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Introduction

Welcome to the Tees Valley Combined Authority's unaudited Annual Statement of Accounts for 2016/17. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The purpose of this narrative report is to provide a guide to the Authority's accounts as well as setting out the Authority's financial position.

The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region's Local Enterprise Partnership. The TVCA is responsible for a number of transport functions and economic development and growth across the combined area.

Balances were transferred from Stockton-on-Tees Borough Authority to the Combined Authority relating to Tees Valley Unlimited. 2016/17 was a transition year, preparing the organisation to undertake new responsibilities. A new Managing Director was appointed in July 2016 and a capacity review undertaken to reflect the increasing levels of responsibilities and funding including the transition to mayoral governance arrangements.

Strategy and Priorities

The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP), published in December 2016. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-

- **Business Growth:** Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth
- **Research, Development, Innovation & Energy:** Further enhance productivity in all core sectors through the commercialisation of knowledge;
- **Education, Employment & Skills:** Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
- **Place:** Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
- **Culture:** Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and
- **Transport & Infrastructure:** Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

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A set of indicative activities and output targets is identified within the Strategic Economic Plan (SEP) for the six priorities as well as an assessment of overall impact.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Combined Authority and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Combined Authority.

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

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.

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Combined Authority for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Financial Position As At 31 March 2017

Core Running Costs

Our financial position at the end of the financial year on core running costs is shown in the following table:

Core Running Costs	Budget	Actual	Variance
	£000s	£000s	£000s
Salary Costs	1,685	1,728	43
Other Non Staffing Expenditure	787	822	35
Total Expenditure	2,472	2,550	78
Opening Balances Transferred to TVCA	(1,055)	(1,055)	-
LA Contributions	(2,067)	(2,067)	-
Bank Interest	-	(96)	(96)
Total Income	(3,122)	(3,218)	(96)
General Fund Balance @ 31/03/17	(650)	(668)	(18)

The variance relates to external audit fees and transitional arrangements which have been funded from the generation of investment interest. The General Fund balance at year end was £0.668m. This includes £18k which was agreed to fund outstanding Due Diligence costs leaving an uncommitted balance of £0.650m, in line with that planned.

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Resource Position

Our investment in Tees Valley in 2016-17 was £44.2 million spent as detailed in the following table.

	Budget £000	Actual £000	Variance £000
Total Devolved Spend	24,437	23,399	(1,038)
Other Spend	20,945	20,827	(118)
TOTAL EXPENDITURE	45,382	44,226	(1,156)
Funded by:-			
Devolved Funding	(24,437)	(23,399)	1,038
Specific Grants	(20,945)	(20,827)	118
TOTAL FUNDING	(45,382)	(44,226)	1,156

There is £1.1m of net slippage compared to the expected position in 2016/17 which is as a result of spending being reprofiled into future years. In particular match funding for the ESF Youth Employment Initiatives, Apprenticeship Grant for Employers and expanding superfast broadband programmes of £3.5m has been offset by accelerated spending on the Local Growth Fund of £2.5m. Overall, spending is on track as part of the multi-year programme. The position will be further considered as part of the Investment Plan Review due to be considered by Cabinet at its September meeting

Development Fund

The Development Fund was created to provide upfront investment in feasibility work to ensure that when proposals come forward under the Strategic Economic Plan priorities they are sufficiently developed for decision making and to allocate funding. The balance on the Development Fund at 31 March 2017 is £3.315m, of which £1.496m is uncommitted.

Task Force Funding

In October 2015, we suffered the devastating loss of the SSI Redcar Steelworks, with the direct loss of 3,000 jobs, and many more affected in the wider supply chain. The SSI Task Force was established to offer help and support to those affected by the closure. The Task Force worked with government to put in place local packages of investment of which £13.305m was expended in 2016/17 to support both individuals and business affected by the closure and also to provide longer term wider economic benefits to the area.

Of the Task Force funding received to date there remains a balance of £29.204m at 31 March 2017 to provide continued economic support for those impacted by the closure.

Looking Ahead Including Future Funding Changes & Risks

Following detailed negotiations between the Tees Valley Local Authorities and Government, a devolution deal worth £450 million over 30 years was signed in October 2015. Equivalent to an additional £15 million per year, the deal also provides for the transfer of significant powers for employment and skills, transport and investment from Central Government to the Tees Valley. A new fund (the Single Pot) has been created to deliver a programme of investment in the region over the 30 year period. As part of the devolution deal a new Tees Valley Mayor has been elected in May 2017 to chair the Combined Authority and drive forward our ambitious plans.

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The Tees Valley Business Compass Service expanded on the existing Growth Hub arrangement during the latter part of 2016/17 and is being delivered by a third party under contract to the Combined Authority. The programme aims to support 1,025 SME's growth opportunities. The total amount of European funding available until the end of 2019 is £12.97m. This will also lever in co-investment from grant recipients of £19.2m.

The South Tees area is a complex site which needs careful oversight. It was therefore agreed with government in the devolution deal that the South Tees area would benefit from the first Mayoral Development Corporation outside London, to be established by the Combined Authority under new legal powers. The SSI-owned sites themselves create particular challenges. The government has made a formal commitment that no responsibilities will be transferred locally without appropriate and specific funding and has initially provided resources to ensure the safe management of the site. The Combined Authority will continue to work closely with the government to ensure liabilities and risks are managed effectively.

The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017. Investment will adhere to the single pot assurance framework agreed with government to ensure we are open and accountable for our decisions. It will be reviewed again in Autumn 2017. This revision will take into account progress over the next 6 months, including opportunities for further devolution and the development of our Sector Action Plans. The review will also be the first opportunity to reflect the priorities and manifesto of the incoming Mayor.

The Chancellor announced in the 2016 Autumn Statement that Mayoral Combined Authorities would be given the power to borrow to fund investment. Borrowing is expected to be subject to the "Prudential Code" which applies to all local authority borrowing. The powers which are expected to be in place during the latter part of next financial year and will be reflected in an updated Treasury Management Strategy to be agreed by Cabinet. Borrowing will be subject to a sound business case and provide opportunities to boost and bring forward investment enhancing the impact on the economic growth of the Tees Valley. The Combined Authority will only be able to borrow where we are able to generate a return from investment, or can assign future funding to fully fund the borrowing costs.

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. But there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. The outcome depends on the Brexit negotiations, and the choices that the government makes about how local economic development should be supported in this new environment.

Non Financial Performance

Key performance measures are as follows:-

- Apprenticeship Grant for Employers (AGE) - following the devolution of AGE Grant funding effective from August 2016 from central Government the Combined Authority has supported training for 765 apprentices.
- Careers and Enterprise Company Activity - the Enterprise Adviser Network programme has signed up 46 schools/ colleges already exceeding the target of 44 by August 2017, engaging with 7,242 Tees Valley young people aged 12-18 years old.

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- SSI Schemes – individuals have been supported in addition to those businesses covered under Business Compass below:-
 - Jobs & Skills - 363 jobs created
 - Retraining and removing barriers to employment - supported 2,061 former SSI and affected supply chain employees.
 - Enabled 51 former SSI apprentices to complete their apprenticeships with other employers.
 - Created 269 new business start ups by affected former employees.
- Business Compass – During the year the Growth Hub worked with over 750 companies to secure over £8.8m of new investment (including £6.1m of private sector match funding) which created over 300 new jobs and safeguarded 87 jobs. The increased European Funding has facilitated increased delivery capacity moving from 3 FTE advisor posts to 5 FTE in year (further increasing to 10 during 2017/18)

Borrowing and Lending Arrangements

During 2016/17, the Combined Authority had no powers to borrow for investment and therefore has no loans.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £77m. The average rate of return on investments was 0.23% and this has generated £180k in interest in the year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In terms of investment strategy, given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2017/18.

Retirement Benefits (IAS 19)

The Authority is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for Authority tax purposes.

AON Hewitt, an independent firm of actuaries, has calculated the Authority's net liability position as £1.714m on the Local Government Pension Scheme as at 31st March 2017. Employer's contributions to the pension fund during 2016/17 were charged at 19.8% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 21 of the Notes to the Core Financial Statements.

Further Information

Further information about our finances is available from the Combined Authority's website, <https://teesvalley-ca.gov.uk> or from the Chief Financial Officer, Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton-on-Tees, Tees Valley, TS17 6QY.

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Movement in Reserves Statement for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
<u>Movement in reserves during 2016/17</u>						
Total Comprehensive Income and Expenditure	87,149	-	-	87,149	(1,723)	85,426
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)	-	40,570	167	(167)	-
Increase/Decrease in Year	46,746	-	40,570	87,316	(1,890)	85,426
Balance at 31 March 2017 carried forward	46,746	-	40,570	87,316	(1,890)	85,426
General Fund analysed over:						
Amounts earmarked (Note 6)	46,078					
Amounts uncommitted	668					
Total General Fund Balance at 31 March 2017	46,746					

**Comprehensive Income and Expenditure Statement
for the year ended 31 March 2017**

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

	2016/17		
	£000s	£000s	£000s
	Expenditure	Income	Net
Business Growth	6,108	(14,129)	(8,021)
Research Development Innovation & Energy	1,631	(5,612)	(3,981)
Education Employment & Skills	4,558	(6,885)	(2,327)
Culture	25	-	25
Transport	20,602	(21,290)	(688)
Enabling Infrastructure	58	(6,679)	(6,621)
Project Development	1,258	(1,258)	-
Schemes Not in the Investment Plan	26,074	(35,291)	(9,217)
Core Running Costs	3,448	(18,601)	(15,153)
Cost Of Services	63,762	(109,745)	(45,983)
<i>Financing and Investment Income and Expenditure:</i>			
Net interest on the net defined benefit liability/asset	160	(130)	30
Interest receivable and similar income		(253)	(253)
<i>Taxation and Non-Specific Grant Income:</i>			
Non-ringfenced government grants	-	(373)	(373)
Capital grants and contributions	-	(40,570)	(40,570)
(Surplus) or Deficit on Provision of Services			(87,149)
Re-measurements of the defined benefit liability			1,723
Other (gains) and losses			-
Other Comprehensive Income and Expenditure			1,723
Total Comprehensive Income and Expenditure			(85,426)

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Balance Sheet as at 31 March 2017

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	31 March 2017 £000s
Non-current assets		
Long Term Debtors		5,013
Total non-current assets		<u>5,013</u>
Current assets		
Short term investments		48,056
Debtors	10	5,966
Cash and Cash Equivalents	11	<u>30,002</u>
Total current assets		84,024
Current liabilities		
Short Term Creditors	12	<u>(1,897)</u>
Total current liabilities		(1,897)
Long term liabilities		
Long Term Creditors		-
Other Long Term Liabilities	13 & 20	<u>(1,714)</u>
Total long term liabilities		(1,714)
Net Assets:		<u>85,426</u>
Reserves		
Usable reserves:		
General Fund Balance	1	668
Earmarked General Fund Reserves	6	46,078
Capital Grants Unapplied		<u>40,570</u>
		87,316
Unusable Reserves:		
Pensions Reserve	13 & 20	(1,714)
Accumulated Absences Account	5	<u>(176)</u>
		(1,890)
Total Reserves:		<u>85,426</u>

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Cash Flow Statement For The Year Ended 31 March 2017

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 contributions and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

	Note	2016/17 £000s
Net (surplus) or deficit on the provision of services		(87,149)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:		
Pension Fund adjustments		9
Increase/(Decrease) in Revenue Debtors	10	5,966
(Increase)/Decrease in Revenue Creditors	12	(1,897)
Increase/(Decrease) in Long Term Debtors		5,013
		<u>9,091</u>
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants credited to surplus or deficit on the provision of services		40,570
		<u>40,570</u>
Net cashflow from operating activities		(37,488)
Investing activities		
Purchase of short term and long term investments		48,056
Other receipts from investing activities		(40,570)
Net cashflow from investing activities		<u>7,486</u>
Net (increase) or decrease in cash and cash equivalents		(30,002)
Cash and cash equivalents at the beginning of the reporting period		-
Cash and cash equivalents at the end of the reporting period	11	<u><u>(30,002)</u></u>
The cashflow for operating activities includes the following items:		
Interest received		(191)
Interest paid		-

Note 1: Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Combined Authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2016/17		
	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s
Business Growth	43	(8,064)	(8,021)
Research Development Innovation & Energy	45	(4,026)	(3,981)
Education Employment & Skills	21	(2,348)	(2,327)
Culture	24	1	25
Transport	30	(718)	(688)
Enabling Infrastructure	-	(6,621)	(6,621)
Project Development	-	-	-
Schemes Not in the Investment Plan	72	(9,289)	(9,217)
Core Running Costs	(277)	(14,876)	(15,153)
Net Cost Of Services	(42)	(45,941)	(45,983)
Other Income and Expenditure	(626)	(40,540)	(41,166)
Surplus or Deficit	(668)	(86,481)	(87,149)
Opening General Fund Balance	-		
Less/Plus Surplus or (Deficit)	668		
Closing General Fund Balance at 31 March	668		

Note 1: Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	(2)	(8,062)	(8,064)
Research Development Innovation & Energy	-	-	(4,026)	(4,026)
Education Employment & Skills	-	(1)	(2,347)	(2,348)
Culture	-	(1)	2	1
Transport	-	-	(718)	(718)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
SSI Tsk Force Funding	-	(2)	(9,287)	(9,289)
Core Running Costs	-	(33)	(14,843)	(14,876)
Net Cost Of Services	-	(39)	(45,902)	(45,941)
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(40,570)	(9)	(45,902)	(86,481)

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: this is the 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 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.

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The 2016/17 Code of Practice includes amendments to the following accounting standards that have not been adopted within this Statement of Accounts:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The Authority does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

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

As far as Value Added Tax is concerned the Government's usual intention is to ensure that the Combined Authority like other local authorities should not bear any additional costs from VAT and that HMRC would not incur costs or make savings as a result of the policy. The policy would have no impact for the Exchequer. However, powers under Section 33 of the VAT Act 1994 were not put in place by the Department for Communities and Local Government or HM Treasury to enable the Combined Authority to fall under these arrangements until 7 November 2016. As a consequence £610k of unrecoverable VAT has been charged against service accounts for the period 1 April to 6 November 2016. Discussions are on-going with DCLG and Treasury regarding this position

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

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

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. Sensitivities are included in Note 20.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2016/17	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(40,570)		40,570	-
Adjustments involving the Pensions Reserve	(9)			(9)
Adjustments involving the Accumulated Absences Adjustment Account	176			176
Total Adjustments	(40,403)	-	40,570	167

Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

Earmarked Reserves	Balance at 31 March 2016 £000s	Transfers Out 2016/17 £000s	Transfers In 2016/17 £000s	Balance at 31 March 2017 £000s
Revenue Reserves				
Development Pot	-	141	(2,300)	(2,159)
Investment Fund	-	6,063	(27,650)	(21,587)
SSI	-	10,306	(32,638)	(22,332)
Total Revenue Reserves	-	16,510	(62,588)	(46,078)

Note 7: Capital Adjustment Account

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

	2016/17	
	£000s	£000s
Balance at 1 April		-
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Revenue expenditure funded from capital under statute	28,339	28,339
Capital financing applied in the year:		
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(28,339)	(28,339)
Balance at 31 March		-

Note 8: Members' Allowances

Details of the amounts paid to each elected member of the Authority are published annually. Elected members from the constituent local authorities sit on various TVCA boards and the no payments were made to these members during 2016/17.

Note 9: Employee remuneration

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	Number of Employees	
	2016/17	2015/16
	Authority	Authority
£50,001 - £55,000	-	-
£55,001 - £60,000	-	-
£60,001 - £65,000	-	-
£65,001 - £70,000	-	-
£70,001 - £75,000	-	-
£75,001 - £80,000	-	-
£80,001 - £85,000	-	-
£85,001 - £90,000	-	-
£90,001 - £95,000	-	-
£95,001 - £100,000	-	-

Remuneration of the Managing Director and his senior staff has been excluded above. Details are shown in the following table.

Remuneration of Senior Employees							
Post holder information	Salary (Including fees & Allowances)	Expense Allowances	Benefits in kind	Total Remuneration excluding pension contributions 2016/17	Pension contributions	Total Remuneration including pension contributions 2016/17	Total Remuneration including pension contributions 2015/16
	£	£	£	£	£	£	£
<i>Managing Director</i>	100,161	559	-	100,720	8,694	109,414	-
<i>Strategy Director</i>	91,932	651	-	92,583	18,202	110,785	-
<i>Investment Director</i>	21,619	158	-	21,777	4,280	26,057	-
<i>Business Director</i>	91,932	964	-	92,896	18,202	111,098	-
<i>Head of Skills Education & Employment</i>	17,078	-	-	17,078	3,381	20,459	-
<i>Head of Culture & Tourism</i>	16,993	-	-	16,993	3,620	20,613	-
<i>Head of Transport</i>	5,827	-	-	5,827	1,154	6,981	-
<i>Head of Homes & Communities</i>	31,142	-	-	31,142	6,166	37,308	-
	376,684	2,332	-	379,016	63,699	442,715	-

Only three of the senior employee posts have been in employment of the organisation for the full financial year. These being the Managing Director, Strategy Director and Business Director. All other employees commenced employment at various stages of the year.

The Chief Finance Officer and Monitoring Officer are both employees of Stockton On Tees Borough Council and do not receive any direct remuneration from TVCA for this role.

Note 10: Debtors

	31 March 2017
	£000s
Central Government	1,372
Local Government	4,500
Other entities and individuals	94
	<u>5,966</u>

Note 11: Cash and Cash Equivalents

	31 March 2017
	£000s
Bank and Imprests	2,996
Cash Equivalents	27,006
	<u>30,002</u>

Note 12: Short Term Creditors

	31 March 2017
	£000s
Central Government	(59)
Local Government	(1,474)
Other entities and individuals	(364)
	<u>(1,897)</u>

Note 13: Other Long Term Liabilities

	31 March 2017
	£000s
Net pensions liability	(1,714)
	<u>(1,714)</u>

Note 14: Related Party Transactions

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

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from government departments are set out in the subjective analysis in Note 18.

Members

Members of the Authority have direct control over the Authority’s financial and operating policies. The total of members’ allowances paid in 2016/17 is shown in Note 8. During 2016/17, there were no related part transactions between Authority members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

No elected member or senior officer of the authority sit on any board or management committee of any entities which are significantly controlled or influenced by the authority.

TVCA Constituent Authorities

The Leaders and Elected Mayor of the five TVCA constituent Authorities serve as members of the TVCA Leadership Board. Details of income and expenditure with the five Authorities are set out in the table below.

2016/17	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,832	4,844
Middlesbrough Borough Council	4,590	6,994
Redcar & Cleveland Borough Council	4,895	3,235
Hartlepool Borough Council	2,582	2,941
Darlington Borough Council	3,431	3,808
Total	20,330	21,822

Note 15: External Audit Costs

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

	2016/17 £000s
Fees payable to Mazars LLP with regard to external audit services	30
Fees payable to Mazars LLP for the certification of grant claims	-
Fees payable in respect of other services provided by Mazars LLP	-
	<hr/> 30 <hr/>

Note 16: Leases

Operating leases: Authority as lessee

From the 1st January 2017 the Authority took on the lease of the third floor of Cavendish House. The new lease is for a term of 10 years. The minimum lease payments due in future years are:

Future minimum lease payments due	2016/17 £000s
Not later than one year	134
Later than one year & not later than five years	608
Later than five years	722
	<hr/> 1,464 <hr/>

Note 17: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below 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 bottom part of this note.

	31 March 2017 £000s
Opening Capital Financing Requirement	-
Capital investment	
Revenue expenditure funded from capital under statute	28,339
Sources of Finance	
Government grants and other contributions	(28,339)
Closing Capital Financing Requirement	<hr/> - <hr/>

Note 18: Grant Income

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

	2016/17 £000s
Credited to Taxation and Non Specific Grant Income	
Local Growth Fund	28,479
SSI	6,872
Growing Places	4,063
Lep Core	368
Development Pot	1,156
Other Grants	5
Total	40,943
Credited to Services	
Local Growth Fund	246
SSI	10,307
Lep Core	1,089
ERDF Business Compass	339
AGE	982
DECC - City Deal / Carbon	480
ERDF / ESF Technical Assistance	55
Other Grants	58
Total	13,556

Note 19: Financial Instruments

Categories of Financial Instruments

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

	<u>Long Term</u> <u>31 March 2017</u> <u>£000s</u>	<u>Current</u> <u>31 March 2017</u> <u>£000s</u>
Loans and receivables	5,013	77,062
Financial assets carried at contract amounts	-	5,812
Total financial assets	5,013	82,874
Financial liabilities carried at contract amount		(1,721)
Total financial liabilities		(1,721)

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

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

Mark to Model Valuation for Financial Instruments

As at 31st March the Authority held £87.9m financial assets and had no financial liabilities. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Management Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

Loans and receivables

	<u>31 March 2017</u>	
	<u>Carrying</u> <u>Amount</u> <u>£000s</u>	<u>Fair</u> <u>Value</u> <u>£000s</u>
Money Market Loans < 1 year	50,056	50,056
Other Loans >1 year	5,013	5,013
Cash on Deposit	27,006	27,006
Customers	5,812	5,812
Total loans and receivables	87,887	87,887

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 19: Financial Instruments

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Authority's activities expose it to a variety of financial risks; the key risks are:

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Authority
- **liquidity risk** – the possibility that the Authority might not have funds available to meet its commitments to make payments
- **re-financing risk** – the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- **market risk** – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risks

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

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

These are required to be reported and approved at or before the the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit Committee.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Authority's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £21,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

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

Note 19: Financial Instruments

	Amount at 31 March 2017	Historical experience of default	Adjustment for market conditions at 31 March 2017	Estimated maximum exposure to default at 31 March 2017
	£000s	%	%	£000s
AA rated counterparties	-	0.03%	0.03%	-
A rated counterparties	35,000	0.06%	0.06%	21
B rated counterparties	0	0.18%	0.18%	-
Local Authorities	15,000	0.00%	0.00%	-
Debtors	5,812	0.00%	0.00%	-
				21

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

Liquidity Risk

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

The Authority is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2016, all of the Authority's deposits were due to mature within 364 days.

Refinancing and Maturity risk

The Authority maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits placed on investments are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk

Interest Rate Risk: *The Authority is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Authority, depending upon how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:*

- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

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

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2016/17 £000s
Increase in interest receivable on variable rate investments	301
Impact on (Surplus) or Deficit on the Provision of Services	301

Note 19: Financial Instruments

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk: *The Authority, excluding the pension fund, does not invest in equity shares or marketable bonds.*

Foreign Exchange Risk: *The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 20: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

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 Authority resources 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 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:

Note 20: Defined Benefit Pension Schemes

	Local Government Pension Scheme
	2016/17
	£000s
Comprehensive Income and Expenditure Statement	
Cost of Services:	
• Current service cost	366
• Past service cost	-
Financing and Investment Income and Expenditure	
Net interest cost	30
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	396
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
• Return on plan assets (excluding the amount included in the net interest expense)	(787)
• Actuarial gains and losses arising on changes in financial assumptions	1,434
• Actuarial gains and losses due to liability experience	-
• Actuarial gains and losses due to acquisitions	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	647
Movement in Reserves Statement	
Reversal of net charges made to the (Surplus) or Deficit for the	
• Provision of Services for post employment benefits in accordance with the Code	(396)
Actual amount charged against the General Fund Balance for pensions in the year:	
• Employers' contributions payable to scheme	405
• Retirement benefits payable to pensioners	12

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme
	2016/17
	£000s
Present value of defined benefit obligation	(6,715)
Fair value of plan assets	5,001
Net liability recognised in the Balance Sheet	(1,714)

Note 20: Defined Benefit Pension Schemes

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

	Local Government Pension Scheme
	2016/17 £000s
Opening fair value of scheme assets	3,578
Interest income	130
Remeasurement gains and (losses)	787
Contributions from the employer	405
Contributions from employees into the scheme	113
Net increase from acquisitions	-
Benefits paid	(12)
Closing balance at 31 March	5,001

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme
	2016/17 £000s
Opening balance at 1 April	4,654
Current service cost	366
Interest cost	160
Contributions by scheme participants	113
Actuarial gains and losses - financial assumptions	1,434
Actuarial gains and losses - liability experience	-
Benefits paid	(12)
Net increase from acquisitions	-
Past service cost	0
Closing balance at 31 March	6,715

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	
	2016/17	
	£000s	%
Equity investments (Quoted)	4,001	80.0%
Property (Quoted)	345	6.9%
Government Bonds	10	0.2%
Corporate Bonds	10	0.2%
Cash	560	11.2%
Other Investments	75	1.5%
	5,001	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Note 20: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2016/17
Mortality assumptions:	
<i>Longevity at 65 for current pensioners:</i>	
Men	22.8
Women	24.9
<i>Longevity at 45 for future pensioners:</i>	
Men	25.0
Women	27.2
Other assumptions:	
<i>Rate of inflation (RPI)</i>	3.1%
<i>Rate of inflation (CPI)</i>	2.0%
<i>Rate of increase in salaries</i>	3.0%
<i>Rate of increase in pensions</i>	2.0%
<i>Rate of Pension accounts revaluation rate</i>	2.0%
<i>Rate for discounting scheme liabilities</i>	2.6%
<i>Take-up of option to convert annual pension into retirement lump sum</i>	80.0%

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

Impact on the Defined Benefit Obligation in the Scheme

	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	6,517	6,715	6,915
Rate of increase in salaries (increase or decrease by 0.1%)	6,784	6,715	6,647
Rate of increase in pensions payment (increase or decrease by 0.1%)	6,820	6,715	6,612
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	6,545	6,715	6,890

Impact on the Authority’s Cash Flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority anticipates to pay £0.257m contributions to the scheme in 2017/2018.

The weighted average duration of the defined benefit obligation for scheme members is 25.7 years.

Note 21: Termination Benefits

The Authority terminated the contract of one employee in 2016/17, incurring liabilities of £3k. The amount has been payable to an officer from the Authority reflecting the end of specific grant funding.

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

Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band
	2016/17	2016/17	2016/17	2016/17 £000s
£1 to £20,000	1	-	1	3
Total	1	-	1	3

Note 22: Provisions

The Authority has not been required to establish any provision's in year.

Note 23: Contingent Liabilities

The Authority has no contingent liabilities

Note 24: Post Balance Sheet Events

The Authority has no post balance sheet events to report.

Note 25: Statement of Accounting Policies

General Principles

The Statement of Accounts summarise the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

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

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:

- Income 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.
- Income from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than 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 Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Employee Benefits

Benefits Payable During Employment

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

Note 25: Statement of Accounting Policies

Post Employment Benefits

Employees of the Authority are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Authority.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority and its predecessor.

The Local Government Pension Scheme

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

- The liabilities of the Teesside Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities* – current bid price
 - unquoted securities* – professional estimate
 - unitised securities* – current bid price
 - property* – market value.

The change in the net pensions liability is analysed into 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 in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability: i.e. net interest expense for the Authority - the change during the period in the net defined benefit liability 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.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses*: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Events after the Reporting Period

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

Note 25: Statement of Accounting Policies

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

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Government Grants and Contributions

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

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

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

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

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.

Operating Leases

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

Overheads and Support Services

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

Note 25: Statement of Accounting Policies

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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities & Contingent Assets

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. 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 liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

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

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 25: Statement of Accounting Policies

Fair Value Measurement

The Authority measures some of its non-financial assets, and some of its financial instruments 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

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

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- 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.

Responsibilities for the Annual Financial Statements

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

G Cummings CPFA
Chief Financial Officer

Date: 30 June 2017

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

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Glossary of Terms

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge

A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency

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

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

Glossary of Terms

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long term contract balances; and
- f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a 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 different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Non Current Assets

Glossary of Terms

Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets

Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease

A lease other than a finance lease.

Operational Assets

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

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Glossary of Terms

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves

Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".