milton Keynes 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.

Discretionary Post-retirement Benefits Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

2017/18		General Fund Transactions	2018/19	
LGPS	Total		LGPS	Total
£000	£000		£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services				
		Service cost comprising:		
36,217	36,217	Current service cost	35,328	35,328
1,246	1,246	Past service cost	9,038	9,038
(3,867)	(3,867)	(Gain) / loss from settlements and / or transfers	(2,823)	(2,823)
533	533	Administration expenses	497	497
		Other Operating Expenditure:		
11,189	11,189	Net interest expense	9,720	9,720
45,318	**45,318**	**Total charged to Surplus and Deficit on Provision of Services**	**51,760**	**51,760**

2017/18		Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement	2018/19	
LGPS	Total		LGPS	Total
£000	£000		£000	£000
(16,329)	(16,329)	Return on plan assets (excluding the amount included in the net interest expense)	(15,707)	(15,707)
0	0	Actuarial gains and losses arising on changes in demographic assumptions	(57,936)	(57,936)
(28,783)	(28,783)	Actuarial gains and losses arising on changes in financial assumptions	47,338	47,338
(45,112)	**(45,112)**	**Total charged to Other Comprehensive Income and Expenditure Statement**	**(26,305)**	**(26,305)**
206	**206**	**Total charged to the Comprehensive Income and Expenditure Statement**	**25,455**	**25,455**

2017/18 LGPS £000	Total £000	Movement in Reserves Statement	2018/19 LGPS £000	Total £000
(45,318)	(45,318)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services	(51,760)	(51,760)
18,629	**18,629**	**Employers' contributions payable to scheme**	**19,040**	**19,040**

Pensions Assets and Liabilities Recognised in the Balance Sheet

2017/18 LGPS £000	Total £000		2018/19 LGPS £000	Total £000
(977,785)	(977,785)	Present value of the defined obligation	(1,017,167)	(1,017,167)
585,276	585,276	Fair value of plan assets	618,243	618,243
(392,509)	(392,509)	Value of Assets / (Liabilities)	(398,924)	(398,924)
(392,509)	**(392,509)**	**Net (liability) / asset arising from the defined benefit obligation**	**(398,924)**	**(398,924)**

Movement in the Value of Scheme Assets

2017/18 LGPS £000	Total £000		2018/19 LGPS £000	Total £000
550,479	**550,479**	**Opening fair value of scheme assets**	**585,276**	**585,276**
15,445	15,445	Interest income	14,940	14,940
16,329	16,329	The return on plan assets, excluding the amount included in the net interest expense	15,707	15,707
18,629	18,629	Contributions from employer	19,040	19,040
5,839	5,839	Contributions from employees into the scheme	5,977	5,977
(571)	(571)	Transfers in	0	0
(17,288)	(17,288)	Benefits / transfers paid	(19,953)	(19,953)
(533)	(533)	Administration expenses	(497)	(497)
(3,053)	(3,053)	Assets Extinguished on Settlement	(2,247)	(2,247)
585,276	**585,276**	**Closing value of scheme assets**	**618,243**	**618,243**

Movements in the Fair Value of Scheme Liabilities

2017/18 LGPS £000	Total £000		2018/19 LGPS £000	Total £000
(961,411)	**(961,411)**	**Opening balance at 1 April**	**(977,785)**	**(977,785)**
(36,217)	(36,217)	Current service cost	(35,328)	(35,328)
(26,634)	(26,634)	Interest cost	(24,660)	(24,660)
(5,839)	(5,839)	Contributions from scheme participants	(5,977)	(5,977)
0	0	- Actuarial gains / (losses) from changes in demographic assumptions	57,936	57,936
28,783	28,783	- Actuarial gains / (losses) from changes in financial assumptions	(47,338)	(47,338)
(1,246)	(1,246)	Past service cost	(9,038)	(9,038)
0	0	Liabilities assumed on entity combinations	0	0
571	571	Transfers in	0	0
17,288	17,288	Benefits / transfers paid	19,953	19,953
6,920	6,920	Liabilities extinguished on settlements	5,070	5,070
(977,785)	**(977,785)**	**Balance as at 31 March**	**(1,017,167)**	**(1,017,167)**

The significant assumptions used by the actuary have been:

2017/18	LGPS	2018/19
Long term expected rate of return on assets		
9%	Gilts	12%
56%	Equities	51%
13%	Other Bonds	15%
7%	Property	8%
4%	Cash	3%
1%	Alternative Assets	1%
5%	Hedge Funds	5%
5%	Absolute Return Portfolio	5%
Mortality assumptions		
Longevity at retirement for current pensioners		
24.0	Men	22.9
26.1	Women	24.8
Longevity at retirement for future pensioners		
26.2	Men	24.6
28.4	Women	26.6
Other assumptions		
2.3%	Rate of inflation	2.4%
3.8%	Rate of increase in salaries	3.9%
2.3%	Rate of increase in pensions	2.4%
2.6%	Rate for discounting scheme liabilities	2.4%

The Asset breakdown percentages are:

2017/18			2018/19	
Quoted	Unquoted		Quoted	Unquoted
0.1%	0.0%	Fixed Interest Government Securities - UK	3.0%	0.0%
9.0%	0.0%	Index Linked Government Securities - UK	9.3%	0.0%
		Corporate Bonds		
13.0%	0.0%	UK	14.5%	0.0%
0.0%	0.0%	Overseas	0.4%	0.0%
		Equity		
9.9%	0.0%	UK	5.1%	0.0%
40.9%	0.0%	Overseas	41.2%	0.0%
6.8%	0.4%	Property	7.6%	0.2%
		Others		
0.0%	4.7%	Absolute return portfolio	0.0%	4.7%
0.0%	4.7%	Hedge Fund	0.0%	5.4%
0.0%	5.5%	Private Equity	0.0%	4.6%
0.0%	0.6%	Infrastructure	0.0%	0.4%
0.0%	0.5%	Commodities	0.0%	0.4%
3.6%	0.0%	Cash/Temporary Investments	2.9%	0.0%
		Net Current Assets		
0.3%	0.0%	Debtors	0.3%	0.0%
83.6%	**16.4%**	**Total**	**84.3%**	**15.7%**

Impact of assumptions on the obligation:

Increase by 0.1% £000	LGPS Assumption	Decrease by 0.1% £000
37,985	Longevity	35,505
0	Rate of inflation	0
36,724	Rate of increase in salaries	36,724
37,627	Rate of increase in pensions	35,842
35,843	Rate for discounting scheme liabilities	37,627

We recognise 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 we are required to make 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 transactions in the preceding table have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Expected Contributions to the Plan

A valuation was carried out by Barnett Waddingham on the Buckinghamshire County Council Pension Fund (the Fund) as at 31 March 2016.

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations an assessment was made of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020.

In 2017/18 an agreement was reached for Milton Keynes Council to make an upfront payment on 1 April 2018 to Buckinghamshire County Council of £21.489m; to cover the contributions due from Milton Keynes Council for 2018/19 £10.932m and 2019/20 £10.557m.

Pension Schemes Associated Risks

In general, participating in a defined benefit pension scheme means that the Employer 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 future liability cashflows. 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; and

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Buckinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

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 pays 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 2018/19, the council paid £7.521m (£8.046m in 2017/18) to Teachers Pensions in respect of teachers' retirement benefits. This was equivalent to 16.48% (16.48% in 2017/18) 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

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.

31 March 2018 Business Rates £000	31 March 2018 Council Tax £000	31 March 2018 Total £000	Collection Fund	31 March 2019 Business Rates £000	31 March 2019 Council Tax £000	31 March 2019 Total £000
			INCOME:			
	(133,704)	(133,704)	Council Tax Receivable		(143,104)	(143,104)
(177,503)		(177,503)	Business Rates Receivable	(179,989)		(179,989)
(177,503)	**(133,704)**	**(311,207)**	**Total amounts to be credited**	**(179,989)**	**(143,104)**	**(323,093)**
			EXPENDITURE:			
			Apportionment of Previous Year Surplus/Deficit:			
(1,379)	0	(1,379)	Central Government	(134)	0	(134)
(1,352)	2,208	856	Billing Authority	(131)	3,409	3,278
(28)	103	75	Fire Authority	(3)	156	153
0	288	288	Police Authority	0	435	435
			Precepts, demands and shares:			0
78,273	0	78,273	Central Government	76,638	0	76,638
76,708	110,378	187,086	Billing Authority	75,106	118,429	193,535
1,565	4,985	6,550	Fire Authority	1,532	5,201	6,733
0	13,942	13,942	Police Authority	0	15,120	15,120
			Charges to Collection Fund:			0
(810)	333	(477)	Write-offs of uncollectable amounts	910	645	1,555
2,920	220	3,140	Increase/(decrease) in allowance for impairment	(1,000)	32	(968)
21,847	0	21,847	Increase/(decrease) in allowance for appeals	17,066	0	17,066
924	0	924	Transitional Protection Payments Payable	888	0	888
390	0	390	Charge to General Fund for allowable collection costs for non-domestic rates	389	0	389
			Other transfers to General Fund in accordance with non-domestic rates regulations			0
160	0	160	Renewable Energy	249	0	249
179,218	**132,457**	**311,675**	**Total amounts to be debited**	**171,510**	**143,427**	**314,937**
1,715	**(1,247)**	**468**	**(Surplus)/Deficit arising during the year**	**(8,479)**	**323**	**(8,156)**
2,042	**(3,921)**	**(1,879)**	**(Surplus)/Deficit b/f at 1 April 2018**	**3,757**	**(5,168)**	**(1,411)**
3,757	**(5,168)**	**(1,411)**	**(Surplus)/Deficit c/f at 31 March 2019**	**(4,722)**	**(4,845)**	**(9,567)**

Tax Base, Rateable Value and Write offs

The Council Tax base for 2018/19, 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	9.60
A	6/9	9,322.52
B	7/9	21,825.02
C	8/9	22,982.22
D	9/9	12,978.26
E	11/9	12,984.57
F	13/9	7,836.46
G	15/9	4,550.41
H	18/9	242.5
Anticipated changes during the year		1,030.00
Provision for non-collection		(1,125.09)
		(95.09)
Impact of Council Tax Reductions		(9,686.30)
Council Tax Base		**(9,781.39)**

Collection Fund Balance Apportionment

2017/18 Total £'000		2018/19 Council Tax £'000	2018/19 NDR £'000	2018/19 Total £'000
(2,572)	Milton Keynes Council	(4,132)	(2,314)	(6,446)
1,879	Central Government	0	(2,361)	(2,361)
(558)	Thames Valley Police Authority	(531)	0	(531)
(160)	Buckinghamshire and Milton Keynes Fire Authority	(182)	(47)	(229)
(1,411)	**Total**	**(4,845)**	**(4,722)**	**(9,567)**

Precepts & Demands on Collection Fund

2017/18 Total £'000		2018/19 Council Tax Precept / Demand £'000	2018/19 NDR Precept / Demand £'000	2018/19 Total Precept / Demand £'000	Council Tax Share of 2018/19 Surplus £'000	NDR Share of 2018/19 Deficit £'000	Total Share of 2018/19 (Surplus)/ Deficit £'000	2018/19 Total £'000
184,514	Milton Keynes Council	118,429	75,106	193,535	(4,132)	(2,314)	(6,446)	187,089
80,152	Central Government	0	76,638	76,638	0	(2,361)	(2,361)	74,277
13,384	Police & Crime Commissioner for Thames Valley	15,120	0	15,120	(531)		(531)	14,589
6,390	Buckinghamshire and Milton Keynes Fire Authority	5,201	1,532	6,733	(182)	(47)	(229)	6,504
284,440	**Total**	**138,750**	**153,276**	**292,026**	**(4,845)**	**(4,722)**	**(9,567)**	**282,459**

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.

31 March 2018 £000		31 March 2019 £000
	Expenditure	
10,574	Repairs & Maintenance	11,200
9,472	Supervision & Management	10,976
180	Rents, Rates, Taxes and other charges	243
1,801	Depreciation, impairments and revaluation losses of non-current assets	4,751
198	Debt Management Costs	0
136	Movement in the allowance for bad debts	337
160	Other	0
22,521	**Total Expenditure**	**27,507**
	Income	
(52,966)	Dwelling rents	(52,508)
(319)	Non-dwelling rents	(316)
(1,925)	Charges for services and facilities	(2,070)
0	Contributions towards Expenditure	0
(205)	Other	(128)
(55,415)	**Total Income**	**(55,022)**
(32,894)	**Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(27,515)**
315	HRA Services Share of Corporate & Democratic Core	276
(32,579)	**Net Expenditure of HRA Services**	**(27,239)**
(1,336)	(Gains)/loss on sale of HRA Fixed Assets	4,030
8,295	Interest Payable and Similar Charges	7,883
(536)	HRA Interest and Investment Income	(805)
354	Net interest on the defined benefit liability/asset	258
(25,802)	**(Surplus) or Deficit for Year on HRA Services**	**(15,873)**

Movement on the HRA 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. 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.

31 March 2018 £000	Movement on the HRA Statement	31 March 2019 £000
(6,236)	Balance on the HRA at the end of the previous year	(7,259)
(25,801)	(Surplus) or Deficit on the HRA Income and Expenditure Statement	(15,873)
20,562	Adjustments between accounting basis and funding basis under statute	8,792
(5,239)	**Net (increase) or decrease before transfers to or from reserves**	**(7,081)**
4,216	Transfer to/(from) reserves	7,081
(1,023)	(Increase) or decrease on the HRA for the year	0
(7,259)	**Balance on the HRA at the end of the current year**	**(7,259)**

31 March 2018 £000	Adjustment between accounting basis	31 March 2019 £000
(21)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	0
(1,800)	Difference btween any other items of income and expanditure in accordance with the Code and determined in accordance with HRA requiremnets	0
0	Transfers to/(from) the Capital Adjustment Account	(4,755)
1,336	Gain or (loss) on sale of non-current assets	(4,030)
(845)	Contributions to or (from) the Pension Reserve	(870)
50	Transfers to/(from) the Accumulated Absences Account	(17)
13,301	Transfers to/(from) Major Repairs Reserve	13,488
8,540	Capital expenditure funded by the HRA	4,975
0	Transfers to/(from) Capital Grants Unapplied	0
20,563	**Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year**	**8,791**

31 March 2018 £000	Transfer to/from Reserves	31 March 2019 £000
50,011	Transfers to earmarked reserves	12,056
(45,795)	Transfers from earmarked reserves	(4,975)
4,216	**Total Transfers**	**7,081**

The Reserves held at 31 March 2019 are included in Note 9 on pages 71.

Notes to the HRA Account

Housing Stock

At 1st April 2018 the HRA housing stock was 12,116. During the 2018/19 financial year stock numbers reduced as 46 properties were sold to tenants (includes part-sales of shared ownership dwellings), 19 dwellings were acquired from the private sector, 18 dwelling were built by the council and 1 property gifted to the council. Therefore as at 31st March 2019 the Council HRA was responsible for managing a housing stock of 12,108 dwellings of which 957 is the council's portion of shared ownership dwellings. The analysis of the remaining 11,151 dwellings is as follows:

Main Rented Stock	Houses	Flats	Total	Houses Built	No. of Houses
1 Bedroom	1,471	2,274	3,745	Pre 1919	43
2 Bedrooms	1,803	835	2,638	1919 - 1944	331
3 or more Bedrooms	4,592	176	4,768	1945 - 1964	1,463
				Post 1964	6,029
Total	**7,866**	**3,285**	**11,151**		**7,866**

Capital Expenditure

2017/18 £'000		2018/19 £'000
	Capital Spending:	
21,531	Dwellings	20,345
639	Other HRA Assets	0
160	Revenue expenditure funded from capital under statute	4
22,330	**Total Capital Expenditure**	**20,349**
	Funded By:	
(4,039)	Usable Capital Receipts	(2,377)
(9,476)	Major Repairs Allowance	(12,997)
(115)	Third Party Contributions	0
(8,700)	Revenue Contributions	(4,975)
(22,330)	**Total Capital Financing**	**(20,349)**

Capital Receipts

31 March 2018 £000		31 March 2019 £000
	Sale of Dwellings*:	
8,054	Council Houses	3,958
1,246	Shared Ownership	447
30	Land	0
21	Recovered Discount	61
0	Non Right to Buy Receipts	529
9,351	**HRA Receipts in Year**	**4,995**
(834)	Less: Statutory Pooling	(834)
8,517	**Total HRA Usable Receipts in year**	**4,161**

* Sales of dwellings are shown net of administrative costs.

Rent 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 rose by £56,000 from 2017/18 value of £486,000 to £542,000 in 2018/19. The increase in loss was partly due to higher number of empty properties during the year. During 2018/19 HRA on average had 78 empty dwellings compared to 74 dwellings in 2017/18. At 31st March 2019, 0.74% of the housing stock was vacant (0.58% at 31st March 2018).

Rents are expressed in terms of a 50-week year and were decreased from 2nd April 2018 by an average of 1%. The average weekly rent at the end of 2018/19 was £87.21 (£87.72 in 2017/18).

The Housing Revenue Account shows rent income and other miscellaneous charges (for example service charges). Arrears of all charges at 31st March 2019 amounted to £3,841,000 (£3,505,000 at 31st March 2018). During the year ending 31st March 2019 arrears of £312,000 were written off as irrecoverable, which includes rent debt written off amounting to £311,000.

The council has made a total provision against all housing-related debts of £1,148,000. This figure includes a provision against rent arrears, in the sum of £1,103,000.

Depreciation and Impairment of Non-Current Assets

31 March 2018			31 March 2019	
Depreciation £000	Impairment £000		Depreciation £000	Impairment £000
(13,848)	(12,429)	Council Dwellings	(13,296)	(5,499)
(191)	160	Other Land and Buildings	(161)	0
(31)	0	Vehicles, Plant, Furniture and Equipment	(31)	0
(14,070)	**(12,269)**	**Total**	**(13,488)**	**(5,499)**

The charge for depreciation on dwellings from 1st April 2018 has been calculated on a componentisation basis, ranges of useful lives being:

- Kitchen 10 or 15 years.
- Bathroom 10 to 25 years.
- Windows/Doors 10 to 25 years.
- Heating/Electrics/ Lighting 10 to 25 years.
- Roof 10 to 65 years.
- Structure 10 to 85 years.

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

Asset Values

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

	31 March 2018 £'000	1 April 2018 £'000	31 March 2019 £'000
Operational Assets			
Council Dwellings	637,436	624,109	644,854
Other Land & Buildings	4,805	4,690	4,690
Equipment	110	79	79
Non Operational Assets			
Surplus Assets	317	317	328
Assets Under Construction	3,364	3,364	3,364
Assets Held for Sale	0	0	0
Investment Properties	23	23	23
Total	**646,055**	**632,582**	**653,338**

As at 1st April 2018, the vacant possession value of the council's dwellings is estimated at £1,930.886m compared with the Balance Sheet value of £624.109m shown above. This variance mainly 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 £20.756m between 1st April 2018 and 31st March 2019 is due to further revaluations in the year along with additions, disposals and reclassifications.

Pension Reserve

The transfer to the Pensions Reserve in respect of the Housing Revenue Account is (£0.870m). Details of the background to, and reasons for this adjustment, may be found in note 8 to the Statement of Accounting Policies, and note 36 to the Financial Statements.

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 2018 was a profit of £20.1m. This includes revaluation gains of £13.4m; gain on disposals £7.5m to be used for future capital development and a trading profit from operations of £1.1m.

Due to the materiality of MKDP, the council has taken the view that its activity warrants 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 2018 the turnover was £1.679m with a profit of £0.057m.

The council has determined that we do not consider YourMK LLP to be material to consolidate in Group Account for 2018/19.

During 2018/19, works and services to the value of £1.176m were paid to YourMK by the Council for work on the new additional affordable housing projects for the Council. Income received during 2018/19 totalled £0.027m and the outstanding amount owed to YourMK at the 31 March 2018 was £0.170m.

MK Business Excel Ltd (MKBE)

MK Business Excel Ltd (formerly known as MKSP Direct Ltd) was 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 and the company was dissolved with Companies House on the 19th June 2018. As there was not trading during 2018/19, the Council has not included the company within their Group Accounts disclosures.

Group Financial Statements

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 2018, 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 7 of the Financial Statements.

Interest in Subsidies

There are no interests in subsidiaries other than those reported in note 35 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 that could expose the Authority to a loss. There are no other risks associated with these subsidiaries.

Group Movement in Reserves Statement

2018/19	Total General Fund Balance	Total HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Un-applied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	(118,524)	(57,674)	(22,944)	(23,225)	(46,310)	**(268,677)**	**(542,108)**	**(810,785)**
Movement in reserves during 2018/19								
Surplus or deficit on the provision of services	(36,133)	(15,873)	0	0	0	**(52,006)**	**0**	**(52,006)**
Other Comprehensive Income / Expenditure	0	0	0	0	0	**0**	(37,286)	**(37,286)**
Total Comprehensive Income and Expenditure	**(36,133)**	**(15,873)**	**0**	**0**	**0**	**(52,006)**	**(37,286)**	**(89,292)**
Adjustments between accounting basis and funding basis under regulations	7,339	8,792	2,042	(491)	(35,864)	**(18,182)**	**18,182**	**0**
Net Increase or Decrease before Transfers to Earmarked Reserves	**(28,794)**	**(7,081)**	**2,042**	**(491)**	**(35,864)**	**(70,188)**	**(19,104)**	**(89,292)**
Transfers to / from Earmarked Reserves	0	0	0	0	0	**0**	**0**	0
Increase or Decrease in 2018/19	**(28,794)**	**(7,081)**	**2,042**	**(491)**	**(35,864)**	**(70,188)**	**(19,104)**	**(89,292)**
Balance at 31 March 2019	**(147,318)**	**(64,755)**	**(20,902)**	**(23,716)**	**(82,174)**	**(338,865)**	**(561,212)**	**(900,077)**

2017/18	Total General Fund Balance	Total HRA Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Un-applied Account	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2017	(103,493)	(52,433)	(16,605)	(19,399)	(33,873)	**(225,803)**	**(442,849)**	**(668,652)**
Movement in reserves during 2017/18								
Surplus or deficit on the provision of services	(11,080)	(25,802)	0	0	0	**(36,882)**	0	**(36,882)**
Other Comprehensive Income / Expenditure	0	0	0	0	0	**0**	(82,138)	**(82,138)**
Total Comprehensive Income and Expenditure	**(11,080)**	**(25,802)**	**0**	**0**	**0**	**(36,882)**	**(82,138)**	**(119,020)**
Adjustments between accounting basis and funding basis under regulations	10,546	20,561	(6,339)	(3,825)	(12,437)	**8,506**	(6,547)	**1,959**
Net Increase or Decrease before Transfers to Earmarked Reserves	**(534)**	**(5,241)**	**(6,339)**	**(3,825)**	**(12,437)**	**(28,376)**	**(88,685)**	**(117,061)**
Transfers to / from Earmarked Reserves	0	0	0	0	0	**0**	**0**	0
Increase or Decrease in 2017/18	**(534)**	**(5,241)**	**(6,339)**	**(3,825)**	**(12,437)**	**(28,376)**	**(88,685)**	**(117,061)**
Balance at 31 March 2018	**(104,027)**	**(57,674)**	**(22,944)**	**(23,224)**	**(46,310)**	**(254,179)**	**(531,534)**	**(785,713)**

Group Comprehensive Income and Expenditure Statement

2017/18 Expenditure £000	2017/18 Income £000	2017/18 Net £000		2018/19 Expenditure £000	2018/19 Income £000	2018/19 Net £000
93,717	(31,906)	61,811	Adult Social Care and Health	97,995	(38,770)	59,225
228,650	(170,327)	58,323	Children and Families	227,781	(169,426)	58,355
12,218	(11,958)	260	Public Health	11,473	(11,590)	(117)
14,341	(8,250)	6,091	Housing and Community	15,927	(8,067)	7,860
22,520	(55,415)	(32,895)	Housing Revenue Account	27,782	(55,025)	(27,243)
24,492	(16,300)	8,192	Growth, Economy and Culture	14,362	(10,017)	4,345
55,523	(23,370)	32,153	Public Realm	63,610	(25,929)	37,681
10,410	(1,416)	8,994	Resources delegated to LGSS	9,835	(3,710)	6,125
93,112	(102,529)	(9,417)	Resources retained MKC	112,131	(99,342)	12,789
5,168	(2,405)	2,763	Total Corporate Core	11,563	(1,501)	10,062
334	(22)	312	Corporate Items	2,478	(234)	2,244
560,485	**(423,898)**	**136,587**	**Cost of Services**	**594,937**	**(423,611)**	**171,326**
		37,491	Other Operating Expenditure			41,779
		9,302	Financing and Investment Income and Expenditure			(14,397)
		(234,536)	Taxation and Non Specific Grant Income			(250,713)
		(51,156)	**Surplus or Deficit on Provision of Services**			**(52,005)**
		(31,889)	Surplus or deficit on revaluation of Property, Plant and Equipment			(17,562)
		(4,448)	Impairment losses on non-current assets charged to the Revaluation Reserve			6,827
		(689)	Surplus or deficit on revaluation of available for sale financial assets and financial instruments at fair value through other comprehensive income and expenditure			(236)
		(45,178)	Remeasurement of the net defined benefit liability / asset			(26,315)
		(82,204)	**Other Comprehensive Income and Expenditure**			**(37,286)**
		(133,360)	**Total Comprehensive Income and Expenditure**			**(89,291)**

Group Balance Sheet

31 March 2018 Restated £000	Note		31 March 2019 £000
1,505,051		Property, Plant and Equipment	1,496,563
853		Heritage Assets	848
103,326		Investment Property	135,256
1,065		Intangible Assets	593
29,019		Long Term Investments	16,587
5,889	G3	Long Term Debtors	3,929
1,645,203		**Long Term Assets**	**1,653,776**
74,080		Short-term Investments	144,613
11,398		Assets Held for Sale	23,340
77		Inventories	98
65,097	G3	Short Term Debtors	63,450
71,561		Cash and Cash Equivalents	99,832
222,213		**Current Assets**	**331,333**
(17,729)		Short-Term Borrowing	(22,544)
(100,822)	G4	Short-Term Creditors	(98,183)
(14,340)		Provisions	(3,343)
(6,656)		Grants Receipts in Advance - Revenue	(33,282)
(6,975)		Grants Receipts in Advance - Capital	(6,707)
(146,522)		**Current Liabilities**	**(164,059)**
(14,968)	G5	Provisions	(31,591)
(474,344)		Long Term Borrowing	(460,399)
(392,889)		Other Long-Term Liabilities	(399,449)
(25,785)		Grants Receipts in Advance - Revenue	(27,250)
(2,124)		Grants Receipts in Advance - Capital	(2,284)
(910,110)		**Long Term Liabilities**	**(920,973)**
810,784		**Net Assets**	**900,077**
(268,677)	G6	Usable Reserves	(338,865)
(542,107)	G6	Unusable Reserves	(561,212)
(810,784)		**Total Reserves**	**(900,077)**

Group Cash Flow Statement

Group 2017/18 Restated £000			Group 2018/19 £000
(51,156)		Net (surplus) or deficit on the provision of services	(52,006)
(21,048)	G7.1	Adjustment to surplus or deficit on the provision of services for noncash movements	(106,428)
74,972	G7.1	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	86,066
2,768		**Net cash flows from operating activities**	**(72,368)**
37,040	G7.2	Net cash flows from investing activities	49,194
(12,496)	G7.3	Net cash flows from financing activities	(5,096)
27,312		**Net (increase) or decrease in cash and cash equivalents**	**(28,270)**
98,873		Cash and cash equivalents at the beginning of the reporting period	71,562
71,561		**Cash and cash equivalents at the end of the reporting period**	**99,832**

G1 – 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.

G2 – Summary of Subsidiaries Transactions included in the Group Balance Sheet

The Group Balance Sheet contains transactions for both Milton Keynes Council 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 2017/18 Restated £'000		Milton Keynes Council 2018/19 £'000	Milton Keynes Development Partnership 2018/19 £'000	Intra-Company Transactions 2018/19 £'000	Group Total 2018/19 £'000
1,645,203	Long Term Assets	1,613,646	40,130	0	1,653,776
74,080	Short Term Investments	113,110	31,503	0	144,613
11,398	Assets held for sale	10,405	12,935	0	23,340
77	Inventories	98	0	0	98
65,097	Short Term Debtors	98,346	3,810	(38,706)	63,450
71,561	Cash and Cash Equivalents	100,247	(415)	0	99,832
(17,729)	Short Term Borrowing	(22,544)	0	0	(22,544)
(100,822)	Short Term Creditors	(95,322)	(41,567)	38,706	(98,183)
(14,340)	Short Term Provisions	(3,343)	0	0	(3,343)
(13,631)	Short Term Grants & Contributions Receipts in Advance	(39,989)	0	0	(39,989)
(14,968)	Long Term Provisions	(31,591)	0	0	(31,591)
(474,344)	Long Term Borrowing	(460,399)	0	0	(460,399)
0	Other Long Term Liabilities	0	0	0	0
(392,889)	Liability Related to Defined Benefit Pension Scheme	(398,924)	(525)	0	(399,449)
(27,909)	Long Term Grants & Contributions Receipts in Advance	(29,534)	0	0	(29,534)
810,784	**Net Assets**	**854,206**	**45,871**	**0**	**900,077**

G3 - Debtors

Group Total 2017/18 £'000		Milton Keynes Council 2018/19 £'000	Milton Keynes Development Partnership 2018/19 £'000	Intra-Company Transactions 2018/19 £'000	Group Total 2018/19 £'000
21,372	Trade Receivables	16,675	3,693	(500)	**19,868**
43,725	Other Receivable Amounts	81,671	117	(38,206)	**43,582**
65,097	**Total Short Term Debtors**	**98,346**	**3,810**	**(38,706)**	**63,450**

G4 - Creditors

Group Total 2017/18 Restated £'000		Milton Keynes Council 2018/19 £'000	Milton Keynes Development Partnership 2018/19 £'000	Intra-Company Transactions 2018/19 £'000	Group Total 2018/19 £'000
(5,677)	Trade payables	(5,079)	(3,219)	462	**(7,836)**
(95,145)	Other payables	(90,243)	(38,348)	38,244	**(90,347)**
(100,822)	**Total Short Term Creditors**	**(95,322)**	**(41,567)**	**38,706**	**(98,183)**

G5 – Provisions

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

G6 – Reserves

The reserves held by the Milton Keynes Council and Milton Keynes Development Partnership at 31 March 2019 are detailed below:

Group Total 31 Mar 2018 Restated £'000		Milton Keynes Council 31 Mar 2019 £'000	Milton Keynes Development Partnership 31 Mar 2019 £'000	Group Total 31 Mar 2019 £'000
(254,179)	Milton Keynes Council's Usable Reserves	(313,250)	0	(313,250)
(14,498)	LLP Retained Earnings	0	(25,615)	(25,615)
(268,677)	**Total Usable Reserves**	**(313,250)**	**(25,615)**	**(338,865)**
(531,534)	Milton Keynes Council's Unusable Reserves	(540,956)	0	(540,956)
(10,573)	LLP Non-Distributed Reserves	0	(20,256)	(20,256)
(542,107)	**Total Unusable Reserves**	**(540,956)**	**(20,256)**	**(561,212)**
(810,784)	**Total Reserves**	**(854,206)**	**(45,871)**	**(900,077)**

G7.1 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2018 Milton Keynes £000	31 March 2018 Group £000		31 March 2019 Milton Keynes £000	31 March 2019 Group £000
(2,075)	(2,075)	Interest received	(2,540)	(2,540)
22,907	22,907	Interest paid	21,232	21,232
20,832	**20,832**	**Total**	**18,692**	**18,692**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2018 Restated			31 March 2019	
Milton Keynes	**Group**		**Milton Keynes**	**Group**
£000	**£000**		**£000**	**£000**
(12,328)	(4,346)	Depreciation	(35,570)	(35,570)
(382)	(382)	Amortisation	(472)	(472)
1,459	1,459	(Increase)/decrease in impairment for bad debts	1,376	1,376
(9,347)	(8,864)	(Increase)/decrease in creditors	(16,897)	(18,375)
38,311	37,015	Increase/(decrease) in debtors	(702)	2,596
0	0	Increase/(decrease) in inventories	21	21
(26,689)	(26,817)	Movement in pension liability	(32,720)	(32,875)
(40,091)	(50,261)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(38,322)	(43,574)
23,276	31,148	Other non-cash movements charged to the surplus or deficit on provision of services	7,059	20,445
(25,791)	**(21,048)**	**Total**	**(116,227)**	**(106,428)**

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

31 March 2018 Restated			31 March 2019	
Milton Keynes	**Group**		**Milton Keynes**	**Group**
£000	**£000**		**£000**	**£000**
11,665	21,835	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,518	18,257
53,137	53,137	Any other items for which the cash effects are investing or financing cash flows	67,809	67,809
64,802	**74,972**	**Total**	**73,327**	**86,066**

G7.2 – Cash Flow from Investing Activities

31 March 2018			31 March 2019	
Milton Keynes	**Group**		**Milton Keynes**	**Group**
£000	**£000**		**£000**	**£000**
214,202	214,202	Purchase of property, plant and equipment, investment property and intangible assets	76,023	77,089
37,960	58,833	Purchase of short-term and long-term investments	170,063	170,063
834	834	Other payments from investing activities	0	0
(11,665)	(21,835)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,519)	(18,258)
(135,891)	(135,891)	Proceeds from short-term and long-term investments	(122,500)	(112,011)
(79,103)	(79,103)	Other receipts from investing activities	(67,689)	(67,689)
26,338	**37,040**	**Net cash flows from investing activities**	**50,378**	**49,194**

G7.3 – Cash Flow from Financing Activities

31 March 2018			31 March 2019	
Milton Keynes	Group		Milton Keynes	Group
£000	£000		£000	£000
(14,236)	(14,236)	Other receipts from financing activities	(13,624)	(13,624)
2,384	2,384	Repayments of short-term and long-term borrowing	9,166	9,166
(644)	(644)	Other payments for financing activities	(638)	(638)
12,496	**12,496**	**Net cash flows from financing activities**	**(5,096)**	**(5,096)**

Glossary

AAA Fitch Rating

Highest credit quality - ‘AAA’ ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Fitch Rating

Very high credit quality - ‘AA’ ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A Fitch Rating

High credit quality - ‘A’ ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accruals

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

· Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

· The actuarial assumptions have changed.

Asset

An item having value to the authority in monetary terms. Assets are categorised as either current or non-current

· A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);

· A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

Audit Of Accounts

An independent examination of the Authority's financial affairs.

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

Borrowing

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

Budget

The forecast of net revenue and capital expenditure over the accounting period.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

Capital Programme

The capital schemes the Authority intends to carry out over a specific period of time.

Capital Receipt

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

Claw-Back

Where average council house rents are set higher than the government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the authority, i.e. it is "clawed-back" by the government.

CIPFA

The Chartered Institute of Public Finance and Accountancy.

Collection Fund

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

Community Assets

Assets that the Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Comprehensive Income and Expenditure Statement

The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

Contingent Liability

A contingent liability is either:

· A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control;

· A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Creditor

Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

Current Service Cost (Pensions)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

Debtor

Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

Defined Benefit Pension Scheme

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Depreciation

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

Discretionary Benefits (Pensions)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

Equity

The Authority's value of total assets less total liabilities.

Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Expected Return On Pension Assets

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Going Concern

The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

Government Grants

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

Housing Benefits

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

Housing Revenue Account (HRA)

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

Impairment

A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

Infrastructure Assets

Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

Intangible Assets

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Pension Fund)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

Liability

A liability is where the Authority owes payment to an individual or another organisation.

· A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.

· A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Liquid Resources

Current asset investments that are readily disposable by the Authority without disrupting its business and are either:

· Readily convertible to known amounts of cash at or close to the carrying amount; or

· Traded in an active market.

Long-Term Contract

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

Minimum Revenue Provision (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

Net Book Value

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

Net Debt

The Authority's borrowings less cash and liquid resources.

Non-Distributed Costs

These are overheads for which no user now benefits and as such are not apportioned to services.

Non-Domestic Rates (NDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

Non-Operational Assets

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

Operating Lease

A lease where the ownership of the fixed asset remains with the lessor.

Operational Assets

Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Cost (Pensions)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

Pension Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Precept

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

Prior Year Adjustment

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provision

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

Public Works Loan Board (PWLB)

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

Rateable Value

The annual assumed rental of a hereditament, which is used for NNDR purposes.

Related Parties

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

Related Party Transactions

The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

Reserves

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

Residual Value

The net realisable value of an asset at the end of its useful life.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Revenue Expenditure

The day-to-day expenses of providing services.

Revenue Expenditure Capitalised Under Statute (REFCUS)

Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

Revenue Support Grant

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

Stocks

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

Temporary Borrowing

Money borrowed for a period of less than one year.

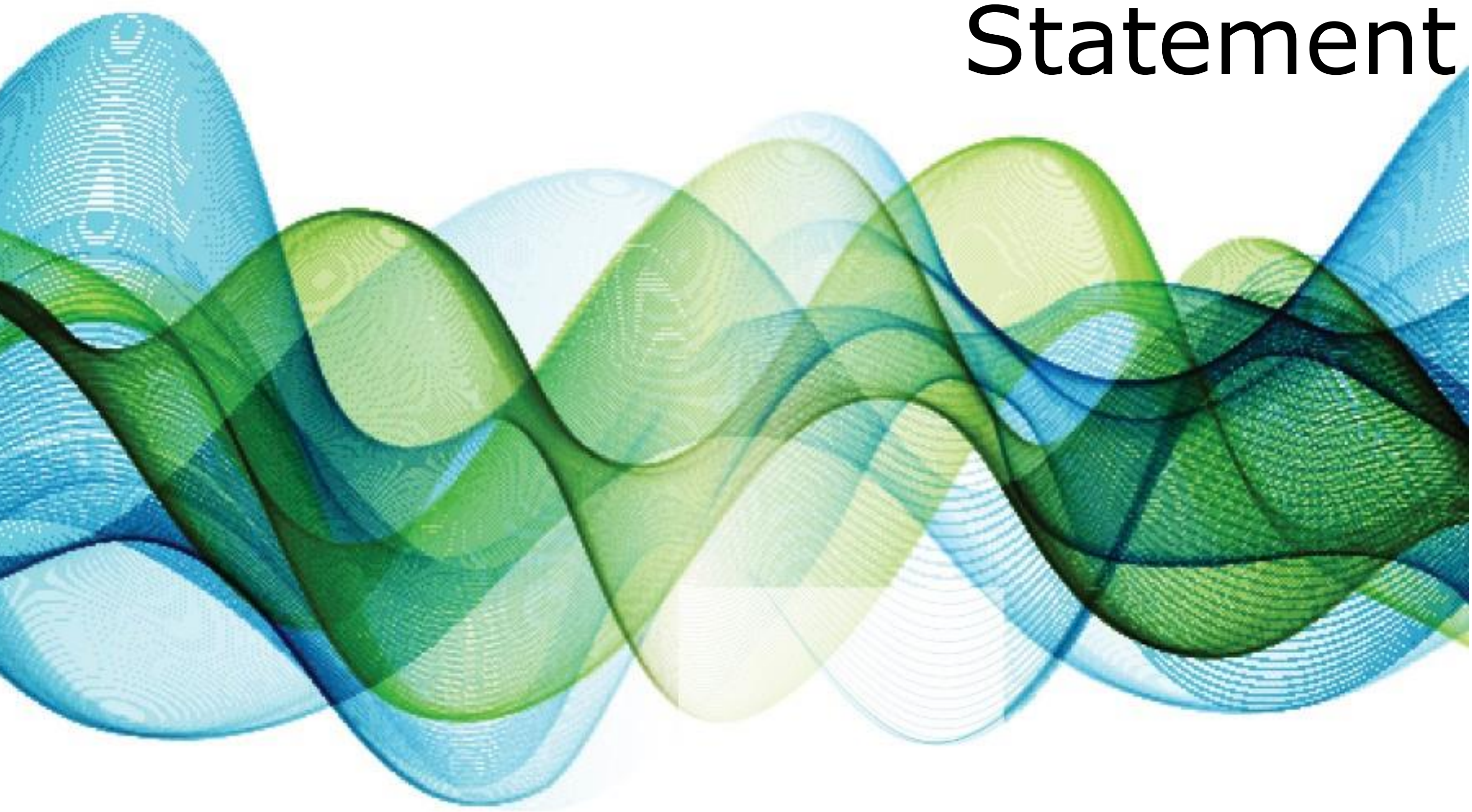
Trust Funds

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

Useful Economic Life (UEL)

The period over which the Authority will derive benefits from the use of a fixed asset.

Annual Governance Statement



Date issued
31 July 2019

Prepared by
Duncan Wilkinson
Chief Internal Auditor

Milton Keynes Council (MKC) has an ambitious vision to ensure MK continues to be a special place in which to live, learn and do business. For a number of years now, we are managing increasing demand on critical services and significant reductions in our funding.

Effective service commissioning and delivery has never been more important.

Good governance has also never been more important to ensure we are doing the right things, in the right way and for the right people.

It supports good services and gives the public confidence in those services. It also provides a structure to understand when things have not succeeded as we might have hoped without creating a blame culture that can stifle innovation and actually undermine service delivery.

The effectiveness of MKC's governance framework has been reviewed and as Leader and Chief Executive we are pleased to report that the overall assessment is that this Annual Governance Statement (AGS):

f) Accurately summarises the Councils governance mechanisms, and

g) Having reviewed their operation for 2018/19 properly concludes that MKC's governance environment is a satisfactory framework to maintain effective control.

This AGS also recognises the increasing pressures and challenges faced by the Council with appropriate actions and plans to address the weaknesses identified and to ensure continuous improvement in the governance system.

Councillor Peter Marland
Leader of Milton Keynes Council

Michael Bracey
Chief Executive – Milton Keynes Council

What is Corporate Governance?

Corporate Governance refers to the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

International Federation of Accountants / CIPFA 2014: International Framework: Good Governance in the Public Sector further states that to deliver good governance in the public sector, both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

Our governance arrangements aim to ensure that we meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.

The governance framework comprises the systems, processes, cultures and values by which MKC is directed and controlled, and through which we engage with and lead the local community. The framework brings together an underlying set of legal requirements, good practice and management processes.

How do we know our arrangements are working?

To monitor the effectiveness of our corporate governance systems, we have approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA / SOLACE 2016: *Delivering Good Governance in Local Government: Framework 2016 Edition*.

This code is subject to review, challenge and endorsement by, Audit Committee or scrutiny panels as appropriate. A copy of the code can be obtained from the Monitoring Officer.

Each year we review our corporate governance processes, systems and the assurances on the governance framework to create an annual governance statement. We review our compliance with the approved code of corporate governance, consulting with and obtaining positive assurances from the corporate leadership team, governance officers, and a member group representing each of the major parties.

In addition we also reflect and take into consideration the work of internal and external audit and other inspection bodies completed during the year. The issues identified during the review are highlighted in the action plan at the end of this statement.

This AGS builds upon those of previous years. It summarises the key governance framework which has been in place for the year ended 31 March 2019 and up to the date of approval of the statement of accounts and records any significant governances issues that need to be addressed over the coming year.

As we are continually changing and seeking improvement it is important that the governance arrangements are robust and flexible enough to manage change effectively and positively support our aims and objectives.

It is recognised that the governance framework cannot eliminate all risk and therefore only provide reasonable and not absolute assurance of effectiveness.

How MKC works

The Council comprises 57 Councillors. One third of the Councillors are elected every year, over a four year period, the last year is election free. Milton Keynes Council is under no overall control which means that no one political party has over half the available seats required for an overall majority.

At 31st March 2019, the Leader of the Council is Councillor Peter Marland.

Labour (21 seats).

Conservatives (23 seats)

Liberal Democrats (12 seats)

Independent (1 seat)

The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. Milton Keynes also has a Local Democracy Reporter, who investigates, scrutinizes and reports on MKC decisions and activities providing additional news coverage for citizens.

The Council's Meeting Information System gives dates and times of meetings and access to documents.

Councillors are democratically accountable to the residents of their Wards. The overriding duty of Councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

All Councillors meet together as the Council. At Council meetings, normally open to the public, Councillors decide the Council's overall policies and set the budget each year. At the Annual Council Business Meeting, the Council appoints its Scrutiny and Regulatory Committees, and during the year, the Council holds the Cabinet, the Scrutiny Committees and the other Committees to account.

The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. The Council's Meeting Information System gives dates and times of meetings and access to documents.

- Human Resources
- Finance
- ICT

- Revenues & Benefits
- Procurement
- Internal Audit, Risk Management and Fraud
- Insurance

LGSS is managed by a joint committee where MKC has three councillors appointed to represent us. It is a decision making body with delegated powers from each partner. These delegations include responsibility for setting the LGSS budget, agreeing a service plan, monitoring performance and quality of service delivery and making decisions on expenditure and commercial arrangements.

The LGSS Joint Overview & Scrutiny Working Group reviews the operations and performance of LGSS.

In addition, the LGSS Revenue and Benefits Joint Committee was established pursuant to an agreement between Milton Keynes Council and Northampton Borough Council. The Joint Committee's remit is to have responsibility for the provision of Revenue and Benefits services to the Councils through the LGSS arrangements (a separate Delegation and Joint Agreement was established)..

In 2018/19 the three partner councils commissioned a review of LGSS and its future strategy, making sure that services continue to meet the needs of partners and customers. A deep dive into finance and performance was also commissioned. These reviews were undertaken independently (by 31Ten and CIPFA). The reviews recognised the value that LGSS added but also identified areas where performance needed to be improved. As a result of this a new operating model is being discussed.

Council owned companies

At the beginning of the year MKC had three Limited Liability Partnerships (LLPs), one of which has since closed and another has seen material changes in its functions:

Milton Keynes Development Partnership (MKDP)

MKDP was established in 2012, and approximately £32m of assets purchased from the Homes and Communities Agency transferred to the LLP in January 2013. The purpose of MKDP is to deliver optimum economic value to the citizens of MK in line with the MKC's corporate plan and economic development strategy.

The governance arrangements for MKDP are defined within the members agreement. These include the requirement for a board made up of councillors and independent members to which the MKDP Chief Executive is responsible. The MKDP Chief Executive and the board are responsible for the general management of MKDP operations.

YourMK

YourMK is a jointly owned partnership between MKC and the Mears Group PLC. In October 2018 the client function for the repairs contract and asset management function was transferred from YourMK back to the Council together with three posts that performed this role. YourMK are still responsible for oversight and management of the Regeneration / Estate Renewal of the Council's 11,500 homes and land within the HRA. The agreement with YourMK originally ran until 2031 and sought to make lasting changes in areas of the borough through investment and community engagement.

The governance arrangements for YourMK are defined within a members' agreement. These include the requirement for a board consisting of up to three appointed representatives from MKC and Mears Group PLC. In July 2018 the Council's appointed independent board members resigned. The Council is currently in the process of reviewing the board composition and working with Mears to agree future working arrangements.

On 5 March 2019 the Audit Committee considered whistleblowing concerns and those were referred to the External Auditor for investigation. Evidence to date has highlighted governance weaknesses, that support the decision to transfer back into the Council, but has also provided assurances that costs incurred under the contract have been properly accounted for.

MKBE Ltd

All assets etc. were previously transferred to MKC and no transactions occurred in 2018/19. The company has now closed.

The Council Plan

The Council Plan 2016 – 2020 was approved by Council on 13 July 2016. Council updated the more detailed Delivery Plan within it on 20 June 2018. The four-year plan sets out how Milton Keynes Council will work to achieve its ambitions for Milton Keynes.

The plan has been developed by the Labour Administration within the framework established by *The Agreement to Work in Partnership (the agreement);* a continuation of the agreement was signed on 14 May 2018 by the Leader of the Council and Leader of the Liberal Democrat Group.

Its priorities and policies flow from the Labour manifesto commitments and those of the MK Liberal Democrat Group and therefore the priorities presented in the agreement.

Vision

Our vision is for a thriving, dynamic European Destination City and to ensure a fair, hardworking and more equal MK for all.

MK is the most successful new town. We have attracted generations of people and businesses to move to and stay, created thousands of jobs and built a city with high quality infrastructure and green space because we have been at the cutting edge of modern thinking.

MKC wants to enable a 21st Century MK while preserving what makes us special; an internationally recognised centre of prosperity, economic innovation and cultural creativity, in a high quality green space and built environment.

Our three key aims for MK are for it to be a place of opportunity, an affordable place and a healthy place.

Review of effectiveness

MKC has a responsibility to conduct an annual review of the effectiveness of its governance framework, including the system of internal control.

This is informed by:

- Annual assurance opinion of the Chief Internal Auditor
- Performance against targets
- Annual director assurance statements
- A review of the progress made with regards to the implementation of the previous year's AGS action plan.

The review of effectiveness of our governance framework is informed by the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the governance environment, Chief Internal Auditors' Annual Report, and also by comments made by the external auditors and other agencies and inspectorates. The Annual Governance Statement is considered by the Audit Committee.

Planning

The Corporate Core (now Policy, Insight and Communications team) drives delivery of the council plan, working closely with services to spread best practice, track and strengthen performance.

Performance Management

The Policy, Insight and Communications team works with all services to ensure the economical, effective and efficient use of resources. The team plays a key role in supporting delivery of projects and helps drive continuous improvement in the way in which functions are exercised, by having regard to a combination of economy, efficiency and effectiveness.

In addition, a number of governance mechanisms are in place to support performance management across the council, which include:

- Monthly performance reporting to the Corporate Leadership Team;
- Quarterly updates to Cabinet on the delivery of the Council Plan;

- Performance management support to Department Management Teams in the form of monthly / quarterly dashboards.
- Quarterly performance reports to the Scrutiny Management Committee.

Delivery of Projects

As a Council MKC undertakes a significant number of both capital and revenue projects, to ensure that these have effective oversight as part of the governance processes, the Council has set-up The Portfolio Office, whose objectives and contribution to governance and assurance are:

- support projects and programmes and their Sponsors and managers by:
  - development and ownership of the MKApproach to managing projects and programmes
    - management, development and delivery of project management training to project staff
    - development of a learning community through the PM Network
    - mentoring, advice and support to project sponsors and managers through project workshops; acting as a critical friend to projects and programmes; sitting on key project and programme Boards; and providing impartial and credible analysis of projects and programmes.
  - management and analysis of the quarterly Project Dashboard
  - leading or contribution to Health Checks, Lessons Learned or Project Audits

- aid decision-making by:
  - developing and dissemination of Lessons Learned from completed projects, in particular those Lessons with cross cutting significance
  - involvement in validation of business case (i.e. START documents) as member of Programme and Portfolio Boards
  - providing informed and independent comment and advice to key Corporate Services on project and programme management
  - During 2018/19 the Council strengthened its project governance arrangements and put in place a Corporate Programme Board which has oversight of the various Programme Boards across the authority. The Council also adopted a Capital Strategy which sets out the Council's ambitions, approach and funding strategy.

The Audit Committee

A well-established Audit Committee provides independent, effective assurance on the adequacy of MKC's governance environment. All major political parties are represented on the committee, supported by a further three independent members.

The Audit Committee met regularly during 2018/19. The committee considers reports including the Annual Internal Audit Report from the Chief Internal Auditor and the External Auditor.

The remit of the Audit Committee is to:

- Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- Provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority exposure to risk and weakens the control environment;
- Reviews Internal Audit performance against targets and quality assurance results; and
- Oversee the financial reporting process.

Management

Each Director has provided a self-assurance statement in respect of 2018/19, supported by assurance received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of MKC which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of MKC's key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Directors, service directors and service heads are responsible for monitoring implementation of the council's policies.

One of the key elements in obtaining the required internal control assurance for the Annual Governance Statement is the completion of the Annual Assurance Statement by senior officers. Directors were asked to compile their statement after reviewing the statements from their direct reports. Direct reports were asked to compile their statement after taking assurance from their senior / departmental management teams.

Internal Audit

MKC takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of MKC's activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within MKC. This opinion has been used to inform the AGS.

The Internal Audit Service has continued to be managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

A three-tier assurance mechanism is currently in place that provides assurances as summarised in the table below:

1 Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems 'police/ enforce' good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that gives confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

2 Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring 'ease of use'. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.

Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant service's agreed action plan.

Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

One of the key assurance statements MKC receives is the annual report and opinion of the Chief Internal Auditor. In respect of the 12 month period ending 31 March 2019, the opinion of the Chief Internal Auditor, taking account all available evidence, there is **SATISFACTORY** assurance over the adequacy and effectiveness of the council's overall internal control environment.

External Audit & Inspections

Ernst & Young LLP are MKC's appointed external auditor and were appointed for a further period under the Public Sector Audit Appointment arrangement from 2018/19. As well as an examination of MKC's financial statements, their work includes an assessment of the degree to which MKC delivers value for money in its use of resources and this year included a review of YourMK as referenced in the 2018/19 AGS Action Plan.

The auditor issued an unqualified opinion in relation to MKC's 2017/18 statutory financial statements which include the single entity accounts for MKC and the group accounts incorporating MKDP. An unqualified conclusion was also issued in relation to MKC's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In October 2018 the Local Government Association undertook a Corporate Peer Challenge and the results were reported to Cabinet on 5 February 2019. Positive feedback was provided with some challenges identified, specifically around support for councillors, improving corporate grip and capacity, defining some of the detail around the financial strategy, and clearly articulating the council's priorities to staff and partners. An Action Plan was also presented to Cabinet for follow up by the Chief Executive.

Regulatory and quality inspections (CQC and Ofsted) have taken place during 2018/19 with one inadequate judgement for Walnuts Residential Home; actions were immediately put in place to address weaknesses and service improvements were recognised at a subsequent Ofsted inspection where the rating awarded was 'Good'.

The 2017/18 Annual Local Government & Social Care Ombudsman's Annual Review letter was received on 18 July 2018 and nine upheld complaints were reported to Audit Committee on 25 September 2018. There were no significant findings of maladministration to be reported to full Council.

Risk Management

All councillors and managers are responsible for ensuring threats and opportunities are considered in the decisions they take. MKC has in place a formally approved risk management strategy. That strategy sets out a corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations etc. in order to ensure opportunities are seized and delivered.

In support of the delivery of effective risk management arrangements, a corporate risk management system GRACE is used to capture all relevant corporate / directorate and project related risks.

A new risk management approach was implemented in early 2019 and strategic risks were reviewed to reflect the new Council structure. Risks are reviewed on a quarterly basis by CLT and reported into the Audit Committee. The new approach needs embedding throughout the organisation (2018/19 AGS Action Plan refers).

Update on 2017/18 significant governance issues

The 2017/18 AGS included four significant issues which were to be implemented during 2017/18. Three actions are now closed and one action has been carried forward to the 2018/19 Action Plan.

Action	Status
Ongoing robust financial management and control remain essential to the management and delivery of services. This must be supported by a robust processes and systems; the implementation of the new	ERP remains a focus for Internal Audit and the external audit of accounts for 2018/19 will provide a very clear measure for the levels of assurance derived from the system. This action is closed and replaced with a revised, ongoing

ERP system is critical to successful financial management and remains as a significant risk (see issue 4 below).	oversight of ERP through 2019/20 with the new AGS Action Plan.
The initial outcome of the LGSS Business Model review is expected in the summer of 2018. The specific proposals will need to be discussed with the sovereign partners and agreed within MKC before being approved at the LGSS Joint Committee. Once agreed any changes will need to be incorporated into an action plan that can be monitored at CLT.	A new LGSS business model has been proposed ('lead authority model' whereby a lead authority is identified for each service area). A new shared services model will be implemented throughout 2019/20. This action is closed and replaced with a revised action in the new AGS Action Plan.
The revised Code of Corporate Governance should be put to Cabinet for approval and then rolled out across the Council. In addition, the revised Code of Corporate Governance could have implications to key governance policies, including the Constitution and these will need to be reviewed to ensure they remain aligned and fit for purpose, as well supporting effective operational service delivery and transparent and effective governance.	ONGOING: The Code of Conduct approved at Audit Committee on 28 March 2017 needs to be refreshed and submitted to Audit Committee and subsequently submitted to Cabinet for approval.
On-going monitoring of ERP issues and their resolution by MKC in association with the other LGSS partners and LGSS Executive.	Combined with first action above.

2018/19 Significant Governance Issues

It is important to draw a distinction between an issue or incident that highlights governance issues and systemic governance weaknesses, for example, contract management found to be unsatisfactory in one area does not necessarily identify poor contract management across all the Council.

Significant Issues arising in 2018/19 that are considered to have governance implications include:

1. ERP – the implementation of a new Finance system across three local authorities was an issue requiring substantial oversight and assurance throughout 2018/19.
2. LGSS – The change agenda for LGSS who currently deliver the key back office services for MKC. Various factors combined (eg NCC financial position) that prompted a review by the 3 owners (including MKC). Changes were agreed in March 2019 and implementation of those changes to better support Council services will be evident during 2019/20, which involves various potential governance implications.

3. Contract Management (including commissioning/procurement) – sufficient individual issues that arose in 2018/19 highlighted the importance of strong and effective contract management and governance. Strengthening contract management arrangements across the Council is a key action arising within this year's AGS.
4. Planning Services – where errors identified in processes to properly publish decision notices highlighted the need to commission an external independent review on a specific planning application (Blakelands). Improve the processes of control to provide additional assurances that decision notices were published correctly.

Forward Looking Issues

The purpose of this Statement is to reflect on the Governance arrangements for the 2019/20 financial year. At the time of writing the following are known issues that that have the potential to impact on the Governance arrangements at MKC:

- **Brexit:** no significant governance issues arise in respect of Brexit as these are documented and reviewed with individual Risk Register areas. The wider issues remain under review/observation.