



Name of meeting: Corporate Governance and Audit Committee
Date: 17th November 2017
Title of report: Approval of the Council's final accounts for 2016-17

Purpose of the report

The report updates Members on the final accounts and audit processes for 2016-17 and asks Members of this Committee to approve the Council's Statement of Accounts for 2016-17

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	No
The Decision - Is it eligible for call in by Scrutiny?	No
Date signed off by Director & name	Debbie Hogg - 8 November 2017
Is it also signed off by the Service Director for Finance, IT and Transactional Services?	Yes, as above
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft - 8 November 2017
Cabinet member portfolio	Cllr Graham Turner Cllr Musarrat Khan

Electoral wards affected: Not applicable
Ward councillors consulted: Not applicable
Public or Private: **Public**

1. Summary

- 1.1 The draft accounts for 2016/17 were signed on 26 May 2017 by the Council's Service Director for Finance, IT & Transactional Services.
- 1.2 The six week public inspection period for the draft accounts 2016/17 ran from 5 June to 14 July 2017. There were two objections raised by local electors in this period.

Both objections were subsequently formally accepted by the Council's auditors, KPMG.

- 1.3 KPMG reported to the Corporate Governance & Audit Committee on 4 August 2017 that In light of the estimated length of time it was likely to take for KPMG to investigate, conclude and report on any objections raised during the public inspection period, KPMG did not expect to be in a position to complete their 2016/17 audit and provide an audit opinion, before the 30 September 2017 statutory deadline.
- 1.4 The current position is that work is ongoing by KPMG to resolve the objections, and KPMG will conclude its audit once the objections have been resolved, and then issue its audit certification at that point. However, KPMG notes that it has obtained sufficient evidence to conclude that the accounts for 2016/17 are not materially mis-stated, and that as a result, KPMG expects to give an unqualified audit opinion on the financial statements.
- 1.5 The Auditor's value for money conclusion acknowledges that in all other areas other than Children's services, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2016/17. KPMG also acknowledge that the Council is making progress in implementing the improvements required by the November 2016 Ofsted report, which had concluded that the Council's Childrens Services were inadequate.
- 1.6 On the basis of the above, KPMG intend issuing an 'except for' qualified value for money conclusion in relation to the Council's use of resources in 2016/17, highlighting the Ofsted November 2016 report.

2 Information required to take a decision

This report includes the following Appendices :

Appendix A - Statement of Accounts 2016/17

Appendix B – Respresentation Letter of Kirklees Council

- 2.1 The draft accounts for 2016/17 were signed on 26 May 2017 by the Council's Service Director for Finance, IT & Transactional Service. This was 11 days earlier than last year, and within the new statutory sign-off deadline of 31 May which comes into effect from 2017/18 onwards.
- 2.2 The draft accounts have been available to view on the Council's website, together with a summary version which aims to remove many of the technicalities of the full accounts and provide a simplified statement on the Council's financial position. The web link to both documents is shown below.

[Budget and accounts | Kirklees Council](#)

- 2.3 The six week public inspection period for the draft accounts 2016/17 ran from 5 June to 14 July 2017. During this period, local electors could ask the auditor questions about or raise objections to items in the accounts.
- 2.4 There were two objections raised by local electors in this period. One related to the lawfulness of the Council's Lender Option Borrower Option loans (LOBO's) on the Council's balance sheet. The second related to the lawfulness of three of the Council's Private Finance Initiative schemes; two schools related and one housing related. Both objections were formally accepted by the Council's auditors, KPMG.
- 2.5 KPMG reported to Corporate Governance & Audit Committee on 4 August 2017 that in light of the estimated length of time it was likely to take for KPMG to investigate, conclude and report on any objections raised during the public inspection period, KPMG did not expect to be in a position to complete their 2016/17 audit and provide an audit opinion, before the 30 September 2017 statutory deadline.
- 2.6 KPMG have now issued their annual external audit report (ISA 260). The report summarises significant findings, conclusions and recommendations arising from audit work throughout the year and this report is a separate item on this Committee agenda.
- 2.7 KPMG note that there were no material mis-statements, but that there were two non-material but significant audit differences; one relating to the categorisation of a liability of £1.4m as a provision; the other relating to the value included in the accounts relating to Council Dwellings, which was over-stated by £7.3m.
- 2.8 KPMG also noted that the West Yorkshire Pension Fund Auditor reported that Fund assets were understated by £44.3m as at 31 March 2017. Based on the Council's share of the Pension Fund, the estimated impact is that the Council's Pension Fund net liability is overstated by £5m. Again, KPMG noted that while this was considered significant, it was not material.
- 2.9 A copy of the annual Representation Letter from the Section 151 Officer and the Chair is included at Appendix B. The letter notes that the auditor's adjustments have been considered but because they are not material, the final accounts have not been amended.
- 2.10 The auditor's report also notes that work on resolving the two objections is ongoing, is a lengthy process, and that once they have been resolved, KPMG will conclude its audit and then issue its audit certification.
- 2.11 However, KPMG notes that it has obtained sufficient evidence to conclude that the accounts for 2016/17 are not materially mis-stated, and that as a result, KPMG expects to give an unqualified audit opinion on the financial statements.
- 2.12 The auditor's report also includes significant findings in respect of its controls work which was completed earlier in the year; in particular regarding the Council's SAP IT system controls and resulting seven key recommendations. The Council's IT service

commenced work on all seven recommendations and it is anticipated that all will be completed by December 2017.

2.13 The Auditor's report also includes an annual Value For Money (VFM) conclusion on whether or not the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. KPMG intend issuing an 'except for' qualified value for money conclusion in relation to 2016/17, highlighting the November 2016 Ofsted findings on Childrens Services. The Ofsted report had concluded that the Council's Children's Services were inadequate.

2.14 The Auditor's value for money conclusion acknowledges that in all other areas other than Children's services, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2016/17. It also acknowledges that the Council is making progress in implementing the improvements made in required by the November 2016 Ofsted report and follow up Commissioner's report.

3 Implications for the Council

Council funds support the delivery of the following Council objectives and priorities :

- 3.1 Early Intervention and Prevention (EIP)
- 3.2 Economic Resilience (ER)
- 3.3 Improving Outcomes for Children
- 3.4 Reducing demand of services

The responsibility for approving the Statement of Accounts and any accompanying documentation is delegated to this Committee.

4 Consultees and their opinions

The main consultation has been with KPMG leading to their report.

5 Next steps

The 2016/17 accounts and audit certification will be formally published on the Council, website, once the Auditor has concluded the audit and issued a formal certification.

6 Officer recommendations and reasons

Corporate Governance and Audit Committee are recommended to :

- (i) approve the Statement of Accounts 2016/17 (Appendix A), with the Chair certifying the Statement of Responsibilities on page 16.
- (ii) approve the Letter of Representation (Appendix B), with the Chair signing it on behalf of the Committee.

7 Contact officer

Eamonn Croston Head of Finance & Accountancy 01484 221000

8 Background Papers and History of Decisions
Accounts and Audit Regulations 2015

9 Service Director responsible
Debbie Hogg 01484 221000

KIRKLEES COUNCIL

STATEMENT OF ACCOUNTS 2016/2017

D Hogg
Service Director - Finance, IT and Transactional Services
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Huddersfield
HD1 1WG

	Page
<u>Narrative Report</u>	2
<u>Statement of Responsibilities and Certificate</u>	16
<u>Main Financial Statements</u>	
Comprehensive Income and Expenditure Statement (followed by the Expenditure and Funding Analysis)	17
Statement of Movement in Reserves	20
Balance Sheet	21
Cash Flow Statement	22
<u>Notes to the Main Financial Statements</u>	
Index to Notes	23
Disclosures	24
<u>Additional Financial Statements</u>	
Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance	92
Collection Fund	98
<u>Group Accounts</u>	
Introduction	101
Group Comprehensive Income and Expenditure Statement	103
Group Statement of Movement in Reserves	104
Group Balance Sheet	105
Group Cash Flow Statement	106
Notes to the Group Accounts	107
<u>Glossary of Terms</u>	110
<u>Audit Opinion</u>	114
<u>Annual Governance Statement</u>	117

Foreword

I am pleased to introduce the Council's Statement of Accounts for the year ended 31 March 2017.

The preparation of the Statement of Accounts is a statutory requirement and local authorities are currently required to have them signed by the section 151 Officer by 30 June and published with an Audit Certificate by 30 September, following the end of the financial year.

From 2017/18, the statutory deadlines will move forward, and I will be required to have the Statement of Accounts signed by 31 May and published with an Audit Certificate by 31 July, following the end of the financial year.

I am very pleased to report that in early preparation for these more challenging deadlines, I actually signed our 2016/17 Statement of Accounts on 26 May. This is a tremendous achievement both for the finance staff involved and the wider organisation's commitment to supporting earlier sign-off.

The Council also publishes a number of other useful documents on its website, including the Corporate Plan. These documents, together with the Statement of Accounts, all help towards reporting on the Council's stewardship of public funds.

The annual statement of accounts is a very important document because it provides assurance to the public that Council funds have been properly accounted for, and this includes rigorous external validation by appointed auditors.

In the broader financial and economic context within which the Council operates, the annual statement of accounts should increasingly be viewed also as a key indicator of the extent of our Council's economic, effective and efficient use of resources, and overall financial health of the organisation.

This Council continues to operate in a challenging economic and financial climate, and this is forecast to continue at least for the next four years of our medium term financial plan, to 2021. There have been significant reductions in government grant funding to Council since 2010, whilst at the same time having to manage increased demand pressures on some of our most vulnerable residents, as well as managing the impact of cost of living increases over the period.

We have previously achieved this in ways which have largely avoided big reductions in frontline services.

However, by 2021 we estimate that the Council will need to make a further £104 million savings, and just over half of this, £54 million, needs to be delivered in 2017/18 alone. The scale of future savings required has meant a more fundamental review of everything the Council does and how it does it.

Our ambition is to be a 'New Council'. We are having to do things differently, and help people do more for themselves and each other. This means making some difficult choices that will unavoidably be noticed by the people and communities of Kirklees.

The Council has to live within its means not just for today, but for the foreseeable future. Our approved budget plans reflect our New Council ambition, but there is more to do.

Acknowledgements

I wish to thank colleagues in Finance for their hard work, commitment and skill in completing this Statement of Accounts and all the supporting information by 26 May. I also want to thank colleagues across the organisation and partner organisations for their collective commitment to support the finalisation of the draft accounts by 31 May, a year earlier than required for the new statutory deadlines. This gives me absolute confidence and reassurance about our ability and readiness to continue to deliver within statutory deadlines going forward.

Debbie Hogg
Service Director - Finance, IT and Transactional Services

Introduction to Kirklees



Digley Reservoir, Holmfirth

The Council serves one of the larger Districts in England and Wales, both in terms of population and geographical area and this, along with other key characteristics of the Kirklees District, are summarised below:

- Kirklees is home to **434,300 residents**, and this figure is projected to increase by 6% overall to 461,500 by 2025; this includes a 21% projected increase in ages 65 and over to 88,424.
- **Kirklees ranks eleventh out of 348 districts** in terms of population in England and Wales.
- **Population by ethnic group**; 79%* White, 16% Asian or British Asian, 5% Other (*England & Wales average 86%).
- **3rd largest metropolitan district in area** covering 157 square miles.
- **173,000 households**, of which about 67% are owner occupied, and 12% Council rented. Households are projected to increase 20% by 2037, to 210,000.
- **Manufacturing accounts for 16% of all employment in the District, double the** Great Britain average of 8%. The next largest employment sector in the District is health at 13%, retail and education both account for 11% of employment.
- **The average median gross weekly earnings for Kirklees residents is £381**; lower than the Great Britain average of £426.
- **69 Local Councillors serve 23 wards**; there remains no overall control in the Council following the 2016 May local elections.
- **83% of residents surveyed are satisfied with the local area as a place to live.**
- **Index of deprivation for Kirklees, 9% of the district's population live within areas which rank within the worst 10% in England** (the average for England is 10%).

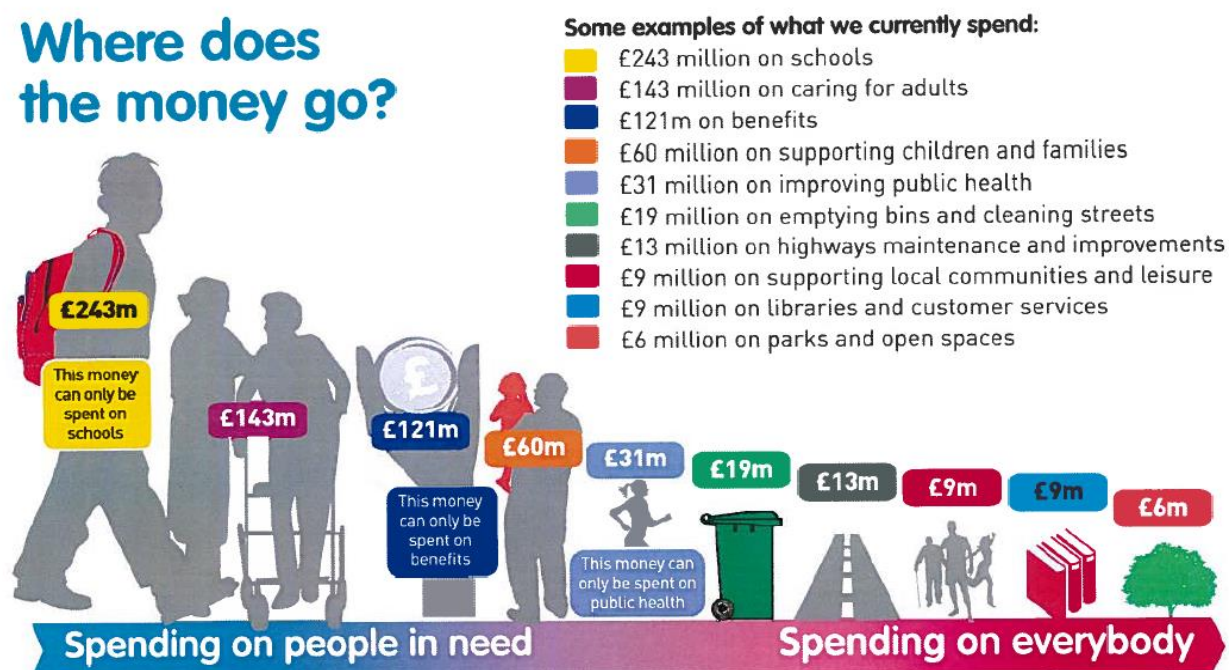
The Council

Kirklees' Services

The council's total spend



Where does the money go?



The Workforce

Below is a snapshot of total staff employed across non-schools and schools, as at 31 August 2016 (source Kirklees factsheets 2016):

	Full-time	Part-time	Total	Full time equivalent (fte)
Non-schools	4,052	4,028	8,080	6,234
Schools	2,608	5,590	8,198	5,639
Total	6,660	9,618	16,278	11,873

To put the above into perspective, the full time equivalent figure in 2010 was 14,003; this represents an overall reduction of over 2,000, or 15%, over the period.

Current approved budget plans anticipate a further reduction in full time equivalent numbers (non-schools) by about 869 (equivalent to 14%) over the 2017-21 period. In part, these reflect , illustrative reductions pending completion of service re-design work to support the Council's New Council ambition.

Council performance in 2016/17

The Council's annual Corporate Plan for 2016/17 set out a vision for a 'New Council' for the residents and communities of Kirklees:

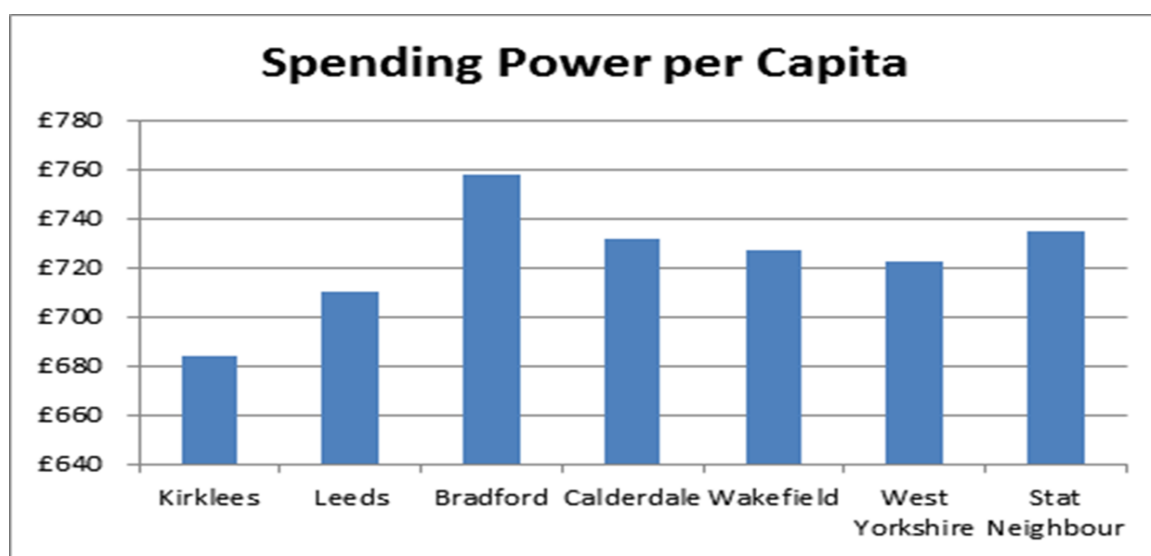
"a district which combines a strong, sustainable economy with a great quality of life - leading to thriving communities, growing businesses, high prosperity and low inequality where people enjoy better health throughout their lives".

To deliver this vision for the communities of Kirklees, we are clear about the type of Council we need to be. Being a New Council means:

- Enabling individuals and communities to do more for themselves and each other.
- Keeping vulnerable people safe and in control of their own lives.
- Focussing resources on things that only the Council can do.

This Council is already a low cost, low spend Council and has always focused on providing value for money for the residents of Kirklees. However, we know that resources are scarce, and will get scarcer.

The Government's own calculation of funding each Council has available, expressed as an amount per head of the population, places Kirklees as the 2nd lowest of the 36 metropolitan authorities, and 8th lowest overall in the Country, both in 2016/17 and following the most recent Government Funding Settlement for 2017/18 (the latter illustrated below):



The Council's performance management framework is intended to ensure that both our planning and our delivery are consistent with our vision and can demonstrate significant contributions to the Joint Health & Wellbeing Strategy and the Kirklees Economic Strategy.

This is to ensure that our services are planned, focused and delivered to meet community needs. Directorates are held to account throughout the year as to the progress they are making towards their delivery plans. Progress made across all services is summarised in an Annual Performance Report.

Of the areas regularly considered, 71% of the targets are achieved or "nearly" achieved (compares with 74% the previous year).

While progress across Council services over the year is generally positive, the Council also considers any mitigating and remedial action where services are off target or at risk.

Last year the Council had already identified a number of areas requiring improvement in Children's services. A Children's Services Development Board was subsequently established, chaired by the then Chief Executive, set up to drive the implementation of a development plan to address issues of inconsistent social work practice. A range of service improvements were progressed throughout 2016/17.

At the end of 2016 the Council received a report from Ofsted. An Inadequate opinion was given on local services for Children in need of help and protection, looked after children, care leavers, and the independent Safeguarding Children Board. The Ofsted judgement represented the lowest opinion.

Following the Ofsted report, the Government appointed a Commissioner to advise the Secretary of State for Education about the prospects for delivery of the required improvement within the designated timescale. At the time of writing, the outcome of the Commissioner's advice to the Secretary of State is still outstanding. The Council is strongly committed to ensuring significant progress in Children's service performance remains a key priority.

In addition to the above measures, significant parts of our services are inspected by other agencies, and we respond to any external inspection positively by learning from what they tell us.

Financial Performance in 2016/17

Service developments in year

There was significant additional revenue investment of £6.0 million in Children's Services during the year to support a range of key improvements. This includes capacity to support interim management arrangements, and additional volumes of work. Some of these measures are "one-off" investment, some will be recurrent. These service improvements are ongoing and have been supported by the Government appointment of an Independent Children's Commissioner to oversee these improvements. This follows the Ofsted inspection of the Council's Family & Safeguarding Service, which was reported to Cabinet on 28 November 2016 with an assessed rating of 'inadequate'.

During the year, there have been 11 schools that have converted to Academy status, two of which were church schools. Employees have been transferred to the new bodies together with assets valued at £40.0 million. These transfers have resulted in a reduction in revenue spending of £7.3 million and a corresponding amount of Dedicated Schools Grant.

The Council's building services staff (508 staff in total), transferred to the Council's arm's length housing management organisation, Kirklees Neighbourhood Housing Ltd (KNH), in October 2016. This was a preliminary step in advance of the formal transfer of the building services operation to KNH, from April 2017. The transferred staff were charged back to the Council on an agency basis for the period October 2016 to March 2017 (£7.8 million). The staff transfer also involved a corresponding transfer of net pension liability from the Council to KNH's balance sheet of £28.1 million. The Council ultimately underwrites 100% of the net pension liabilities of KNH.

Revenue – General Fund

The overriding context for the Council's Medium Term Financial Plan (MTFP) is continuing national funding reductions as part of Government's approach to reducing the national debt burden. The MTFP reflects a continued focus on developing options to deliver a New Council which includes specific priorities on Early Intervention and Prevention, and Economic Resilience.

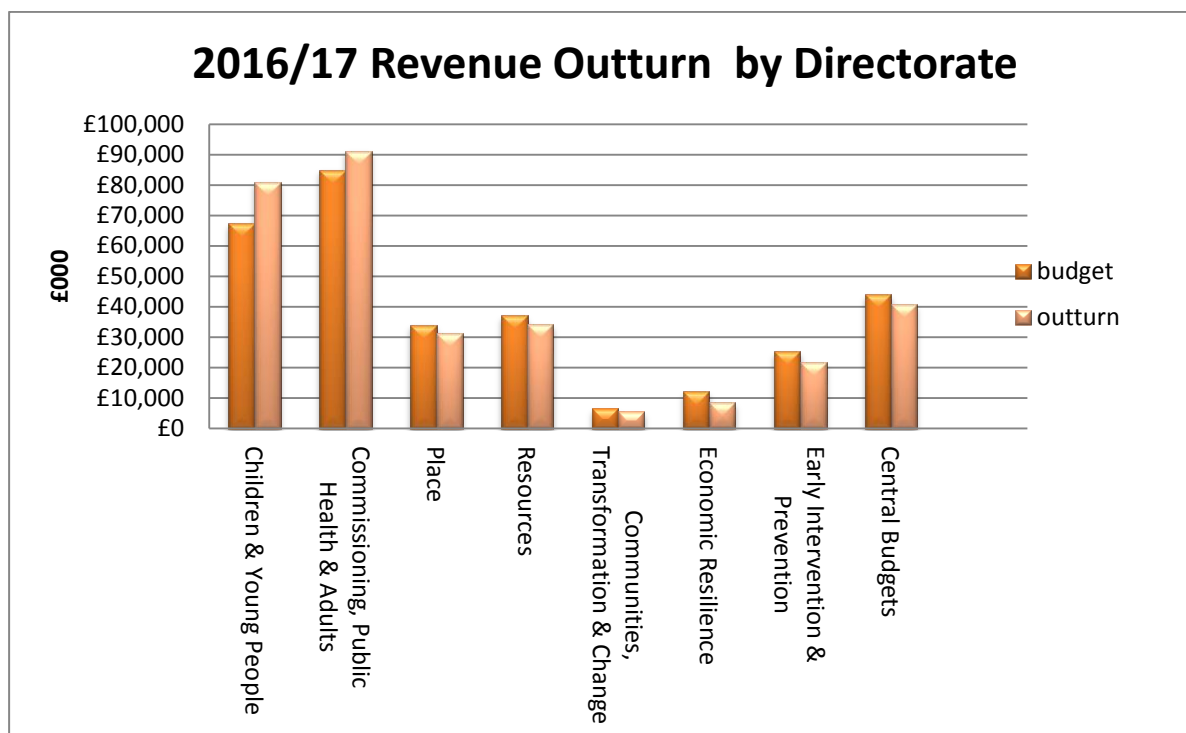
To achieve a balanced budget for 2016/17, Council approved budget plans included £3.2 million net revenue savings, with a further £19.8 million of reserves being used to meet the remaining funding gap in year.

The Net Revenue Budget for 2016/17 was £310.8 million, approved at Council on 17 February 2016.

There was a further approved (net) transfer from reserves to General Fund in-year, totalling £0.9 million. The revised budget in 2016/17 was £311.7 million.

The authority's net revenue spend totalled £314.4 million in 2016/17, as reported to Council on 7 July 2017.

The reported variance was an overspend of £2.7 million (compared to £5.8 million underspend in 2015/16). The actual spend to budget is summarised by department below:



Overall, the revenue outturn overspend of £2.7 million is equivalent to 0.8% variance against net revenue budget, and suggests reasonably sound overall financial management of budgets in-year.

However, there were a number of significant underlying service pressures, including volume pressures in the number of Looked after Children of £6.7 million, as well as additional revenue investment totalling £6.0 million during the year on a range of service improvements in Children’s services. There were also demand led pressures in Adult Social Care, £5.4 million mainly relating to Learning Disabilities.

The underlying service pressures above had been reported to Cabinet throughout 2016/17 through the quarterly financial monitoring reporting cycle. Significant additional resources have been added into Children’s and Adults base budget allocations from 2017/18; about £22 million in total, as part of the overall approved Council budget plans for 2017-21.

In-year service pressures above were largely offset through other Directorate underspends, including Place and Resources Directorates. This included a range of budget management actions to deliver early savings required in 2017/18. Early Intervention & Prevention, and Economic Resilience theme budgets ‘added back’ into 2016/17 budget plans, also remained largely uncommitted at year end, pending completion of major Cross-Directorate service re-design. Also, there were savings on Central Budgets, mainly relating to treasury management and contingency inflation not required.

The £2.7 million overspend was offset by General Fund Balances at year end.

Revenue – Housing Revenue Account (HRA)

The HRA is a ring-fenced account that holds all income and expenditure in relation to the provision of landlord services to about 23,000 tenancies. Landlord services are managed on the Council’s behalf by Kirklees Neighbourhood Housing Limited, an arm’s length management organisation, wholly owned by the Council.

In 2016/17, the HRA reported a revenue **surplus of £9.2 million**, compared to a budgeted target surplus of £2.9 million. This represented a favourable variance of £6.3 million, equivalent to 6.8% against annual turnover of £94.5 million. The surplus was added to HRA Balances.

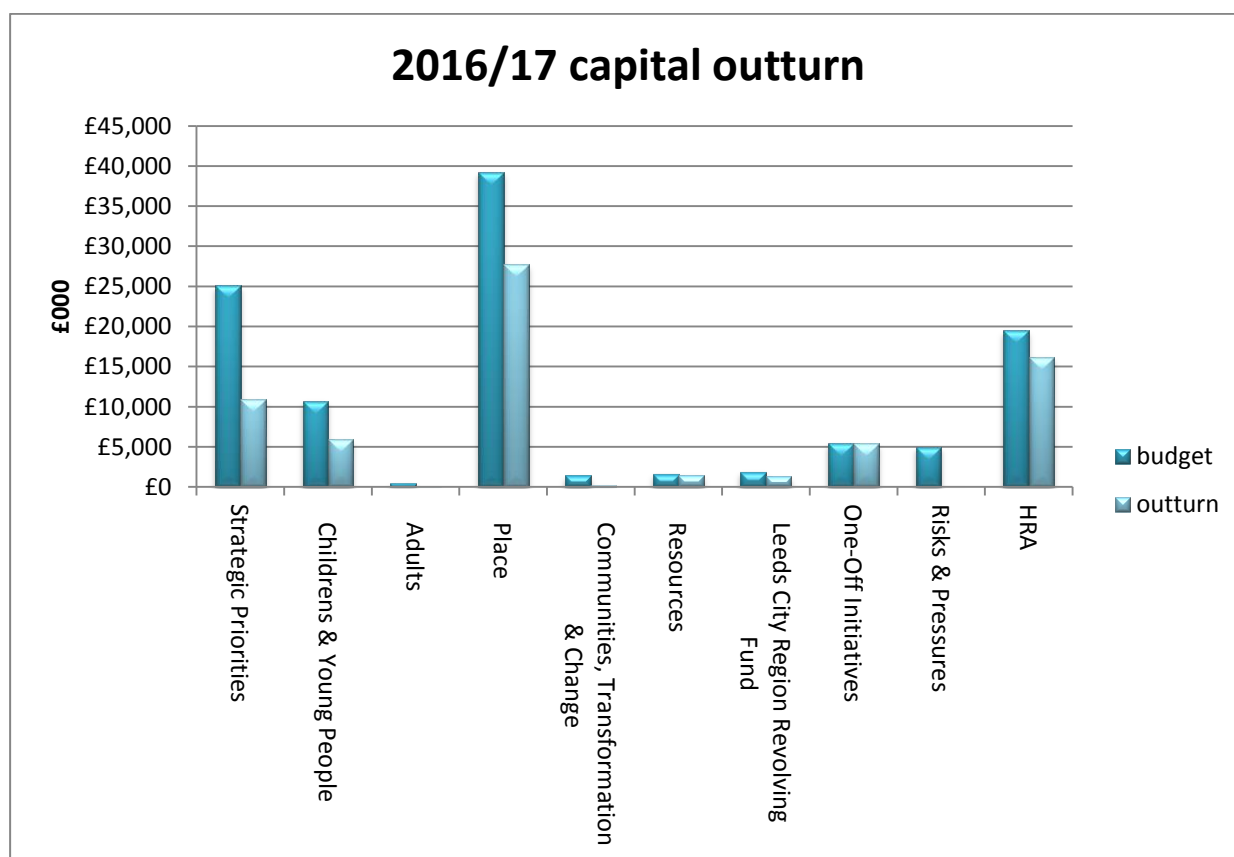
Capital expenditure

The capital budget, excluding PFI commitments, totalled **£110.5 million** in 2016/17. Actual capital expenditure was **£69.3 million** (2015/16 £75.1 million); an underspend of £41.2 million. PFI commitments totalled £1.5 million.

Capital expenditure in 2016/17 includes £5.4 million of transformation capital expenditure which will generate future savings for the Council. These would normally be treated as revenue costs but have been capitalised and financed by capital receipts under the Government’s “Flexible Use of Capital Receipts” policy.

The £41.2 million underspend largely reflects existing commitments and it is intended that £39.2 million be rolled forward into 2017/18 and incorporated into the updated 5 year capital plan 2017-22.

The expenditure in 2016/17, including PFI, is summarised by service area below :



The expenditure was funded by borrowing at £17.2 million, grants and contributions at £25.9 million, capital receipts at £10.5 million, Major Repairs Reserve (HRA) at £11.0 million, and revenue funding at £6.2 million.

Collection Fund

The Collection Fund separately accounts for income and expenditure relating to council tax by the billing authority. Council Tax and Business Rates are separate accounts held within the Collection Fund and cannot cross-subsidise each other.

Payments are made from the Collection Fund at the start of each year to the various precepting bodies i.e. West Yorkshire Police Authority and West Yorkshire Fire & Rescue Authority in relation to Council Tax, and West Yorkshire Fire & Rescue Authority and Central Government in relation to Business Rates. Payments are based on annual income estimates.

Actual income received in-year can vary from estimates, which normally results in there being either a deficit or surplus on Council Tax and Business Rates at each year end.

NARRATIVE REPORT
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Surpluses or deficits roll forward automatically through the Collection Fund, but the intention is that, these surpluses or deficits are ‘smoothed out’ over subsequent financial years, through corresponding payment adjustments, including the relevant precepting authorities and Central Government.

The Council's share of overall Collection Fund financial performance in 2016/17 is summarised below.

Collection Fund - Council Share	Council Tax	Business Rates
	£m	£m
(Surplus) / Deficit at 1 April 2016	(4.6)	5.0
(Surplus)/Deficit transfer to General Fund in 2016/17	3.9	(4.2)
In-year financial performance 2016/17	(2.3)	0.5
(Surplus) / Deficit at 31 March 2017	(3.0)	1.3

The Council's share of Council Tax surplus at 31 March 2017, at £3.0 million, plus the balance of £0.5 million surplus in relation to precepting authorities, will be shared out in future years.

Under the current Business Rates retention scheme, the Council retains a share (50%) of local Business Rates collected. Of this, 1% is paid over by the Council to the West Yorkshire Fire & Rescue Authority. The balance of 50% Business Rates collected locally is paid over to Central Government.

The Council's share of the Business Rates deficit as at 31 March 2017, at £1.3 million, will be recovered in subsequent years from the Council, plus the balance of £1.4 million deficit in relation to Central Government and West Yorkshire Fire and Rescue Authority. The Council is a top-up authority and is also part of a regional business rates pooling arrangement – Leeds City Region Business Rates Pool.

The percentage of Council Tax collected in year was 96.0% (2015/16 95.6%). The Council's share of the arrears outstanding as at 31 March 2017 was £10.7 million (31 March 2016 £11.6 million).

The percentage of Business Rates collected in the year was 96.5% (2015/16 96.9%). The Council's share of the arrears outstanding at 31 March 2017 was £2.5 million (31 March 2016 £2.3 million). In addition, there is a provision for Business Rates appeals outstanding, mainly relating to the 2010 Rates Valuation. The Council's share of this provision at 31 March 2017 is £4.2 million (31 March 2016 £4.2 million).

Balance Sheet

The table below summarises the balance sheet movements during 2016/17 and reveals that the Council maintains a strong balance sheet in terms of net assets and usable reserves.

	At March 2016	At March 2017	Movements in-year
	£m	£m	£m
Long Term Assets	1,671	1,539	-132
Net Current Assets	-15	-31	-16
Long Term Liabilities	-1,062	-1,080	-18
Net assets	594	428	-166
<i>Represented by :</i>			
Usable Reserves	-180	-167	13
Unusable Reserves	-414	-261	153

Assets

The value of property, plant and equipment has decreased during the year by £149.5 million to £1,362.3 million. The decrease is largely due to losses on the revaluation of council dwellings (£76.5 million) and disposals of assets (£55.3 million), including schools transferring to academy status. The loss on the revaluation of council dwellings has arisen due to different adjustment factors for social housing being applied in 2016/17. In addition, the Council had heritage assets and investment property valued at £49.6 million and £95.5 million respectively as at 31 March 2017 (2015/16 £37.2 million and £89.5 million). The increase in the value of heritage assets has arisen on items in the Council's fine art collection, in particular two LS Lowry paintings and a sculpture by Henry Moore.

Current assets increased by £1.6 million to £90.2 million. The Council's policy towards cash flow management is prudent and all deposits/investments in 2016/17 have been placed short-term with a view towards security and liquidity. As at 31 March 2017, the Council held investments of £31.3 million within "cash equivalents", that is highly liquid deposits with an insignificant risk of change in value (31 March 2016 £38.4 million).

Liabilities

Current liabilities increased by £17.9 million to £121.4 million, whilst long-term liabilities increased by £18.6 million to £1,080.6 million. As at 31 March 2017, the Council had total provisions (long term and short term) of £14.2 million (31 March 2016 £15.5 million). Total external borrowing during the year increased from £429.3 million to £442.9 million. There was no new long term borrowing taken in the year, but short term borrowing increased by £21.5 million. In June 2016, the Council received deed polls from a lender stating that it would not exercise its options to increase interest rates on £30.0 million of Lender Option, Borrower Option loans (LOBOs) held by the Council. This effectively makes the loans fixed rate maturity loans.

The average interest rate for external borrowing for 2016/17 was 4.78% (2015/16 4.95%).

Other long term liabilities also contains a net pensions liability of £556.3 million (31 March 2016 £522.9 million). This represents an actuarial assessment of the Council's share of the pension fund assets and the underlying commitment of the Council to pay future retirement benefits. The increase in net liabilities largely reflects the effects of the full triennial valuation the Local government Pension Scheme carried out in 2016, net of a decrease of £32.0 million due to liabilities arising from staff transferring to KNH and academies.

Whilst the pensions liability figure is substantial it should be remembered that:

- It is not an immediate deficit that needs to be met now. The sum is the current assessment taking a long-term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement.
- It is not a situation unique to Kirklees Council or local authorities generally. There is a national problem for pension funds in both public and private sectors.
- The West Yorkshire Pension Fund is regularly reviewed and provision has been made for additional contribution to address the deficit over a period of years.
- Employee contribution rates may change as may the method of calculating accrued benefits and therefore, liabilities.

The net liability is matched by an appropriate accounting entry under Reserves.

Balances and Reserves

General Fund Balances at 31 March 2017 was £90.1 million (31 March 2016 £113.2 million), a net reduction of £23.1 million. These Balances include £79.4 million that has been earmarked for particular purposes, including a £28.0 million Risk Reserve covering a range of potential costs (including budget savings risks highlighted in the Council's corporate risk assessment) and a revenue grants/contributions reserve of £13.5 million. It also includes an amount of £9.5 million (31 March 2016 £13.5 million) relating to schools' balances.

HRA Balances at 31 March 2017 were £52.0 million and these will be used to help sustain a balanced revenue position for the HRA over the medium to longer term informed by the HRA business plan. The balance on the Major Repairs Reserve was fully utilised as at 31 March 2017 (31 March 2016 nil), being used to support capital expenditure and repay debt.

There are two Capital reserves – grants and receipts – which total £24.4 million as at 31 March 2017 (31 March 2016 £24.4 million).

The unusable 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 Council.

Group performance

The Council's Group Accounts are made up of the accounts of the Council, a wholly owned subsidiary - Kirklees Neighbourhood Housing Limited (KNH) and a joint venture - Kirklees Stadium Development Limited (KSDL). Based on draft accounts, KNH made an operating deficit of £0.7 million in 2016/17, £27.3 million deficit after taking into account pension adjustments and, based on the Council's interest and adjusted in line with the Group's accounting policies, KSDL made an operating deficit of £0.2 million.

Council finances – future prospects

Achieving objectives with significantly less resources in the context of decreasing resources from central government, and increasing demand pressures locally continues to be the single biggest challenge facing the Council.

Budget plans for 2017-21 were approved at budget Council on 15 February 2017. These are summarised below.

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
BUDGET GAP (before planned savings)	65.4	81.0	87.1	100.3
Existing planned savings rolled forward	(16.3)	(16.7)	(17.1)	(17.1)
New planned savings	(37.9)	(65.5)	(81.7)	(87.2)
Total savings across years	(54.2)	(82.2)	(98.8)	(104.3)
Budget gap after savings	11.2	(1.2)	(11.7)	(4.0)
Balances applied	11.2	-	-	-
Net Budget	nil	(1.2)	(11.7)	(4.0)

The approved budget plans include planned (net) savings of £54 million in 2017/18, and further savings totalling £50 million over the following 3 years. This includes existing savings rolled forward into 2017/18 which largely reflect the re-shaping of existing service activity to deliver New Council priorities on Early Intervention and Prevention, and Economic Resilience.

Council budget plans reflect a Council Tax uplift of 4.99% in 2017/18, which includes a 3% adult social care precept, allowed for by Government above the current 2% council tax referendum threshold to support adult demand led pressures. In addition, as part of the Spring budget announcement in March 2017, the Government announced further national funding over the next 3 years specifically in response to significant national lobbying on the scale of demand pressures on this sector as a whole, and its significant impact not only on Council but also National Health budgets. Kirklees share of this extra national funding available is £8.3 million in 2017/18, reducing to £5.3 million in 2018/19 and £2.6 million in 2019/20. Because it was a late announcement, it is intended that proposals for the use of this additional funding will be set out to full Council in early 2017/18.

Council approved budget plans for 2017/18 include the use of £11.2 million of Council balances to help deliver a balanced budget in 2017/18 and a minimum balances requirement of £5 million.

Taking into account balances set aside for specific spend commitments (earmarked reserves other than risk reserves, plus schools balances), remaining balances at the start of 2017/18 consist of risk reserves at £28.0 million and remaining unallocated balances at £2.3 million; £30.3 million in total. This represents the totality of Council 'financial resilience' reserves going forward, and it is anticipated that, depending on progress on the deliverability of planned savings in 2017/18, further actions will need to be considered early in 2017/18 to ensure the Council's overall financial position remains robust.

To respond to this challenge and increase the pace of change, the Council approved further changes to officer and governance processes in April 2017. This includes bringing all change and transformation resources together under a single accountable lead, amending ways of working to streamline governance to ensure that it is efficient and effective, and supported by the Council's Business Transformation Partner.

Government remains committed to Council “self-sufficiency” in terms of Council net budgets being almost entirely funded locally from 2019/20 onwards, namely Council Tax and 100% retained Business Rates. The detail of Government proposals on 100% Business Rates retention are subject to further consultation.

The overall context for future Council prospects set out here remains heavily influenced by national Government policy, and any significant shift following the outcome of the General Election on 8th June 2017, will be factored into the annual re-refresh of the Council’s multi-year budget strategies and plans in the Autumn.

Future service developments

On 1 April 2017, the Council transferred its building services operation, which has an annual turnover of about £40 million, to the Council’s existing arm’s length housing management organisation – Kirklees Neighbourhood Housing Ltd (annual turnover of about £15 million). This follows the transfer of the building services staff in October 2016, who were then charged back to the Council on an agency basis until 31 March 2017. Kirklees Neighbourhood Housing Ltd is a wholly owned Council company.

The Council has three schools (two secondary and one primary school) being rebuilt as part of the Government’s Priority Schools Building Programme. All three schools will be completed during the academic year 2017/18. The value of the works is estimated to be around £40 million, but the secondary schools are either voluntary aided or controlled schools and therefore treated off the Council’s balance sheet.

The implications for the future delivery of Children’s services in Kirklees following the outcome of the Commissioner’s advice to the Secretary of State, will be factored into service and Council forward plans during 2017/18.

The Council’s overall performance management processes are also being re-refreshed through early 2017/18 to establish shared outcomes, including with other agencies as a key driver to delivery.

Clearer targets around agreed commission outcomes, accompanied by a robust performance management arrangement, and a new approach to escalating emerging risks are intended to strengthen corporate management arrangements and achieve more successful outcomes with limited resources. Behaviours and expectations for all staff and managers have been reviewed and refreshed with a clear emphasis on driving improved performance.

Key Risks

The Council Corporate Risk Matrix for 2016/17 was agreed in February 2016. A new Matrix was approved as a part of the Budget Strategy in February 2017. The matrix highlights risk areas, and headline mitigations and management actions.

The areas identified are summarised below:

- The risks associated with “New Council”, and the need to deliver budget savings required by the Medium Term Financial Plan.
- Overspending on particular budget heads due to increase in volumes, rising prices, or a failure to properly control projects; concerns about growth in volumes of children and adult social care beyond those provided in financial plans.
- The funding impacts of the new national “living wage” from direct employees and contractors, and impacts from other legislative changes.
- Council supplier and market failure.
- Safeguarding risks associated with the care of children and vulnerable adults.
- The impact of welfare reforms.
- Workforce management issues (including loss of experienced staff; need for different skills sets and inability to identify/or reach all staff to deliver appropriate training; difficulties recruiting and retraining staff in specific areas).
- Funding shortfall in partner agencies e.g. NHS.
- Failure to address matters of violent extremism and related safer stronger community factors.
- Unforeseen legislative changes.

- Unforeseen significant environmental events e.g. severe weather impact.
- Management of information from loss or inappropriate destruction or retention.
- The risks associated with the anticipated substitution of Council services by those provided by communities.
- Heightened national attention to Child Sexual Exploitation and historical abuse cases leading to increased demand, higher professional expectations & greater public scrutiny.
- Inadequate health & safety measures leading to harm to employees or customers/possible litigious action.
- Exposure to increased liabilities arising from property ownership and management.

The Statement of Accounts

The Financial Statements

The Statement of Accounts contains four core accounting statements:

- **Comprehensive Income and Expenditure Statement (CIES)**
- **Movement in Reserves Statement (MiRS)**
- **Balance Sheet at 31 March 2017**
- **Cash Flow Statement**

Each of the above accounting statements is preceded by a short note describing its purpose, and they are followed by notes explaining figures in the statements.

Income & expenditure reported in the Council's accounts

Following the changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) to reflect the "Telling the Story Review of the Presentation of Local Authority Financial Statements", the Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice (SeRCOP). Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates.

Income and expenditure for the year, for both General Fund and HRA, is summarised in the Council's CIES on page 17. It summarises revenue expenditure and income for the year in accordance with generally accepted accounting conventions.

A new analysis (the Expenditure and Funding Analysis), together with a detailed note, attempts to reconcile the outturn figures reported to Council to the figures in the CIES which have been adjusted to comply with generally accepted accounting practices. This involves a two stage process –

- Firstly, to move items reported in the organisational structure to lines below the net cost of services in the CIES, such as interest paid and received and unringfenced grants;
- Secondly, to make adjustments between the Funding and Accounting basis. These adjustments are those that add expenditure and income not chargeable to Council Tax and housing rents (such as depreciation and the pensions' current service cost) and remove transactions which are only chargeable under statutory provisions (such as charges to services for the financing of capital investment and employer's pension contributions) to arrive at the Surplus/Deficit on the Provision of Services in the CIES.

The foot of the Expenditure and Funding Analysis shows the movement for the period on General Fund and HRA Balances.

Figures for 2015/16 have been re-presented on the new basis. The net surpluses/deficits for trading operations are no longer presented within the Financing and Investment Income and Expenditure line but in Cost of Services within the appropriate service lines. Details of the individual trading accounts are still shown in a disclosure to the accounts (note 31, page 67).

A new disclosure (note 9, page 43) analyses the Surplus/Deficit on the Provision of Services by the nature of the expenditure (for example, employees and capital charges) and income (for example, grants and fees and charges).

Other accounting developments

As part of the presentation changes in the Code for 2016/17, earmarked reserves are no longer shown separately in the Movement in Reserves Statement, but are now amalgamated into Balances. However, details of Balances earmarked to cover specific areas of activity and risk are disclosed in a separate note (page 47).

It had been expected that the measurement requirements relating to transport infrastructure assets would change in 2016/17 from being on an historic cost basis to a depreciated replacement cost basis. However, in November 2016, implementation for 2016/17 was postponed by the CIPFA/LASAAC Local Authority Accounting Code Board and in March 2017, adoption was deferred indefinitely.

Other Accounting Information

This main section of the Statement of Accounts is followed by three supplementary statements:

- **Housing Revenue Account (HRA)**
- **Collection Fund**
- **Group Accounts**

The Council is required to keep separate accounts for HRA and Collection Fund by statute. The Group Accounts reflect the presentational changes mentioned above. Each of these supplementary statements is preceded by notes explaining their purpose and followed by explanatory notes.

The accounts also include:

- **The Statement of Responsibilities for the Statement of Accounts** - sets out the respective responsibilities of the Council and the Service Director - Finance, IT and Transactional Services for the accounts.
- **The Statement of Accounting Policies** - explains the basis of the figures in the financial statements, and the concepts and policies underpinning the accounts.
- **The Annual Governance Statement** - sets out a framework within which overall governance and internal control are managed and reviewed.

Wherever possible, technical accounting terms have been explained either in the main text or in the glossary at the back of this publication. The Council also produces a Summary Statement of Accounts which, whilst having no formal legal standing, aims to remove many of the technicalities of this publication and provide a simplified version of the Council's financial position. These are available at www.kirklees.gov.uk/accounts.

STATEMENT OF RESPONSIBILITIES AND CERTIFICATE

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2015/16

The Council's Responsibilities

The Council 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 council, that officer is the Service Director - Finance, IT and Transactional Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Service Director – Finance, IT and Transactional Services' Responsibilities

The Service Director - Finance, IT and Transactional Services 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 Service Director has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local council Code.

The Service Director has also:

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

Certificate

I certify that this Statement of Accounts presents a true and fair view of the financial position of Kirklees Council at the reporting date, and its income and expenditure for the year ended 31 March 2017.

Debbie Hogg
Service Director – Finance, IT and Transactional Services

17 November 2017

I certify that this Statement of Accounts was approved by the Corporate Governance and Audit Committee on 17 November 2017.

Hilary S Richards
Chair, Corporate Governance and Audit Committee

17 November 2017

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and rents. Authorities raise taxation and rent to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and Expenditure and Funding Analysis.

	2016/17			2015/16			Note
	Gross Exp £000	Gross Income £000	Net Exp £000	Gross Exp £000	Gross Income £000	Net Exp £000	
Children & Young People	388,173	-289,447	98,726	385,329	-296,305	89,024	
Commissioning, Public Health & Adults Place	174,676	-81,926	92,750	165,293	-74,425	90,868	
Resources	119,682	-45,047	74,635	123,381	-43,015	80,366	
Communities, Transformation & Change	163,409	-123,112	40,297	166,671	-127,025	39,646	
Economic Resilience	14,750	-1,562	13,188	21,071	-3,505	17,566	
Early Intervention & Prevention	13,016	-2,609	10,407	13,722	-1,159	12,563	
Central Budgets	24,676	-1,010	23,666	23,406	-1,209	22,197	
District Committee managed budgets	25,926	-32,098	-6,172	28,854	-2,819	26,035	
HRA	448	0	448	316	0	316	
Cost of Services	144,428	-97,321	47,107	61,900	-274,807	-212,907	
1,069,184	-674,132	395,052	989,943	-824,269	165,674		
Other operating expenditure			52,223			18,195	12
Financing and investment income and expenditure			29,872			32,423	13
Taxation and non-specific grant income			-330,198			-333,258	14
Surplus(-)/Deficit on Provision of Services			146,949			-116,966	
Surplus on revaluation of Property, Plant and Equipment (PPE) and Heritage assets			-16,699			-6,560	
Impairment losses on non-current assets to the Revaluation Reserve			384			314	
Surplus on revaluation of available for sale financial assets			-30			-113	
Remeasurements of the net defined benefit liability			35,984			-55,857	41
Other Comprehensive Income and Expenditure			19,639			-62,216	
Total Comprehensive Income and Expenditure			166,588			-179,182	

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the Council (ie government grants, rents, Council Tax and Business Rates) for the year has been used in providing service in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. A more detailed breakdown of the adjustments between funding and accounting basis is shown in note 8.

	Outturn reported to Council £000	Adjustments between net cost of services and other income and expenditure £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Exp in the CIES £000
2016/17					
Children & Young People	80,984	3,870	84,854	13,872	98,726
Commissioning, Public Health & Adults	91,193	0	91,193	1,557	92,750
Place	31,375	3,866	35,241	39,394	74,635
Resources	34,211	392	34,603	5,694	40,297
Communities, Transformation & Change	5,101	1	5,102	8,086	13,188
Economic Resilience	8,627	0	8,627	1,780	10,407
Early Intervention & Prevention	21,627	0	21,627	2,039	23,666
Central Budgets	40,809	-8,902	31,907	-38,079	-6,172
District Committee managed budgets	454	0	454	-6	448
HRA	-9,209	-13,186	-22,395	69,502	47,107
Net Cost of Services	305,172	-13,959	291,213	103,839	395,052
Other operating expenditure	557	1,131	1,688	50,535	52,223
Financing and investment income and expenditure	0	25,910	25,910	3,962	29,872
Taxation and non-specific grant income	-291,892	-13,082	-304,974	-25,224	-330,198
Net Deficit	13,837	0	13,837	133,112	146,949
Opening Balances at 31 March 2016:					
General Fund			-113,156		
HRA			-42,804		
			-155,960		
Less net Deficit in Year			13,837		
Closing General Fund and HRA Balance at 31 March 2017			-142,123		
General Fund			-90,110		
HRA			-52,013		

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Outturn reported to Council*	Adjustments between net cost of services and other income and expenditure	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Exp in the CIES
2015/16	£000	£000	£000	£000	£000
Children & Young People	71,071	4,080	75,151	13,873	89,024
Commissioning, Public Health & Adults Place	87,594	0	87,594	3,274	90,868
Resources	34,593	3,703	38,296	42,070	80,366
Communities, Transformation & Change	32,874	384	33,258	6,388	39,646
Economic Resilience	6,185	0	6,185	11,381	17,566
Early Intervention & Prevention	10,136	0	10,136	2,427	12,563
Central Budgets	19,311	0	19,311	2,886	22,197
District Committee managed budgets	61,564	-8,645	52,919	-26,884	26,035
HRA	215	0	215	101	316
Net Cost of Services	316,509	-13,715	302,794	-137,120	165,674
Other operating expenditure	488	542	1,030	17,165	18,195
Financing and investment income and expenditure	0	26,353	26,353	6,070	32,423
Taxation and non-specific grant income	-301,682	-13,180	-314,862	-18,396	-333,258
Net Surplus(-)/Deficit	15,315	0	15,315	-132,281	-116,966
Opening Balances at 31 March 2015:					
General Fund			-135,505		
HRA			-35,770		
			-171,275		
Less net Deficit in Year			15,315		
Closing General Fund and HRA Balance at 31 March 2016			-155,960		
General Fund			-113,156		
HRA			-42,804		

*The 2015/16 outturn figures reported to Council have been adjusted to take out earmarked reserve movements. This makes the figures comparable to how they have been reported to Council in 2016/17. The original figures were Children & Young People £71.804 million; Commissioning, Public Health & Adults £89.301 million; Place £34.630 million; and Central Budgets £48.815 million.

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

STATEMENT OF MOVEMENT IN RESERVES

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. 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 Council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and statutory adjustments required to return to the amounts chargeable to Council Tax/Housing 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. Explanations and detailed movements of each reserve can be found in the Glossary and in notes 11 and 27.

	General Fund Balances £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<u>2016/17</u>								
Balance at 31 March 2016	-113,156	-42,804	-10,469	0	-13,945	-180,374	-413,705	-594,079
Movement in reserves during 2016/17								
Total Comprehensive Income and Expenditure	90,777	56,172	0	0	0	146,949	19,639	166,588
Adjustments between accounting & funding basis under regulations (Note 10)	-67,731	-65,381	2,218	0	-2,196	-133,090	133,090	0
Net Increase(-)/ Decrease	23,046	-9,209	2,218	0	-2,196	13,859	152,729	166,588
Balance at 31 March 2017 carried forward	-90,110	-52,013	-8,251	0	-16,141	-166,515	-260,976	-427,491
<u>2015/16</u>								
Balance at 31 March 2015	-135,505	-35,770	-7,762	0	-16,413	-195,450	-219,447	-414,897
Movement in reserves during 2015/16								
Total Comprehensive Income and Expenditure	85,667	-202,633	0	0	0	-116,966	-62,216	-179,182
Adjustments between accounting & funding basis under regulations (Note 10)	-63,318	195,599	-2,707	0	2,468	132,042	-132,042	0
Net Increase(-)/ Decrease	22,349	-7,034	-2,707	0	2,468	15,076	-194,258	-179,182
Balance at 31 March 2016 carried forward	-113,156	-42,804	-10,469	0	-13,945	-180,374	-413,705	-594,079

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves; that is those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

	31 March 2017 £000	31 March 2016 £000	Note
Property, Plant & Equipment (PPE)	1,362,348	1,511,803	15
Heritage Assets	49,578	37,172	16
Investment Property	95,465	89,463	17
Intangible Assets	1,610	3,039	18
Long Term Investments	2,803	1,881	
Long Term Debtors	27,592	27,683	20
Long Term Assets	1,539,396	1,671,041	
Inventories	2,613	2,719	
Short Term Debtors	57,263	52,748	21
Assets Held for Sale	2,797	1,924	
Cash and Cash Equivalents	27,506	31,156	22
Current Assets	90,179	88,547	
Short Term Borrowing	-42,404	-20,920	19
Short Term Creditors	-68,893	-72,635	23
Other Short Term Liabilities	-5,588	-4,993	
Provisions	-4,559	-4,959	24
Current Liabilities	-121,444	-103,507	
Long Term Borrowing	-400,498	-408,402	19
Other Long Term Liabilities	-680,142	-653,600	25
Long Term Liabilities	-1,080,640	-1,062,002	
Net Assets	427,491	594,079	
Usable Reserves	-166,515	-180,374	26
Unusable Reserves	-260,976	-413,705	27
Total Reserves	-427,491	-594,079	

MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

CASH FLOW STATEMENT

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

	2016/17		2015/16	
	£000	£000	£000	£000
				Note
Net surplus(-)/deficit on the provision of services		146,949	-116,966	
Adjustments to net surplus/deficit on the provision of services for non-cash movements		-190,668	27,911	29
Adjustment for items included in the net surplus/deficit on the provision of services that are investing and financing activities		33,251	29,288	30
Net cash flows from Operating Activities		-10,468	-59,767	28
Net cash flows from Investing Activities				
Purchase of PPE, investment property and intangible assets	54,588		64,030	
Purchase of short-term and long-term investments	3,666		1,120	
Proceeds from the sale of PPE, investment property and intangible assets	-10,544		-11,808	
Proceeds from short-term and long-term investments	-3,344		-942	
Other receipts from investing activities	-21,848	22,518	-18,264	34,136
Net cash flows from Financing Activities				
Cash receipts of short and long-term borrowing	-84,053		-5,860	
Other receipts from financing activities	-282		-1,074	
Cash payments for the reduction for the outstanding liabilities relating to finance leases and PFI contracts	4,806		4,926	
Repayments of short and long-term borrowing	70,491		25,314	
Other payments for financing activities	638	-8,400	0	23,306
Net increase(-)/decrease in cash and cash equivalents		3,650	-2,325	
Cash and cash equivalents at the beginning of the reporting period		31,156	28,831	
Cash and cash equivalents at the end of the reporting period		27,506	31,156	22

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Disclosures - Index to Notes	Page
1. Accounting Policies	24
2. Prior Period Adjustments	38
3. Accounting Standards that have been issued but have not yet been adopted	38
4. Critical Judgements	38
5. Assumptions and Major Sources of Estimation Uncertainty	39
6. Exceptional Items and Material Items of Income and Expense	40
7. Events after Balance Sheet date	40
8. Note to the Expenditure and Funding Analysis	41
9. Expenditure and Income analysed by nature (Subjective Analysis)	43
10. Adjustments between accounting basis and funding basis under regulations	44
11. Transfers to/from Earmarked Reserves	47
<u>Notes Referring to Specific Items in the CIES</u>	
12. Other Operating Expenditure	48
13. Financing and Investment Income and Expenditure	48
14. Taxation and Non-Specific Grant Income	48
<u>Notes Referring to Specific Items in the Balance Sheet</u>	
15. Property, Plant and Equipment (PPE)	49
16. Heritage Assets	52
17. Investment Property	54
18. Intangible Assets	55
19. Financial Instruments	56
20. Long Term Debtors	61
21. Short Term Debtors	61
22. Cash and Cash Equivalents	62
23. Short Term Creditors	62
24. Provisions	62
25. Other Long Term Liabilities	63
26. Usable Reserves	63
27. Unusable Reserves	63
<u>Notes Referring to Specific Items in the Cash Flow Statement</u>	
28. Operating Activities	66
29. Adjustments to net surplus or deficit on the provision of services for non-cash movements	66
30. Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	66
<u>Other disclosures</u>	
31. Trading Operations	67
32. External Audit Costs	68
33. Pooled Funds	68
34. Officers' Remuneration	70
35. Deployment of Dedicated Schools Grant (DSG)	73
36. Related Party Transactions	73
37. Grant Income	75
38. Capital Expenditure and Capital Financing	76
39. Leases	77
40. Private Finance Initiative (PFI) Transactions	80
41. Pensions Disclosures	84
42. Contingent Liabilities	91
43. Impairment	91

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

1 Accounting Policies

General Principles

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

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

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 Council 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 Council.
- Revenue from the provision of services is recognised when the Council 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 Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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 investments that mature within 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents are shown net of bank overdrafts as the use of the latter is considered to be an integral part of cash management.

Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

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 equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Collection Fund

The transactions of the Collection Fund are wholly prescribed by legislation. The effect of this is:

- Shares of Non-Domestic Rating income to major preceptors and a billing authority are paid out of the Collection Fund and credited to the CIESs of precepting and billing authorities. However, the transactions presented in the Collection Fund Statement are limited to the cash flows permitted by statute for the financial year, whereas each authority will recognise income on a full accruals basis (ie sharing out in full of surpluses and deficits at the end of the year, even though it will be distributed to or recovered in a subsequent financial year).
- A share (after allowable deductions) of the Non-Domestic Rating income is paid out of the Collection Fund to Central Government.
- Council Tax precepts for major precepting authorities and a billing authority's demand on the fund are paid out of the Collection Fund and credited to the CIESs of precepting and billing authorities. However, as with non-domestic rating income, the transactions presented in the Collection Fund Statement are limited to the cash flows permitted by statute for the financial year, whereas each authority will recognise income on a full accruals basis (ie sharing out in full of surpluses and deficits at the end of the year, even though it will be distributed to or recovered in a subsequent financial year).
- Parish precepts are paid from the General Fund of billing authorities and are disclosed on the notes to the CIES.
- The difference between the Non-Domestic Rate and Council Tax income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

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, annual and sick leave, and bonuses 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 and flexi-time entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then statutory regulations require this to be reversed out through the Movement in Reserves Statement, so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to Non Distributed Costs within the Central Budgets line in the CIES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Business Services on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by the NHS Business Services Authority.
- West Yorkshire Pension Fund, which is part of the Local Government Pension Scheme (LGPS), administered by City of Bradford Metropolitan District Council.

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Teachers' Pension Scheme -

This scheme is unfunded, meaning it has no investment assets. The administrator uses a notional fund as the basis for calculating the employers' contribution rate by local education authorities. This means that liabilities for benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

payments of benefits is recognised in the Balance Sheet. The Children & Young People service line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year.

The NHS Pension Scheme -

Public Health staff transferred to the Council on 1 April 2013 have retained access to the NHS Pension Scheme. This scheme is also unfunded and is accounted for on a defined contribution basis. The Commissioning, Public Health and Adults line in the CIES is charged with the employer's contributions payable to NHS Pensions in the year.

The Local Government Pension Scheme (LGPS) -

This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets over the long term.

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

- The liabilities of the West Yorkshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is 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 of 2.60% (based on UK AA rated bond prices compiled into a model by the Council's actuary Aon Hewitt Limited).
- The assets attributable to the Council are included in the Balance Sheet at their fair 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 CIES 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 CIES as part of Non Distributed Costs in Central Budgets.
 - Net interest on the net defined benefit liability (asset) ie net interest expense for the Council – 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 CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period, taking account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising –
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset). Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions. Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

The LGPS permits employees retiring to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The figures in this year's Statement of Accounts have been prepared by our actuary, based on the assumption that each member will exchange 75% of the maximum amount permitted of their service pension rights on retirement for additional lump sum.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

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 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 earned by employees.

Discretionary Benefits -

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

Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period. In these cases, the accounting statements are adjusted to reflect such events, if they have a material effect;
- Those that are indicative of conditions that arose after the reporting period. In these cases, the accounting statements are not adjusted to reflect such events, but where they would have a material effect, disclosure is made in the notes as to the nature of the events and their estimated financial effect.

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 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 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 the 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 appropriate valuation techniques for each circumstance and for which sufficient data is available, 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 (unadjusted) in active markets for identical assets or liabilities that the Council 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.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

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 (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the losses over the term that was remaining on the replacement loan and similarly for gains up to a maximum of ten years. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For many of the loans that the Council 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 CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to outside organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (for example, dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. None of the Council's equity interests have quoted market prices and these are measured using discounted cash flow analysis or other valuation techniques. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Instruments entered into before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. Where judged to be material, these guarantees are covered in the Contingent Liabilities note.

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 Council when there is reasonable assurance that:

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

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. Although conditions may still be outstanding at the Balance Sheet date, as long as there is reasonable assurance that the conditions will be complied with, then amounts are recognised in the CIES at this point. 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 CIES.

Where conditions are outstanding and reasonable assurance does not exist that they will be complied with as at the Balance Sheet date, monies are carried in the Balance Sheet as creditors.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

expenditure, it is posted to the Capital Grants Unapplied reserve. When capital grants have been applied, they are posted to the Capital Adjustment Account.

Heritage Assets

These are assets generally with historical, artistic, scientific, technological, geophysical or environmental qualities that the Council holds principally for their contribution to knowledge and culture.

Recognition and Measurement

The Code requires heritage assets to be recognised and measured in accordance with accounting policies on Property, Plant and Equipment. However the unique nature of many heritage assets makes reliable valuation complex and some of the measurement rules have been relaxed. As such, valuations may be made by any method that is appropriate and relevant, and valuations need not be carried out or verified by external valuers. A full valuation is not required every five years but the Code does specify that reviews must be carried out with sufficient regularity to ensure they remain current.

A de minimis level of £10,000 has been established for the recording of heritage assets in the Balance Sheet. The Council has recognised three main groups of heritage assets on its Balance Sheet – the art collection, museum exhibits and other (notably civic silver and certain structural heritage assets). The recognition and measurement policies for these assets are as follows:

- Fine Art Collection
These items are reported on the Balance Sheet using insurance valuations. Higher value items have been formally valued during the last two years by Bonhams Fine Art Auctioneers and Valuers, whilst lower value items are based on values estimated by the Council's Museum and Gallery staff with reference to recent information from sales at auctions and, occasionally, expert advice. The valuations are reviewed on an annual basis. Acquisitions are occasionally made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation in accordance with the policy on valuations of the art collection.
- Museum Exhibits
Only a small proportion of these items have market values and are reported on the Balance Sheet. The values have been estimated by the Council's Museum and Gallery staff with reference to recent information from sales at auctions and, occasionally, expert advice. The valuations are updated on an annual basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation in accordance with the policy on valuations of museum exhibits.
- Other
The Civic Silver Collection is reported on the Balance Sheet at replacement cost. There is a regular programme of valuations and the items in the collection are valued by an external valuer (Gerard Laurence Collins) who specialises in precious metal craft and design. The Council has a number of structural heritage assets which are not recognised elsewhere on the Balance Sheet. These comprise of two clock towers, a Victorian tower and two park band stands. These items have been valued by internal valuers and are reported in the Balance Sheet at replacement cost. They will be revalued at least every five years.

Where cost information is not available and the cost of obtaining valuations outweighs the benefits to users of the financial statements, the Code does not require that the asset is recognised on the Balance Sheet. Where this approach has been adopted, it is set out in the disclosure notes on heritage assets.

Where assets are not principally maintained for their contribution to knowledge and culture, for example listed buildings being used for operational purposes such as museums, they are recorded on the Balance Sheet under Property, Plant and Equipment.

The Council has had a number of heritage assets kindly donated over the years. The Council has insufficient information as to when such assets were donated and/or what the value of these items

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

would have been when they were donated. The Council therefore has not recognised any heritage assets in the Donated Assets Account on the Balance Sheet prior to 1 April 2010.

The Council has no material intangible heritage assets.

Depreciation and impairment

Depreciation is only provided on the structural heritage assets. Depreciation is not warranted on other heritage assets as their lives are either indefinite or sufficiently long to mean any charge would not be material. The carrying amounts of heritage assets are reviewed for evidence of impairment, for example where an item has suffered physical deterioration or breakage or doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council's policies on impairment for Property, Plant and Equipment.

Disposal

The Council has a strong presumption against the disposal of any items in its collections. However, it will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the provisions relating to the disposal of Property, Plant and Equipment.

Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

A de minimis level of £10,000 has been established for the recording of new assets in the Balance Sheet.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life (usually between 5 and 10 years) to the relevant service line in the CIES. Straight-line amortisation has been adopted and it is assumed that residual value is insignificant or nil. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the CIES.

Amortisation and impairment charges are not permitted to have an impact on the General Fund Balance. Entries are effectively reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is now assigned using the (First In First Out/weighted average) costing formula.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

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

Joint Operations

Joint operations are joint arrangements whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. If material, the Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

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 Council as Lessee

Finance Leases:

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases:

Rentals paid under operating leases are charged to the CIES as an expense of the services benefiting from use of the leased Property, Plant or Equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases:

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (that is netted off against the carrying value of the asset at the time of disposal), matched by a lease (Long Term Debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases:

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

Overheads and Support Services

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

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

Changes in accounting estimates are accounted for prospectively, that is in the current and future years affected by the change and do not give rise to a prior period adjustment.

Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the service passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The Council has four PFI schemes –

- A twenty five year contract from April 1998 for waste disposal services.
- A thirty two and a half year contract, starting March 2001, for major repairs/ refurbishment and continuing maintenance of nineteen schools, together with caretaking and cleaning services.
- A twenty six and a half year contract, starting March 2005 for the new build of two special schools and full refurbishment of existing buildings at a third special school, together with the maintenance of buildings and premise management functions at all three schools.
- A twenty two and a half year contract starting December 2011, for the design, build, financing and operation of 466 housing units. This is accounted for within the HRA.

The original recognition of the fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The liabilities on the schools' contracts were written down by initial capital contributions by the Council of £2.5 million on the first contract and £5.0 million on the second. The liability on the housing PFI has been written down by capital contributions of £10.0 million.

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

The amounts payable to the PFI operators each year are analysed into the following elements:

- Fair value of services received during the year – debited to the relevant service in the CIES.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure line in the CIES.
- Payment towards liability – applied to write down the Balance Sheet liability.
- Lifecycle replacement costs – recognised as additions to Property, Plant and Equipment when the relevant works are carried out.

The Council receives an annual PFI Grant from Central Government which is credited to the CIES.

Under the waste disposal contract, the operator receives a significant part of their income from third parties, either from gate fees, sale of energy production or recycled materials. A proportion of the assets on the Balance Sheet are therefore financed with third party revenues rather than with fixed payments from the Council. A balancing credit, pro rata to the proportion of fixed payments from the Council and expected third party payments, has been created in the form of a Deferred Income balance. This effectively represents the benefits that the Council is deemed to receive over the life of the contract through its control of the services provided through use of the property and plant. The Deferred Income is released to the CIES over the life of the contract, with a corresponding appropriation from the Capital Adjustment Account to the Movement in Reserves Statement.

Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (that is repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level of £10,000 has been established for the recording of new assets in the Balance Sheet.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Council dwellings are valued annually. Assets are carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUUV-SH).
- Surplus – fair value, estimated at highest and best use from a market participant's perspective.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUUV).

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In certain circumstances gains might be credited to the CIES where they arise from the reversal of a previous loss charged to a service, adjusted for depreciation that would have been charged if the loss had not been recognised.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Depreciation

Depreciation is provided for on all PPE assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (that is freehold land and certain Community Assets) and assets under construction. Assets are depreciated on a straight line basis over their estimated useful lives. Depreciation is calculated on the opening Balance Sheet value of the assets, with residual values being taken into account where appropriate. Estimated lives for new assets vary but are typically as follows:

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

- Buildings 50/60 years
- Infrastructure 20 years
- Vehicles and operational equipment 5 – 10 years
- Computer equipment 7 years

Where an item of PPE has a major component whose cost is significant in relation to the total cost of the item and whose life is significantly different from the life of the asset to which it is attached, the component is separately identified and depreciated. The calculation of depreciation on the Council's housing stock is based on an analysis of the major components of a typical dwelling.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES, even if there are accumulated revaluation gains on the asset in the Revaluation Reserve. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to HRA housing disposals (net of statutory deductions and allowances) is payable to the Government. 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

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council 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 Council may be involved in a court case that could eventually result in the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council 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 material, provisions are split between long term and short term depending on whether the provision is likely to be settled in the next financial year. If it is not possible to split out, the full amount is put to short term.

Contingent Liabilities

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

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 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 CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's Council Tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

16(2) of part 1 of the Local Government Act 2003. Such expenditure is charged to the relevant service in the CIES 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 Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

Schools

The Code confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the Schools Standards and Framework Act 1998, as amended) lies with the local authority. The Code stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

VAT

VAT payable is included as an expense only where irrecoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 Prior Period Adjustments

No prior period adjustments were required in this year's accounts.

3 Accounting Standards that have been issued but have not yet been adopted

There have been no accounting standards that have been issued but not yet adopted which will affect the Council's accounts for 2017/18.

4 Critical Judgements

In preparing the accounts, the Council has made judgements in applying its accounting policies in Note 1. Those which have a significant bearing on the figures recognised in the financial statements include:

- Schools – The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises a school's land and buildings on its balance sheet where it owns the assets, the school or the school governing body own the assets or there is evidence that substantive ownership rights of assets have been transferred from another entity. As a result, the Council does not recognise foundation trust, voluntary aided or voluntary controlled schools on its balance sheet. Up to the point of schools being transferred to trust or academy status, their valuation on the balance sheet is based on continuing service potential.
- Grants – Where grant funding has been received, judgement has been made as to whether any conditions associated with the receipt of grant have been met or not. Where it is judged that conditions have been met, the grant is recognised in the CIES. Note 37 shows the details.
- Provisions – In calculating provisions, judgements have been made as to the certainty of a particular event happening giving rise to a liability and whether a reliable estimate can be made of that liability. Where this is not the case, the Council may disclose the issue as a contingent liability.
- Group Accounts – The Council has considered its relationships with a number of organisations and made a judgement as to its level of control and interest in these bodies. As a result, it has prepared Group Accounts, incorporating a subsidiary and a joint venture.
- Private Finance Initiatives (PFIs) – The Council has evaluated its four PFI schemes under the requirements of the Code and determined, irrespective of legal title, that the assets should be recognised on its balance sheet, together with a liability to pay for the assets. Note 40 in the Notes to the Core Financial Statements and note H10 to the HRA give further details for each scheme.
- Leases – All leases have been assessed to determine whether they should be classified as finance or operating leases. A number of tests have been applied and it has been determined that the Council has a number of finance leases where it is both lessor and lessee. Note 39 gives further details on lease treatment.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

- Heritage Assets – The Code allows discretion over how to value heritage assets. The Council has made a judgement to value some of its heritage assets using insurance values. However, some assets, such as war memorials and certain museum exhibits, are not recognised on balance sheet because cost information is not available and it has been judged that the cost of obtaining valuations outweighs the benefits to users of the accounts. Note 16 gives more valuation details for heritage assets.
- Funding – There is a high degree of uncertainty about future levels of local authority funding. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired as a result of a need to close facilities and reduce levels of service provision.

5 Assumptions and Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council 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 Council's balance sheet at 31 March 2017 for which there is a significant risk of material adjustment within the next financial year are as follows:

Item and Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Property, Plant and Equipment (note 15)</p> <p>Assets are depreciated over their useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance in the longer term bringing into doubt the useful lives assigned to assets.</p>	<p>If the useful life of an asset reduces (non HRA), the depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £7.2 million for every year that the useful lives had reduced.</p>
<p>Provisions (including bad debts)</p> <p>Provisions are made in accordance with the Code and IAS37, with the best estimate of the expenditure required to settle the obligation at the Balance Sheet date. The major provision is that covering insurance claims.</p> <p>The total value of provisions (including bad debts) as at 31 March 2017 was £14.2 million.</p>	<p>An increase in provisions (including bad debt provisions) of 10% would result in an additional revenue expense of £3.1 million.</p>
<p>Pensions Liability (note 41)</p> <p>Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate used, the rate at which salaries are projected to increase, changes to mortality rates. A firm of qualified Actuaries is employed to provide the Council with expert professional advice about this specialised area.</p> <p>The net liability as at 31 March 2017 was £556.3 million.</p>	<p>The Actuaries provide information in relation to the sensitivity of the results to key assumptions and these are set out in the pensions note.</p>

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Fair value measurements

When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.

The methods used to arrive at the fair value of surplus and investment properties are described in notes 15 and 17. They are based on observable data.

The methods used to measure the fair value of equity instruments is described in note 19 and are based on unobservable inputs. However, the values are not significant and therefore any significant changes in any of the unobservable inputs would not be expected to have any material effect on the value of financial assets.

6 Exceptional Items and Material Items of Income and Expense

Children & Young People – 2016/17 grant income reduced by £7.3 million as a result of in year academy transfers and this was mirrored by a similar reduction in expenditure, offset by increased expenditure on Children's Services as noted on page 6 in the Narrative Report section.

Commissioning, Public Health & Adults – 2016/17 expenditure reflects an increased volume of adult placements (£6.0 million) and commissioned services (£2.0 million), partly offset by increased grant and charges for placements.

Communities, Transformation & Change – 2016/17 shows a reduction of £4.7 million due to lower revaluation losses than in 2015/16.

Central Budgets – 2016/17 income figure includes a £28.1 million settlement figure for the transfer of the net pension liability arising from the transfer of building services staff to Kirklees Neighbourhood Housing Ltd.

HRA – 2016/17 expenditure includes £76.5 million of revaluation losses on council dwellings whereas 2015/16 income has a £179.5 million revaluation gain. These have arisen due to different adjustment factors for social housing being applied (note H1).

Within the adjustments between accounting and funding basis under regulations, there was a reduced charge of £8.9 million in 2016/17 for the provision made to repay debt (MRP). This reduction mainly arose from the Council adopting a revised MRP policy in February 2017.

7 Events after Balance Sheet date

These accounts were authorised for issue on the date the Service Director - Finance, IT and Transactional Services signed the accounts – see Statement of Responsibilities and Certificate on page 16. There have been no non-adjusting events occurring between the Balance Sheet date and when the accounts were authorised for issue.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

8 Note to the Expenditure and Funding Analysis

- (i) This note details the adjustments from the Net expenditure Chargeable to the General Fund and HRA Balances to arrive at amounts in the CIES.

	Adjustments for Capital Purposes (a)	Net change for the Pensions Adjustments (b)	Other Differences (c)	Total Adjustments
2016/17	£000	£000	£000	£000
Children & Young People	9,620	3,442	810	13,872
Commissioning, Public Health and Adults Place	-660	2,325	-108	1,557
Resources	34,752	4,834	-192	39,394
Communities, Transformation and Change	3,882	2,051	-239	5,694
Economic Resilience	7,813	415	-142	8,086
Early Intervention & Prevention	1,340	462	-22	1,780
Central Budgets	1,002	1,067	-30	2,039
District Committee managed budgets	-4,211	-33,954	86	-38,079
HRA	-6	0	0	-6
Net Cost of Services	122,998	-19,358	199	103,839
Other operating expenditure	50,535	0	0	50,535
Financing and investment income and expenditure	-12,547	16,804	-295	3,962
Taxation and non-specific grant income	-23,141	0	-2,083	-25,224
Difference between General Fund and HRA surplus/deficit and CIES Surplus/ Deficit on the Provision of Services	137,845	-2,554	-2,179	133,112
2015/16				
Children & Young People	11,033	5,150	-2,310	13,873
Commissioning, Public Health and Adults Place	777	2,610	-113	3,274
Resources	37,562	4,810	-302	42,070
Communities, Transformation and Change	3,823	2,734	-169	6,388
Economic Resilience	10,714	723	-56	11,381
Early Intervention & Prevention	1,965	513	-51	2,427
Central Budgets	1,799	1,186	-99	2,886
District Committee managed budgets	-24,534	-2,278	-72	-26,884
HRA	101	0	0	101
Net Cost of Services	-192,057	0	-579	-192,636
Other operating expenditure	-148,817	15,448	-3,751	-137,120
Financing and investment income and expenditure	17,165	0	0	17,165
Taxation and non-specific grant income	-10,462	16,837	-305	6,070
Difference between General Fund and HRA surplus/deficit and CIES Surplus/ Deficit on the Provision of Services	-18,110	0	-286	-18,396
Difference between General Fund and HRA surplus/deficit and CIES Surplus/ Deficit on the Provision of Services	-160,224	32,285	-4,342	-132,281

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

(a) Adjustments for Capital Purposes

- Adds in capital charges (depreciation, impairment, REFCUS, revaluation gains and losses) and deducts statutory charges for capital financing in the services line;
- Adjusts in the Other Operating Expenditure line for capital disposals with a transfer of income on disposal of PPE assets and amounts written for those assets and for the payment to the Government Housing Capital Receipts Pool;
- The Financing and Investment Income and Expenditure line is adjusted for capital disposals with a transfer of income on disposal of investment property and amounts written off for those assets;
- Adds in capital grants into the Taxation and Non-Specific Grant Income line.

(b) Net Change for the Pensions Adjustments

- For services, this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service and past service costs;
- The Financing and Investment Income and Expenditure line is adjusted for the net interest on the defined benefit liability.

(c) Other Differences

- For services, this represents adjustments for premiums and discounts and entries relating to the accrual of compensated absences earned but not taken in the year;
- The Financing and Investment Income and Expenditure line recognises adjustments for soft loans;
- The charge under Taxation and Non-Specific Grant represents the difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code.

The total adjustments equal the total of the first two columns in Note 10.

(ii) This note shows income received on a segmental basis.

	Grants and Contributions £000	Fees and Charges £000	Capital Charge and Pension Credits £000	Total £000
2016/17				
Children & Young People	-275,196	-12,594	-1,657	-289,447
Commissioning, Public Health and Adults Place	-55,168	-25,167	-1,591	-81,926
Resources	-2,954	-41,250	-843	-45,047
Communities, Transformation and Change	-116,696	-6,351	-65	-123,112
Economic Resilience	-604	-535	-423	-1,562
Early Intervention & Prevention	-2,241	-322	-46	-2,609
Central Budgets	-719	-261	-30	-1,010
HRA	0	-111	-31,987	-32,098
Total Income analysed on a segmental basis	-7,987	-85,984	-3,350	-97,321
2015/16				
Children & Young People	-283,732	-12,573	0	-296,305
Commissioning, Public Health and Adults Place	-50,862	-23,506	-57	-74,425
Resources	-3,508	-37,649	-1,858	-43,015
Communities, Transformation and Change	-120,364	-6,655	-6	-127,025
Economic Resilience	-830	-717	-1,958	-3,505
Early Intervention & Prevention	-760	-399	0	-1,159
Central Budgets	-863	-346	0	-1,209
HRA	-146	-46	-2,627	-2,819
Total Income analysed on a segmental basis	-7,917	-87,417	-179,473	-274,807

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

9 Expenditure and Income analysed by nature (Subjective Analysis)

	2016/17 £000	2015/16 £000
Expenditure		
Employee Expenses*	424,560	421,162
Premises and Transport	98,027	100,160
Supplies and Services	141,429	150,390
Other Service Expenses	354,574	342,112
Support Charges	21,283	27,999
Capital Charges	162,418	94,586
Precepts and Levies	736	655
Payments to Housing Capital Receipts Pool	2,043	2,087
Losses on the Disposal of PPE and Investment Assets	47,645	11,654
Interest Payable and Similar Charges	29,398	30,794
Net interest on the defined benefit obligation	16,804	16,837
Total Expenditure	1,298,917	1,198,436
Income		
Fees, Charges and Other Service Income	-175,556	-172,351
Grants, Reimbursements and Contributions	-588,620	-609,243
Capital Charges Credits	-19,705	-193,017
Pension Settlements	-31,987	0
Internal Recharges	-130,546	-144,518
Interest and Investment Income	-2,413	-3,277
Income from Council Tax and Business Rates	-203,141	-192,996
Total Income	-1,151,968	-1,315,402
Surplus(-)/Deficit on Provision of Services	146,949	-116,966

*This includes £47.8 million in 2016/17 (£46.8 million in 2015/16) relating to employees of Voluntary Aided and Trust schools who are not employees of the Council but are required to be consolidated into the Council's financial statements.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

10 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. An explanation of each Usable Reserve is provided in the Glossary.

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
2016/17						
<u>Adjustments involving the Capital Adjustment Account (CAA):</u>						
Charges for depreciation and impairment of non-current assets	-41,903	0	0	-17,224	0	59,127
Amortisation of Intangible Assets	-1,562	0	0	0	0	1,562
Revaluation losses on PPE	-21,852	-79,898	0	0	0	101,750
Revaluation gains on PPE	4,655	3,350	0	0	0	-8,005
Movements in the market value of Investment Properties	10,769	931	0	0	0	-11,700
Revenue expenditure funded from capital under statute (REFCUS)	-14,619	0	0	0	0	14,619
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-53,292	-4,898	0	0	0	58,190
Capital grants and contributions applied	11,476	123	0	0	0	-11,599
Capital grants and contributions applied (REFCUS)	5,522	0	0	0	0	-5,522
Deferred Income written down - Waste PFI	537	0	0	0	0	-537
Provision for the financing of capital investment	15,231	2,259	0	0	0	-17,490
Capital expenditure charged against balances	1,378	4,823	0	0	0	-6,201
<u>Adjustments involving the Capital Grants Unapplied Account:</u>						
Capital grants and contributions unapplied and credited to the CIES	11,004	0	0	0	-11,004	0
Application of grants to capital financing transferred to the CAA	0	0	0	0	8,808	-8,808
<u>Adjustments involving the Capital Receipts Reserve:</u>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	2,244	8,023	-10,267	0	0	0
Financing new capital expenditure	0	0	10,457	0	0	-10,457
Contribution towards administrative costs of asset disposals	-45	-58	103	0	0	0
Contribution to finance the payments to the Government capital receipts pool	-2,043	0	2,043	0	0	0
Cash receipts from the repayment of capital loans given	0	0	-3,055	0	0	3,055
Used to repay debt (transfer to CAA)	0	0	2,948	0	0	-2,948
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	-11	0	0	11
<u>Adjustment involving the Deferred Capital Receipts Reserve:</u>						
Finance Leases - Amount by which sale proceeds received in CIES differs from those received in accordance with statutory requirements	-2	0	0	0	0	2

NOTES TO THE MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
2016/17 cont.						
<u>Adjustment involving the Major Repairs Reserve:</u>						
Financing of new capital expenditure (transfer to CAA)	0	0	0	10,965	0	-10,965
Used to repay debt (transfer to CAA)	0	0	0	6,259	0	-6,259
<u>Adjustment involving the Financial Instruments Adjustment Account:</u>						
Amount by which finance costs charged to the CIES are different from those required by statutory regulations	398	-36	0	0	0	-362
<u>Adjustments involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the CIES	-32,097	0	0	0	0	32,097
Employer's pensions contributions and direct payments	34,651	0	0	0	0	-34,651
<u>Adjustments involving the Collection Fund Adjustment Account:</u>						
Amount by which Council Tax and Non-Domestic Rating income credited to the CIES is different from that required by statutory regulations	2,083	0	0	0	0	-2,083
<u>Adjustment involving the Accumulated Absences Account:</u>						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from that required by statutory regulations	-264	0	0	0	0	264
Total Adjustments 2016/17	-67,731	-65,381	2,218	0	-2,196	133,090
2015/16						
<u>Adjustments involving the Capital Adjustment Account (CAA):</u>						
Charges for depreciation and impairment of non-current assets	-40,764	0	0	-15,630	0	56,394
Amortisation of Intangible Assets	-1,507	0	0	0	0	1,507
Revaluation losses on PPE	-36,681	-5	0	0	0	36,686
Revaluation gains on PPE	6,506	179,473	0	0	0	-185,979
Movements in the market value of Investment Properties	6,306	732	0	0	0	-7,038
Revenue expenditure funded from capital under statute (REFCUS)	-9,833	0	0	0	0	9,833
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-19,608	-3,710	0	0	0	23,318
Capital grants and contributions applied	8,950	351	0	0	0	-9,301
Capital grants and contributions applied (REFCUS)	5,135	0	0	0	0	-5,135
Deferred Income written down - Waste PFI	537	0	0	0	0	-537
Provision for the financing of capital investment	24,241	2,159	0	0	0	-26,400
Capital expenditure charged against balances	9,927	10,430	0	0	0	-20,357

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
2015/16 cont.						
<u>Adjustments involving the Capital Grants Unapplied Account:</u>						
Capital grants and contributions unapplied and credited to the CIES	8,403	0	0	0	-8,403	0
Application of grants to capital financing transferred to the CAA	0	0	0	0	10,871	-10,871
<u>Adjustments involving the Capital Receipts Reserve:</u>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	5,796	5,617	-11,413	0	0	0
Financing new capital expenditure	0	0	6,592	0	0	-6,592
Contribution towards administrative costs of asset disposals	-117	-27	144	0	0	0
Contribution to finance the payments to the Government capital receipts pool	-2,087	0	2,087	0	0	0
Cash receipts from the repayment of capital loans given	0	0	-822	0	0	822
Used to repay debt (transfer to CAA)	0	0	709	0	0	-709
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	-4	0	0	4
<u>Adjustment involving the Deferred Capital Receipts Reserve:</u>						
Finance Leases - Amount by which sale proceeds received in CIES differs from those received in accordance with statutory requirements	-2	0	0	0	0	2
<u>Adjustment involving the Major Repairs Reserve:</u>						
Financing of new capital expenditure (transfer to Capital Adjustment Account)	0	0	0	11,457	0	-11,457
Used to repay debt (transfer to CAA)	0	0	0	4,173	0	-4,173
<u>Adjustment involving the Financial Instruments Adjustment Account:</u>						
Amount by which finance costs charged to the CIES are different from those required by statutory regulations	349	579	0	0	0	-928
<u>Adjustments involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the CIES	-67,559	0	0	0	0	67,559
Employer's pensions contributions and direct payments	35,274	0	0	0	0	-35,274
<u>Adjustments involving the Collection Fund Adjustment Account:</u>						
Amount by which Council Tax and Non-Domestic Rating income credited to the CIES is different from that required by statutory regulations	286	0	0	0	0	-286
<u>Adjustment involving the Accumulated Absences Account:</u>						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from that required by statutory regulations	3,130	0	0	0	0	-3,130
Total Adjustments 2015/16	-63,318	195,599	-2,707	0	2,468	-132,042

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

11 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans. No earmarked reserves have been set up for the HRA.

	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017
Earmarked Reserves							
Local Management of Schools	-15,617	2,283	-158	-13,492	3,960	0	-9,532
Risk	-7,528	0	0	-7,528	0	-20,518	-28,046
Workforce Restructure	-14,552	3,648	-6	-10,910	5,851	-32	-5,091
Health and Social Care	-9,808	2,859	-1,015	-7,964	264	-3	-7,703
Rollover	-6,858	2,866	-5,760	-9,752	8,646	-2,901	-4,007
PFI	-3,186	76	-38	-3,148	153	-319	-3,314
Revenue Grants/Contributions	-27,570	9,026	-3,230	-21,774	17,033	-8,746	-13,487
Business Rates	-3,908	194	0	-3,714	3,714	0	0
Journey to New Council	-3,000	0	-1,000	-4,000	663	-1,607	-4,944
Other	-5,429	712	-185	-4,902	3,572	-1,938	-3,268
Total Earmarked Reserves	-97,456	21,664	-11,392	-87,184	43,856	-36,064	-79,392
<i>Unallocated Balances</i>	<i>-38,049</i>			<i>-25,972</i>			<i>-10,718</i>
General Fund Balances	-135,505			-113,156			-90,110

- The Local Management of Schools Reserve relates to individual school balances/deficits carried forward to following years under the terms of the Education Reform Act 1988. The balance at 31 March 2017 represents 129 schools with cumulative balances of £11.3 million (142 schools and £14.8 million at 31 March 2016) and 11 schools with cumulative deficits amounting to £1.8 million (12 schools and £1.3 million at 31 March 2016).
- The Risk Reserve covers a range of potential costs highlighted in the Council's corporate risk assessment, including budget risks and those covering certain contingent liabilities. This is linked into the reserves and balances strategy agreed as part of the Medium Term Financial Plan.
- The Workforce Restructure Reserve has been set up to cover one-off costs from the Council's redundancy programme.
- The Health and Social Care Reserve is to support future expenditure on health and social care issues.
- The Rollover Reserve has been set up to deal with deferred spend commitments against approved Rollover.
- The PFI Reserve has been set up to fund the prepayments to the contractors, established from the PFI contract models.
- The Revenue Grants/Contributions Reserve represents grants and contributions recognised in the CIES before expenditure has been incurred. It includes a balance of £2.3 million (£6.4 million at 31 March 2016) relating to Dedicated Schools Grant (DSG) which is statutorily ring-fenced for schools related expenditure. As expenditure is incurred monies will be released from the reserve.
- The Business Rates Reserve had been set up to mitigate one-off costs impacting on the Collection Fund relating to potential back-dated business rates appeals.
- The Journey to New Council Reserve has been set up to support New Council development.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

12 Other Operating Expenditure

	2016/17 £000	2015/16 £000
Parish council precepts	557	488
Levies	179	167
Payment to Government Housing Capital Receipts Pool	2,043	2,087
Losses on the disposal of non-current assets	48,491	15,078
Revaluation losses on assets held for sale	275	0
Derecognition of Academies' Balances	678	375
Total	52,223	18,195

Losses on the disposal of non-current assets includes academy and trust school transfers and assets transferred as part of the Community Asset transfer policy. These totalled £51.4 million in 2016/17 (2015/16 £16.3 million)

13 Financing and Investment Income and Expenditure

	2016/17 £000	2015/16 £000
Interest payable and similar charges	29,398	30,794
Net interest on the net defined benefit obligation	16,804	16,837
Interest receivable and similar income	-1,628	-2,541
Income and expenditure in relation to investment property and changes in fair value (note 17)	-14,068	-11,931
Dividend Income	-634	-736
Total	29,872	32,423

14 Taxation and Non-Specific Grant Income

	2016/17 £000	2015/16 £000
Council Tax income	-152,193	-144,372
Non Domestic Rates	-50,948	-48,624
Non-ring fenced government grants	-103,916	-122,152
Capital grants and contributions	-23,141	-18,110
Total	-330,198	-333,258

More detail on grant income is shown in note 37 and on Council Tax and Non Domestic Rate income in the section on Collection Fund.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

15 Property, Plant and Equipment (PPE)

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in PPE £000
Movement in 2016/17									
Cost or Valuation									
At 1 April 2016	680,119	643,305	40,542	365,363	11,220	19,534	4,362	1,764,445	92,039
Additions	16,382	12,052	5,151	14,813	232	349	3,132	52,111	4,040
Revaluation increases/ decreases(-) recognised in the Revaluation Reserve	-679	-4,322	0	0	0	8	0	-4,993	-1,296
Revaluation decreases recognised in the Deficit on the Provision of Services	-93,586	-22,056	0	0	0	-2,731	0	-118,373	-1,272
De-recognition – disposals	-3,261	-61,781	-4,259	0	0	0	-7,494	-76,795	-6,733
De-recognition – other	0	-5,067	0	0	0	0	0	-5,067	0
Assets reclassified to Held for Sale	-1,884	0	0	0	0	-924	0	-2,808	0
Other movements in cost or valuation	10	-1,161	0	0	0	6,405	0	5,254	0
At 31 March 2017	597,101	560,970	41,434	380,176	11,452	22,641	0	1,613,774	86,778
Accumulated Depreciation and Impairment									
At 1 April 2016	0	-50,041	-24,217	-171,419	-6,965	0	0	-252,642	-3,242
Depreciation charge	-17,054	-15,426	-3,653	-17,301	-1,663	-19	0	-55,116	-2,608
Depreciation written out to the Revaluation Reserve	0	8,961	0	0	0	0	0	8,961	287
Depreciation written out to the Deficit on the Provision of Services	17,054	8,118	0	0	0	3	0	25,175	291
Impairment losses recognised in the Revaluation Reserve	0	-384	0	0	0	0	0	-384	0
Impairment losses recognised in the Deficit on the Provision of Services	0	-3,959	0	0	0	0	0	-3,959	0
De-recognition – disposals	0	17,540	3,908	0	0	0	0	21,448	510
De-recognition – other	0	5,067	0	0	0	0	0	5,067	0
Other movements in depreciation and impairment	-5	339	0	0	0	-310	0	24	0
At 31 March 2017	-5	-29,785	-23,962	-188,720	-8,628	-326	0	-251,426	-4,762
Net Book Value									
at 31 March 2017	597,096	531,185	17,472	191,456	2,824	22,315	0	1,362,348	82,016
at 31 March 2016	680,119	593,264	16,325	193,944	4,255	19,534	4,362	1,511,803	88,797

NOTES TO THE MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Council Dwellings	Other Land and Buildings	Vehicles, Plant Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in 2015/16									
Cost or Valuation									
At 1 April 2015	495,491	664,909	39,873	357,634	10,898	15,104	34,436	1,618,345	106,039
Additions	22,807	10,083	7,260	14,937	322	826	7,690	63,925	1,419
Revaluation increases/decreases(-) recognised in the Revaluation Reserve	675	-13,839	0	0	0	7,291	0	-5,873	1,409
Revaluation increases/decreases(-) recognised in the Surplus on the Provision of Services	163,940	-36,302	0	0	0	-4,604	0	123,034	-11,353
De-recognition – disposals	-3,005	-17,861	-6,591	-7,208	0	0	0	-34,665	-5,475
De-recognition – other	0	0	0	0	0	-848	0	-848	0
Assets reclassified to Held for Sale	-1,780	0	0	0	0	-1,264	0	-3,044	0
Other movements in cost or valuation	1,991	36,315	0	0	0	3,029	-37,764	3,571	0
At 31 March 2016	680,119	643,305	40,542	365,363	11,220	19,534	4,362	1,764,445	92,039
Accumulated Depreciation and Impairment									
At 1 April 2015	0	-53,865	-25,967	-161,565	-5,408	-255	0	-247,060	-6,645
Depreciation charge	-15,468	-16,888	-4,635	-17,062	-1,557	-279	0	-55,889	-3,160
Depreciation written out to the Revaluation Reserve	0	10,688	0	0	0	173	0	10,861	1,861
Depreciation written out to the Surplus on the Provision of Services	15,526	8,534	0	0	0	361	0	24,421	4,422
Impairment losses recognised in the Revaluation Reserve	0	0	0	0	0	-314	0	-314	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0	0	-453	0	-453	0
De-recognition – disposals	0	1,351	6,385	7,208	0	0	0	14,944	280
De-recognition – other	0	0	0	0	0	848	0	848	0
Other movements in depreciation and impairment	-58	139	0	0	0	-81	0	0	0
At 31 March 2016	0	-50,041	-24,217	-171,419	-6,965	0	0	-252,642	-3,242
Net Book Value									
at 31 March 2016	680,119	593,264	16,325	193,944	4,255	19,534	4,362	1,511,803	88,797
at 31 March 2015	495,491	611,044	13,906	196,069	5,490	14,849	34,436	1,371,285	99,394

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Fair value measurement of surplus assets

The Council has accounted for surplus assets in accordance with IFRS13 which has been achieved through a fair value hierarchy. Surplus assets have been valued at the highest and best use. The fair value of surplus property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets. The valuers are of the opinion that all surplus assets are at Level 2 on the fair value hierarchy using significant observable inputs.

There have been no transfers between the different levels of hierarchy during the year. There has been no change in the valuation techniques used during the year for surplus assets.

Revaluations

The Council carries out a rolling valuation programme which ensures that all PPE required to be measured at fair value is revalued at least every five years. All valuations this year were carried out by external valuers - HRA properties by Cushman & Wakefield and General Fund properties by Wilks Head & Eve. The valuers hold the appropriate qualification required and belong to the Royal Institution of Chartered Surveyors. The valuations of land and buildings were carried out on 1 April 2016 and in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

There was a net loss in the PPE values of £89.2 million as the result of revaluations. The effect of any gains and losses have been split between the revaluation reserve and the deficit on provision of services. The majority of the loss relates to the valuation of housing stock (£76.5 million) which is shown in the Housing Revenue Account and relates to a reduction in the regional adjustment factor applied to social housing. Further detail is provided in note H1 on page 94. Other losses mainly relate to a change in valuer for General Fund Properties (from internal to external). The change has resulted in the use of different estimation techniques. Previous valuations were based on lower rates for age and obsolescence for different parts of the building and also made allowances for where refurbishment had taken place. However, the new method of valuation assumes build rates depreciate 1% every year after the first 10 years up to a cap of 50% to ensure valuation consistency and places less emphasis on making allowances for recent refurbishment work.

The table below shows current values of assets, whether valued at historical cost or at revalued amounts, identifying the year they were last revalued.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	3,717	17,472	191,456	2,824	0	0	215,469
Carried at fair value as at:								
2016/17	597,096	108,503	0	0	0	414	0	706,013
2015/16	0	114,384	0	0	0	18,743	0	133,127
2014/15	0	70,041	0	0	0	331	0	70,372
2013/14	0	121,924	0	0	0	0	0	121,924
2012/13	0	112,616	0	0	0	2,827	0	115,443
Total	597,096	531,185	17,472	191,456	2,824	22,315	0	1,362,348

Capital Commitments

In February 2017, the Council approved a capital programme of £82.3 million for 2017/18. A further £250.5 million of capital investment, subject to review, was also approved for the following four years. This covers expenditure on PPE, investment properties, intangible assets and revenue expenditure funded from capital under statute. The Council has a significant contractual commitment

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

concerning the HD-One development for the John Smith's Stadium. A further significant contractual commitment is planned for the Beaumont School in June 2017. It is planned to spend a total of £24.3 million on these schemes in 2017/18.

16 Heritage Assets

	Fine Art Collection £000	Museums and Galleries Exhibits £000	Other £000	Total Assets £000
<u>Movement in 2016/17</u>				
Cost or Valuation				
At 1 April 2016	30,720	3,211	3,529	37,460
Additions	0	0	0	0
Revaluations recognised in the Revaluation Reserve	13,278	0	-801	12,477
Revaluations recognised in the Provision of Services	0	0	-359	-359
At 31 March 2017	43,998	3,211	2,369	49,578
Accumulated Depreciation				
At 1 April 2016	0	0	-288	-288
Depreciation charge	0	0	-53	-53
Depreciation written out to the Revaluation Reserve	0	0	249	249
Depreciation written out to the Provision of Services	0	0	92	92
At 31 March 2017	0	0	0	0
<u>Movement in 2015/16</u>				
Cost or Valuation				
At 1 April 2015	29,142	3,196	3,546	35,884
Additions	0	0	17	17
Revaluation increases/decreases(-) recognised in the Revaluation Reserve	1,578	15	-34	1,559
At 31 March 2016	30,720	3,211	3,529	37,460
Accumulated Depreciation				
At 1 April 2015	0	0	-236	-236
Depreciation charge	0	0	-52	-52
At 31 March 2016	0	0	-288	-288
Net Book Value				
at 31 March 2017	43,998	3,211	2,369	49,578
at 31 March 2016	30,720	3,211	3,241	37,172

Fine Art and Museum Exhibits Collections

Kirklees Museums and Galleries Service manages the collections of fine art and museum exhibits. Although many early additions to the collections were acquired by purchase, more recent additions are likely to be by donation or, occasionally, by bequests.

Some items have been purchased through the national purchase grant fund administered by the Victoria and Albert Museum and the Museums, Libraries and Archives Council. The collection has also benefited from continued membership of the Contemporary Art Society. The majority of items acquired in this way have covenants covering terms of use and restrictions on sale.

Like most museums and galleries services, much of the collection is in store. The Council showcases the best of the collections and includes wide ranging collections from the dawn of time to present day of local, regional, national and international significance. The Council has a "Collections Development Policy" which gives details on how the collections are managed through review,

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

rationalisation, acquisition, disposal, care, conservation and documentation. The Policy is approved by Council and is reviewed at least once every five years.

There have been no significant purchases, disposals or impairments of items over the last five years.

Fine Art Collection

The collection comprises of around 3,000 artworks. At any given time approximately 15% of the collection is on display to the public in Council's museums, galleries and town halls. In addition, artworks from the collection are often loaned to other institutions, nationally and internationally.

The most significant exhibit in the collection is the "Figure Study II" by Francis Bacon. It was acquired as a gift from the Contemporary Art Society. The painting has been externally valued by Bonhams at £20.0 million (£20.0 million at 31 March 2016). Being a donated asset, the painting has conditions placed upon it. Further pieces of art work have been valued externally this year, notably two paintings by L S Lowry with a combined value of £6.7 million (£0.6 million 31 March 2016) and the "Falling Warrior" sculpture by Henry Moore valued at £5.0 million (£1.5 million 31 March 2016). The total value of donated artwork items as at 31 March 2017 is £24.4 million (£24.4 million 31 March 2016).

Museum Exhibits

The collection consists of around 750,000 items relating to archaeology, arts and crafts (ceramics, furniture etc), industry, natural sciences, social history and world cultures which have been collected during the nineteenth and twentieth centuries. At any time 4% of the collection is on display across the museum sites. Some of the more significant items include the Skelmanthorpe Flag; the Porritt Collection (British butterflies and moths); a collection linked to Bamforth and Company (publishers of comic postcards); a collection of Mesolithic material; and a photographic archive of over 250,000 images on glass plate and celluloid negatives, lantern slides and original prints.

Other Heritage Assets

This category includes the Civic Silver Collection, structural heritage assets, statues and books of remembrance. In terms of monetary value, the first two are the most significant. There have been no significant purchases, disposals or impairments under this category over the last five years.

The Civic Silver Collection consists of 388 items, mainly comprising of chains and pendants of office, maces and silverware. Its value as at 31 March 2017 is £1.6 million (£1.6 million 31 March 2016). Many of the pieces have been donated over the years to mark historic occasions or events and the current value of donated civic silver items recognised as Long Term Assets is £0.9 million (£0.9 million 31 March 2016).

The Council has a number of structural heritage assets which are not recognised elsewhere on the Balance Sheet. These comprise of two clock towers, a Victorian tower and two park band stands. Of particular note is the Victorian Tower on Castle Hill, Huddersfield which was completed in 1899 to celebrate the 60th anniversary of Queen Victoria's reign. The value of structural assets as at 31 March 2017 is £0.3 million (£1.1 million 31 March 2016).

Heritage Assets not recognised on the Balance Sheet

The Council also holds a number of heritage assets which are not recognised on the Balance Sheet, notably Castle Hill, war memorials, the local studies collection and a number of museum exhibits, including the British Archaeology, Natural Sciences (bird's eggs) and the Ethnography Collections. Castle Hill, Huddersfield is a Scheduled Ancient Monument and a Regionally Important Geological Site. The Victorian Tower mentioned above is built on Castle Hill. The land and the Tower were transferred into the Council's ownership from the Ramsden Estate in 1920.

Heritage Assets recognised under other asset categories

Where assets are operational and not principally maintained for their contribution to knowledge and culture, they are recorded on the Balance Sheet under Property, Plant and Equipment. The most notable building is Oakwell Hall in Gomersal, a grade one listed Elizabethan manor house with Bronte connections which is used as a museum. The Council also has a number of grade two listed buildings largely used for museum, civic and commercial purposes.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

17 Investment Property

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line the CIES:

	2016/17	2015/16
	£000	£000
Rental income from investment property	-3,093	-3,046
Direct operating expenses arising from investment property	1,571	1,577
Net gain	-1,522	-1,469
Net gains from fair value adjustments	-11,700	-7,038
Net gains on disposals of assets	-846	-3,424
Net income in relation to investment property and changes in fair value	-14,068	-11,931

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repair, maintain or enhance such property.

The movement in the fair value of investment property over the year is as follows:

	2016/17	2015/16
	£000	£000
Balance at 1 April	89,463	85,400
Additions	331	134
Disposals	-1,167	-1,389
Net gains from fair value adjustments	11,700	7,038
Transfers to Property, Plant and Equipment	-5,021	-1,720
Transfer of properties from Henry Boot (joint venture)	159	0
Balance at 31 March	95,465	89,463

Fair Value Measurement

The authority has accounted for investment property in accordance with IFRS13 which has been achieved through a fair value hierarchy. The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rental, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's investment asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

There have been no transfers between the different levels of hierarchy during the year.

Investment property have been valued at highest and best use. This is not always the current use of the asset – in a few cases, agricultural holdings which are being used for grazing land are in residential areas and could be used for development.

There have been some changes in valuation technique from income based approach to market value approach. This has resulted in a gain of £0.2 million (31 March 2016 £3.4 million).

Revaluations

The fair value of the authority's investment property is measured annually at each reporting date. Valuations are carried out by external valuers – Wilks Head and Eve – in accordance with the methodologies and bases for estimation set out in the professional standards of RICS.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

18 Intangible Assets

The Council accounts for software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licences and other purchased software. The Council does not have any internally generated intangible assets.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life (usually between 5 and 10 years) on a straight line basis.

Amortisation of £1.6 million was charged to CIES in 2016/17 (£1.5 million in 2015/16).

	2016/17 £000	2015/16 £000
Balance at 1 April		
Gross carrying amounts	6,345	8,826
Accumulated amortisation	-3,306	-4,392
Net carrying amount at 1 April	3,039	4,434
Additions - Purchases	133	112
Amortisation for the period	-1,562	-1,507
Net carrying amount at 31 March	1,610	3,039
Comprising:		
Gross carrying amounts	6,478	6,345
Accumulated amortisation	-4,868	-3,306
	1,610	3,039

There is one item of capitalised software that is individually material to the financial statements:

	Carrying amount 31 March 2017	Carrying amount 31 March 2016	Remaining Amortisation Period
Core integrated IT system	1,448	2,896	1

In 2012/13 the Council entered into a contract for the replacement of the human resources, financial, payroll and procurement systems into a single core IT system. The system became operational in November 2013. There are no significant contractual commitments relating to intangible assets for 2016/17.

NOTES TO THE MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

19 Financial Instruments

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

	31 March 2017		31 March 2016	
	Long-term £000	Current £000	Long-term £000	Current £000
Investments and cash				
Loans and receivables				
Principal at amortised cost	1,450	1,251	126	10,814
Accrued interest	0	22	0	23
Available-for-sale financial assets				
Principal at amortised cost	292	30,000	727	27,528
Accrued interest	0	4	0	8
Fair value adjustments	1,061	0	1,028	0
Other net cash items	0	-3,771	0	-7,217
Total Investments	2,803	27,506	1,881	31,156
Debtors*				
Loans and receivables	27,592	3,900	27,683	4,100
Financial assets carried at contract amounts	0	40,296	0	38,775
Total Debtors	27,592	44,196	27,683	42,875
Borrowings				
Loans at amortised cost				
Principal sum borrowed	-400,053	-37,727	-407,976	-16,017
Accrued interest	0	-4,695	0	-4,920
Adjustments for Effective Interest Rate (EIR)	-445	18	-426	17
Total Borrowings	-400,498	-42,404	-408,402	-20,920
Other Long Term Liabilities				
Financial liabilities at amortised cost	-110,965	-5,588	-116,366	-4,993
Total other long term liabilities	-110,965	-5,588	-116,366	-4,993
Creditors*				
Financial liabilities carried at contract amounts	0	-68,584	0	-71,862
Total Creditors	0	-68,584	0	-71,862

* Debtors and creditors - amounts relating to such things as Council Tax, Non-Domestic Rates etc are outside the scope of the accounting provisions for financial instruments as they are statutory debts and do not arise from contracts.

Material Soft Loans made by the Council

The Council provided support in 2009/10 to Kirklees College's Waterfront Development with a loan. The loan is secured against the assets of the College and the loan is charged at the cost of the borrowing to the Council plus a small margin to cover administration. The fair value of the loan at initial recognition was arrived at by adding a margin of 1.75% to reflect risk. The loan is being repaid on an annuity basis and the College will repay the full amount advanced by 2034/35. The Council has also provided interest free loans to Kirklees' householders in respect of renewable energy works. The loans are secured as a fixed charge on the householder's properties (that is the loans are recoverable when the householder sells the property). In addition, the Council has provided interest free loans for redevelopment of private housing in Ravensthorpe. The loans are secured as a percentage charge on the householder's property so are subject to house price variations. The fair value of the renewable energy and redevelopment loans at initial recognition were arrived at by taking the cost to the Council of taking a ten year loan and adding an allowance of 2% for risk.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Movements on soft loans are detailed as follows:

	College £000	Renewable Energy £000	Private Housing Redevelopment £000	Total £000
Balance at 1 April 2015	17,818	1,681	209	19,708
Loans repaid	-617	-80	0	-697
Unwinding of discount	174	122	13	309
Balance at 31 March 2016	17,375	1,723	222	19,320
Loans repaid	-648	-30	0	-678
Unwinding of discount	175	109	12	296
Balance at 31 March 2017	16,902	1,802	234	18,938
Nominal value at 31 March 2016	20,075	2,292	261	22,628
Nominal value at 31 March 2017	19,427	2,262	261	21,950

Offsetting Financial Assets and Liabilities

The Council has legal right of offset on its current account banking arrangements and as at 31 March 2017 had a credit balance of £2.3 million at the bank (£2.1 million 31 March 2016) offset by a debit balance of £1.2 million (£2.1 million 31 March 2016).

Income, Expense, Gains and Losses

	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
2016/17				
Interest expense	29,376	0	0	29,376
Losses on derecognition	22	0	0	22
Impairment losses	0	530	431	961
Total expense in Surplus/Deficit on the Provision of Services	29,398	530	431	30,359
Interest income	0	-1,628	0	-1,628
Gains on derecognition	0	0	0	0
Total income in Surplus/Deficit on the Provision of Services	0	-1,628	0	-1,628
Gains on revaluation	0	0	-30	-30
Net gain(-)/loss for the year	29,398	-1,098	401	28,701
2015/16				
Interest expense	30,794	0	0	30,794
Losses on derecognition	0	0	0	0
Impairment losses	0	2,375	0	2,375
Total expense in Surplus/Deficit on the Provision of Services	30,794	2,375	0	33,169
Interest income	0	-1,962	0	-1,962
Gains on derecognition	-579	0	0	-579
Total income in Surplus/Deficit on the Provision of Services	-579	-1,962	0	-2,541
Gains on revaluation	0	0	-112	-112
Net gain(-)/loss for the year	30,215	413	-112	30,516

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Fair Value

Some of the Council's financial assets are measured at fair value in the Balance Sheet on a recurring basis. The Council has several equity instruments, which have no quoted market price. The companies are a joint venture and two undertaking PFI contracts at the Council. The value of shares in the Balance Sheet as at 31 March 2017 was £1.4 million (£1.8 million 31 March 2016). The values are derived from using discounted cash flow techniques or, for the joint venture, the historic cost of the original investment. These fair values are judged to be Level 3 in the fair value hierarchy.

In addition, the fair value of short-term instruments, including investments, borrowing, cash, trade payables and receivables, is assumed to approximate to the carrying amount.

However, there are a number of financial assets and liabilities which are carried in the Balance Sheet at amortised cost. Their fair values are shown in the table below:

	Fair value level	31 March 2017		31 March 2016	
		Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Borrowings					
PWLB	2	-297,816	-428,360	-312,477	-397,731
LOBOs	2	-77,341	-123,940	-107,835	-157,109
Long Term Loans & Loan Stock	2	-38,046	-62,403	-200	-202
PFI, Transferred Debt & Finance Lease Liabilities	2	-116,553	-173,733	-121,360	-172,840
Long-term debtors	2	27,592	38,305	27,683	35,380

The fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- Loans from the Public Works Loan Board (PWLB) have been valued by discounting the contractual cash flows over the 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 values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2017.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.

The above fair values are judged to be Level 2 in the fair value hierarchy, using significant observable inputs.

The fair value of liabilities is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

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 other financial market movements.

The Council's overall risk management programme focuses on minimising any potential adverse effects on the resources available to fund services. Procedures for risk management on treasury management are set out in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code and investment guidance issued under the Act. The Service Director - Finance, IT and Transactional Services manages the function on behalf of the Council under policies approved by Members in the annual treasury management strategy and the treasury management policy statement and practices.

Credit risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. The treasury management strategy allowed officers to invest as follows:

- an unlimited amount with the UK Government for up to six months;
- up to £10 million and up to three months with UK banks and building societies with a "high to upper medium grade" credit rating
- up to £10 million and up to two months with individual local authorities;
- up to £10 million and up to two months with foreign banks with a "high to upper medium grade" credit rating;
- up to £10 million in individual Money Market Funds (instant access or up to 2 day notice);
- up to £3 million and up to two months with individual UK banks and building societies with a mid "medium grade" credit rating.
- up to £1 million and up to two months with certain unrated building societies as approved by the Council's treasury advisors.

At the year end, the Council held investments of £31.3 million for cashflow purposes, made up entirely of cash equivalents with no short-term investments (£38.4 million and nil respectively 31 March 2016). Cash equivalents by definition are highly liquid deposits with an insignificant risk of change in value. The Council did not make any investments of a treasury management nature longer than two months in 2016/17.

The Council's maximum exposure to credit risk in relation to the above balances 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.

The Council does not generally allow credit for customers and trade debts are actively pursued after 21 days. As at 31 March 2017, the Council had a balance owing from its customers (mainly services and rent) of £30.5 million (£27.3 million 31 March 2016). The exposure to default has been assessed and is reflected in an impairment provision of £3.4 million (£3.6 million 31 March 2016). Of the trade debtors outstanding as at 31 March 2017 (£17.5 million), 60% relate to outstanding debt due within 90 days of the Balance Sheet date, 10% within 90-180 days and 30% over 180 days.

Liquidity risk

As well as keeping cash in instant access deposit accounts, the Council has ready access to borrowings from the Public Works Loan Board. Because of this, there is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish its borrowings at less favourable rates or, alternatively, liquidate its investments at more favourable rates. The strategy is to ensure that the loan repayment profile is even with around no more than 10% of loans due to mature in any one year. The maturity analysis of borrowing is shown below:

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	31 March 2017 £000	31 March 2016 £000
Less than one year	-42,404	-20,920
Between 1 and 2 years	-8,042	-8,013
Between 2 and 5 years	-29,363	-30,165
Between 5 and 10 years	-14,359	-20,491
Between 10 and 15 years	-12,713	-5,477
More than 15 years	-336,021	-344,256
	-442,902	-429,322

The above analysis assumes that Lender Option, Borrower Option loans (LOBOs – see below) run their full term.

The Council has a general target of paying all trade and other payables within 30 days.

Market risk

Interest Rate Risk

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

- Borrowings at variable rates – the interest expense charged to the CIES will rise.
- Borrowings at fixed rates – the fair value of the liabilities will fall.
- Investments at variable rates – the interest income credited to the CIES will rise.
- Investments at fixed rates – the fair value of the assets will fall.

The Council has a number of strategies for managing interest rate risk, including keeping a maximum of 40% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher borrowing costs.

The treasury management strategy is proactive, providing for the constant assessment of interest rate exposures and deciding whether new borrowing taken out is fixed or variable.

As at 31 March 2017, all investments held by the Council for cashflow purposes were at variable rates with the benefit of instant access. In terms of borrowing, the Council held £76.6 million of debt in the form of LOBOs. LOBO agreements have periodic option dates on which lenders can opt to change the interest rate on a loan. If lenders exercise their option then the Council can either repay the loan (at no extra cost) or agree to the change of interest rate for the remaining term of the loan or until the lender chooses to exercise the option again. In June 2016, the Council received deed polls from a lender stating it would not exercise its options to increase interest rates on three of its LOBO loans held by the Council. This effectively made the loans fixed rate maturity loans, and brings the total of LOBO loans held as at 31 March 2017 to £76.6 million, which equates to 17% of its total borrowing. All LOBO debt is exposed to variable rates through lender options. A 1% change in interest rates with all other variables held constant would increase or decrease interest costs by £0.8 million.

The fair value of fixed rate borrowings would decrease by around £108.5 million if interest rates increased by 1%, and increase by the same figure if rates decreased by 1%.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £1.4 million in a number of joint ventures. The Council is consequently exposed to losses arising from movements in the values of the shares. As the shareholdings have arisen in the acquisition of

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The shares are all classified as “available-for-sale”, meaning that all movements in value will impact on gains and losses recognised in the CIES. However, because of the relatively small overall value, any general shift (positive and negative) in values would not result in a material gain or loss being recognised in the value of shareholdings.

Foreign Exchange Risk

The Council has no material financial assets or liabilities denominated in foreign currencies. In this way, the Council has little exposure to loss arising from movements in exchange rates.

20 Long Term Debtors

This note identifies amounts owing to the Council which are being repaid over various periods longer than one year.

	31 March 2017 £000	31 March 2016 £000
Kirklees College	16,220	16,726
PFI Prepayments (i)	3,314	3,148
Finance Leases (ii)	3,413	3,415
Charges on Property for Residential Care	2,035	1,967
Renewable Energy	1,802	1,723
Other	849	744
	27,633	27,723
Bad Debt Provision	-41	-40
Net Long Term Debtors	27,592	27,683

(i) Under the terms of the PFI contracts, the Council makes prepayments which the contractor puts into sinking funds which will be used to meet future costs incurred in the schemes.

(ii) Relates to obligations outstanding from lessees on leases judged to be finance leases.

21 Short Term Debtors

	31 March 2017 £000	31 March 2016 £000
Central government bodies	9,431	7,708
Other local authorities	1,474	1,683
NHS bodies	6,117	5,931
Public corporations and trading funds	0	41
Other entities and individuals	56,639	55,290
	73,661	70,653
Bad Debt Provision – Other entities and individuals	-16,398	-17,905
Net Short Term Debtors	57,263	52,748

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

22 Cash and Cash Equivalents

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

	31 March 2017 £000	31 March 2016 £000
Cash held by the Council	32	34
Bank current accounts	5,269	5,193
Instant access deposit accounts/investments that mature within 90 days or less	31,276	38,374
	36,577	43,601
Cash in transit	1,189	1,630
BACs payments and cheques not yet cleared	-10,260	-14,075
Total Cash and Cash Equivalents	27,506	31,156

23 Short Term Creditors

	31 March 2017 £000	31 March 2016 £000
Central government bodies	-10,773	-8,538
Other local authorities	-1,831	-3,115
NHS bodies	-2,412	-1,911
Public corporations and trading funds	0	-10
Other entities and individuals	-53,877	-59,061
Total	-68,893	-72,635

24 Provisions

	Insurance £000	Business Rate Appeals £000	Other £000	Total £000
Balance at 1 April 2016	-9,792	-4,246	-1,478	-15,516
Additional provision made in 2016/17	-4,352	-61	-1,418	-5,831
Amounts used in 2016/17	3,074	0	1,361	4,435
Amounts reversed in 2016/17	2,607	139	0	2,746
Balance at 31 March 2017	-8,463	-4,168	-1,535	-14,166

The insurance provision covers obligations arising from claims relating to Employer's Liability, Public Liability, Motor, Fire and miscellaneous risks. The nature of insurance claims, particularly liability claims, means that there can be significant lead in times as claimants do not need to lodge claims for some time after the event occurred. For each insurance claim received an expected value is calculated based on best known estimates at the time. The figures are derived from those calculated during the latest three-yearly actuarial valuation (2015/16). The short term element of this provision is estimated based on the percentage of claims paid out in the previous year.

Amounts have been set aside on the Council's Risk Reserve to cover uninsured and unexpected losses which may arise from possible claims for third party asbestos, flooding and environmental impairment (pollution). It is not possible to state with any certainty the amount or timing of the likely use of the reserve due to the nature of the risks covered.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The split between long term and short term provisions is as follows:

	Short Term Provisions £000	Long Term Provisions £000	Total Provisions £000
Balance at 31 March 2017	-4,559	-9,607	-14,166
Balance at 1 April 2016	-4,959	-10,557	-15,516

25 Other Long Term Liabilities

	31 March 2017 £000	31 March 2016 £000
Deferred Liabilities (mainly outstanding PFI finance lease obligations)	-110,965	-116,366
Net Liability Related to Defined Benefit Pension Scheme	-556,347	-522,917
Long Term Provisions	-9,607	-10,557
PFI Deferred Income	-3,223	-3,760
Total	680,142	-653,600

26 Usable Reserves

Movement in the Council's usable reserves are detailed in the Statement of Movement in Reserves, Note 10 Adjustments between accounting basis and funding basis under regulations and Note 11 Transfers to and from Earmarked Reserves.

27 Unusable Reserves

Some of the Council's reserves are required to comply with proper accounting practice and are not usable reserves available to meet revenue or capital expenditure. These are listed as follows:

	31 March 2017 £000	31 March 2016 £000
Capital Adjustment Account	-651,904	-775,358
Revaluation Reserve	-173,361	-171,404
Pensions Reserve	556,347	522,917
Available for Sale Financial Instruments Reserve	-1,061	-1,031
Financial Instruments Adjustment Account	4,107	4,469
Deferred Capital Receipts Reserve	-3,417	-3,430
Collection Fund Adjustment Account	-1,707	376
Accumulated Absences Account	10,020	9,756
Total Unusable Reserves	-260,976	-413,705

Details of the movements on the Revaluation Reserve, Capital Adjustment Account and Pensions Reserve are detailed below. The purpose of the other reserves is explained in the Glossary and the movements of the larger ones are detailed in Note 10.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

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 CIES (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.

The Account contains accumulated gains and losses on Investment Property. It also contains the revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

	2016/17	2015/16
	£000	£000
Balance at 1 April	-775,358	-604,591
<u>Capital financing applied in the year:</u>		
Use of Capital Receipts Reserve to finance new capital expenditure	-10,457	-6,592
Use of Capital Receipts Reserve to repay debt	-2,948	-709
Use of the Major Repairs Reserve to finance new capital expenditure	-10,965	-11,457
Capital grants and contributions credited to the CIES that have been applied to capital financing	-17,121	-14,436
Application of grants to capital financing from the Capital Grants Unapplied Account	-8,808	-10,871
Statutory provision for the financing of capital investment charged against the General Fund, HRA Balances and Major Repairs Reserve	-23,749	-30,573
Capital expenditure charged against the General Fund and HRA Balances	-6,201	-20,357
	-855,607	-699,586
Charges for depreciation and impairment of non-current assets	59,127	56,394
Amortisation of intangible assets	1,562	1,507
Revaluation losses on PPE	101,750	36,686
Revaluation gains on PPE	-8,005	-185,979
Movements in the market value of Investment Property	-11,700	-7,038
Revenue expenditure funded from capital under statute (REFCUS)	14,619	9,833
Amounts of non-current assets written off on disposal or sale	58,190	23,318
Adjusting amounts written out of the Revaluation Reserve	-14,358	-10,777
Deferred Income written down - Waste PFI	-537	-537
Long-term debtors written down	3,055	821
Balance at 31 March	-651,904	-775,358

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2016/17	2015/16
	£000	£000
Balance at 1 April	-171,404	-175,935
Upward revaluation of assets	-24,088	-25,958
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	7,773	19,712
	-187,719	-182,181
Difference between fair value depreciation and historical cost depreciation	2,651	2,879
Accumulated gains on assets sold or scrapped	11,707	7,898
Balance at 31 March	-173,361	-171,404

Pensions Reserve

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

	2016/17			2015/16		
	LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Balance at 1 April	466,898	56,019	522,917	486,079	60,410	546,489
Pension cost payable to Pension Fund	-31,090	-3,561	-34,651	-31,693	-3,581	-35,274
Actuarial gain/loss (-)	32,624	3,360	35,984	-53,229	-2,628	-55,857
Reversal of IAS19 entries	30,252	1,845	32,097	65,741	1,818	67,559
Balance at 31 March	498,684	57,663	556,347	466,898	56,019	522,917

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

28 Cash Flow - Operating Activities

The cash flows for operating activities include the following items:

	2016/17	2015/16
	£000	£000
Interest received	-1,477	-2,223
Interest paid	29,607	30,905
Dividend received	-634	-716

29 Cash Flow - Adjustments to net surplus or deficit on the provision of services for non-cash movements

	2016/17	2015/16
	£000	£000
Pension adjustments	2,554	-32,285
Depreciation, impairment and amortisation	-60,651	-57,901
Revaluation gains/losses	-82,044	156,331
Carrying amount of non-current assets sold	-58,190	-23,318
Movements on -		
Provisions	1,350	-769
Inventories	-105	347
Revenue debtors (including bad debt provision)	3,707	-16,812
Revenue creditors	2,265	2,064
Other	446	254
Total non-cash movements	-190,668	27,911

30 Cash Flow - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	2016/17	2015/16
	£000	£000
Capital grants	22,603	17,572
Proceeds from the sale of PPE, investment property and intangible assets.	10,648	11,716
Total	33,251	29,288

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

31 Trading Operations

The Council carries out the following trading operations, which function in a competitive environment:

	2016/17			2015/16		
	Turnover	Expenditure	Surplus(-)/ Deficit	Turnover	Expenditure	Surplus(-)/ Deficit
	£000	£000	£000	£000	£000	£000
Cleaning of Buildings	-6,474	7,115	641	-6,454	7,039	585
Building Services	-38,500	37,546	-954	-43,318	41,228	-2,090
Transport Services	-6,263	5,941	-322	-8,516	8,259	-257
Highways Direct	-17,276	17,175	-101	-16,880	16,592	-288
Catering	-19,809	19,363	-446	-17,814	17,845	31
Looking Local	-1,154	1,045	-109	-1,611	1,361	-250
Building Control	-803	803	0	-726	654	-72
Markets	-1,838	2,260	422	-1,867	1,719	-148
Trade Refuse	-3,778	3,237	-541	-3,503	3,268	-235
Car Parking	-4,124	2,403	-1,721	-4,827	2,523	-2,304
Commercial Estates	-3,091	1,609	-1,482	-2,973	1,623	-1,350
	-103,110	98,497	-4,613	-108,489	102,111	-6,378

Trading operations are incorporated in the CIES in Net Cost of Services, with the exception of Commercial Estates which is included within Financing and Investment Income and Expenditure as it relates to investment property.

For accounting purposes, material surpluses/deficits arising from internal trading are reallocated back to services at the year end. The following table reconciles what is disclosed under Trading in the financial statements:

	2016/17 £000	2015/16 £000
Net surplus on trading operations	-4,613	-6,378
Internal Trading surpluses/deficits recharged back to CIES Expenditure	925	2,043
Rentals Received and Expenses Incurred on Investment Property	1,482	1,350
Net gains in Net Cost of Services	-2,206	-2,985

The following table lists out the adjustments made to reallocate surpluses and deficits:

	2016/17 £000	2015/16 £000
Cleaning of Buildings – charge to various services	-738	-732
Building Services – mainly refunded to HRA	939	1,996
Highways Direct Services – refund to Highways	101	270
Transport Services – refund to various services	623	509
	925	2,043

Additional Information Relating to Trading Operations

Building Services carries out repairs and maintenance on Council buildings, including housing stock. Work is won in open competition. External income is only 1% to 2% of turnover.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Transport Services is responsible for the procurement, maintenance and disposal of vehicles and plant, which are used to deliver key front line services. The service's charges are competitive with external providers. External income is around 4% of turnover.

Highways Direct is commissioned by Highway Services to carry out routine maintenance of the highway network, as well as reactive and emergency works. It also carries out winter maintenance for the Council, including precautionary gritting and snow clearing.

Catering's main customers are school pupils, providing over 7 million meals annually to approximately 36,700 customers.

32 External Audit Costs

KPMG is the Council's appointed auditor. The fees payable were as follows:

	2016/17 £000	2015/16 £000
For external audit services	159	159
For the certification of grant claims and returns	38	28
Other assurance work	17	16
	214	203

33 Pooled Funds

Section 75 of the National Health Service Act 2006 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds allow health bodies and local authorities to work collaboratively to address specific local health issues.

Integrated Community Equipment Service

In 2003/04, the Council in association with the local Clinical Commissioning Groups (CCGs) (formerly Primary Care Trusts) established an Integrated Community Equipment Service. The partners contribute funds to the agreed budget and there is no fixed split of contributions. These are negotiated and agreed between the parties each year. The pooled budget is hosted by the Council on behalf of the partners to the arrangement.

Integrated Community Equipment Service	2016/17 £000	2015/16 £000
<u>Funding provided to the pooled budget</u>		
Kirklees Council	-1,981	-2,616
Greater Huddersfield CCG	-961	-885
North Kirklees CCG	-747	-687
Total Funding	-3,689	-4,188
<u>Expenditure met from the pooled budget</u>		
Kirklees Council	1,499	1,826
Greater Huddersfield CCG	844	876
North Kirklees Clinical CCG	655	680
Total Expenditure	2,998	3,382
Net surplus arising on pooled budget during the year	-691	-806
Council share of the net surplus arising on the pooled budget	-482	-790

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Better Care Fund

Introduced with effect from the 2015/16 financial year, the Better Care Fund was established by the Government to drive closer integration with health services and improve outcomes for patients and service users. The Council in association with the local CCGs established a pooled budget to deliver the aims of the Better Care Fund in Kirklees. The pooled budget is hosted by the Council on behalf of the partners to the arrangement.

Better Care Fund	2016/17	2015/16
	£000	£000
<u>Funding provided to the pooled budget</u>		
Kirklees Council	-4,175	-2,398
Greater Huddersfield CCG	-14,726	-14,697
North Kirklees CCG	-11,878	-11,858
Total Funding	-30,779	-28,953
<u>Expenditure met from the pooled budget</u>		
Kirklees Council	4,175	1,362
Greater Huddersfield CCG	14,726	14,697
North Kirklees CCG	11,878	11,858
Total Expenditure	30,779	27,917
Net surplus arising on pooled budget during the year	0	-1,036
Council share of the net surplus arising on the pooled budget	0	-1,036

The 2015/16 funding and expenditure figures have been switched between the two CCGs, as they were incorrectly attributed and presented in the 2015/16 Statement of Accounts.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

34 Officers' Remuneration

The number of employees whose remuneration was £50,000 or more was as follows. This table includes Senior Officers who are disclosed in the next part of the note:

Remuneration Band (£)	2016/17		2015/16	
	Teachers	Other	Teachers	Other
50,000 - 54,999	46	35	54	34
55,000 - 59,999	37	34	38	30
60,000 - 64,999	30	6	32	10
65,000 - 69,999	18	6	19	3
70,000 - 74,999	14	4	10	1
75,000 - 79,999	2	1	3	2
80,000 - 84,999	0	1	1	2
85,000 - 89,999	1	3	1	6
90,000 - 94,999	1	1	1	3
95,000 - 99,999	1	2	0	0
100,000 - 104,999	0	1	1	0
105,000 - 109,999	1	1	1	0
110,000 - 114,999	0	0	0	0
115,000 - 119,999	0	0	0	1
120,000 - 124,999	0	0	0	3
125,000 - 129,999	0	2	0	0
130,000 - 134,999	0	0	0	0
135,000 - 139,999	0	1	0	1
140,000 - 144,999	0	0	0	0
145,000 - 149,999	0	1	0	0
150,000 - 154,999	0	0	0	0
155,000 - 159,999	0	1	0	1
Total	151	100	161	97

The remuneration figures include employee pension contributions and any severance costs, but exclude employer's pension contributions.

It should be noted that 14 employees received redundancy payments in 2016/17 (2015/16 9 employees) and exceeded the £50,000 remuneration band, who would not normally have done so.

The note excludes employees of Voluntary Aided and Trust Schools as they are employed by the School Governors, not the Council, even though payments are made by the Council.

The following table sets out the remuneration disclosures for the Council's Senior Officers (Directors' Group and Monitoring Officer), whose full time equivalent salary is equal to or more than £50,000 per year. The definition of Senior Officers are those officers who have statutory responsibilities and/or are responsible for strategic decisions in the Council. In line with statutory regulations, officers with a salary of £150,000 or more per year are named.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Senior Officers' emoluments

Post holder information (Post title)	Salary including fees and allowances £	Compensation for loss of office £	Total Remuneration Excluding pension contributions £	Employers pension contributions (10) £	Total Remuneration including pension contributions £
2016/17					
Chief Executive – Adrian Lythgo (1)	136,754	0	136,754	18,872	155,626
Chief Executive – Jacqui Gedman (2)	4,131	0	4,131	604	4,735
Director of Resources (3)	59,204	97,522	156,726	63,598	220,324
Director for Children & Young People (4)	10	0	10	1	11
Director for Children & Young People (5)	109,172	0	109,172	15,066	124,238
Interim Director for Children & Young People (6)	31,303	0	31,303	4,392	35,695
Director for Economy, Skills & Environment (2)	121,952	0	121,952	16,890	138,842
Director of Communities, Transformation & Change (7)	63,706	0	63,706	8,820	72,526
Director of Public Health	72,149	0	72,149	12,377	84,526
Director of Commissioning, Public Health & Adult Social Care	125,284	0	125,284	17,369	142,653
Interim Director for Economy, Skills & Environment (8)	16,451	0	16,451	2,346	18,797
Assistant Director Financial Management, Risk, IT & Performance (9)	42,778	0	42,778	5,931	48,709
Monitoring Officer	95,517	0	95,517	13,242	108,759
2015/16					
Chief Executive – Adrian Lythgo (1)	156,907	0	156,907	21,653	178,560
Director of Resources (3)	123,972	0	123,972	17,108	141,080
Director for Children & Young People (4)	137,113	0	137,113	18,922	156,035
Director for Children & Young People (5)	6,812	0	6,812	940	7,752
Director for Economy, Skills & Environment (2)	121,357	0	121,357	16,747	138,104
Director of Communities, Transformation & Change (7)	118,440	0	118,440	16,345	134,785
Director of Public Health	68,805	0	68,805	11,530	80,335
Director of Commissioning, Public Health & Adult Social Care	123,972	0	123,972	17,108	141,080
Monitoring Officer	91,765	0	91,765	12,664	104,429

- (1) The Chief Executive left the authority on 19 February 2017.
- (2) The Director for Economy, Skills & Environment was acting Deputy Chief Executive from March 2016 to 20 February 2017 when they were appointed Acting Chief Executive: their annualised salary as Chief Executive was £150,774.
- (3) The Director of Resources left the authority on 30 September 2016.
- (4) This Director of Children & Young People left the authority on 3 April 2016.
- (5) This Director of Children & Young People was appointed on 21 March 2016: their annualised salary was £113,828. They left the authority on 26 March 2017.
- (6) The Interim Director for Children & Young People was appointed on 1 January 2017: their annualised salary was £113,828.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

- (7) The Director of Communities, Transformation & Change has been on secondment with a neighbouring authority since 14 November 2016.
- (8) The Interim Director for Economy, Skills & Environment was appointed on 20 February 2017: their annualised salary was £119,521.
- (9) The Assistant Director Financial Management, Risk, IT & Performance became Section 151 Officer on 1 October 2016.
- (10) No added years pensions were provided for Senior Officers.

It should be noted that the 2015/16 figures for senior officers emoluments only relates to individuals who continued to be employed in 2016/17 and will exclude those who left the Council in 2015/16. This is because the requirements of this note are specific to employees qualifying for the current year, not for persons who left the authority in the prior year.

Exit Packages and Termination Benefits

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs. Pension strain arises when an employee retires early without actuarial reduction of their pension.

Exit package cost band	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	Split of exit packages (Termination Benefit)	Split of exit packages (Pension Strain)
2016/17				£000	£000	£000
£0 - £20,000	0	97	97	995	949	46
£20,001 - £40,000	0	26	26	687	579	108
£40,001 - £60,000	0	16	16	801	362	439
£60,001 - £80,000	0	6	6	416	153	263
£80,001 - £100,000	0	9	9	843	89	754
£100,001 - £150,000	0	10	10	1,172	291	881
£150,001 - £200,000	0	3	3	516	156	360
Total	0	167	167	5,430	2,579	2,851
2015/16						
£0 - £20,000	0	130	130	1,229	1,097	132
£20,001 - £40,000	0	39	39	1,026	579	447
£40,001 - £60,000	0	6	6	309	142	167
£60,001 - £80,000	0	7	7	470	173	297
£80,001 - £100,000	0	4	4	367	80	287
£100,001 - £150,000	0	1	1	128	39	89
Total	0	187	187	3,529	2,110	1,419

The figures for 2016/17 include 33 employees (2015/16 78 employees), who had not left the Council as at 31 March 2017, but had agreed package offers. The estimated cost of these packages are £1.4 million (31 March 2016 £1.3 million) and have been accrued into the CIES and included in a provision.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

35 Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are as follows:

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2016/17 before Academy recoupment			-335,190
Academy figure recouped for 2016/17			91,831
Total DSG after Academy recoupment for 2016/17			-243,359
Plus brought forward from 2015/16			-6,407
Less carry forward to 2017/18 agreed in advance			0
Agreed budgeted distribution for 2016/17	-41,096	-208,670	-249,766
In year adjustments	253	214	467
Final budgeted distribution for 2016/17	-40,843	-208,456	-249,299
Less actual central expenditure	38,524		38,524
Less actual ISB deployed to schools		210,457	210,457
Plus Council contribution for 2016/17	0	-2,001	-2,001
Total carry forward to 2017/18	-2,319	0	-2,319

36 Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows stakeholders 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 transact freely with the Council.

i) Elected Members and Chief Officers

There were five material disclosures to declare for 2016/17, four relating to Elected Members and a chief officer. The material disclosures are mentioned below. It should be noted that all members' financial and other interests which could conflict with those of the Council are open to public inspection as required by regulation. Members are also required to disclose personal and prejudicial interests in matters being considered at meetings at which they are present. Officers also have a duty to declare any interests which could conflict with those of the Council.

A Councillor worked as a solicitor for a local housing association. In 2016/17, the Council made payments of £0.628 million to the association and received £0.030 million from the association.

A Councillor was a Non-Executive Director of Yorkshire Water Services Ltd. During 2016/17, the Council made payments of £1.192 million to the company and received £0.037 million from the company.

A Councillor is a director for a social enterprise delivering a range of local services and facilities for the benefit of residents in a local ward of Huddersfield. In 2016/17, the Council made payments of £0.231 million to the enterprise and received £0.071 million from the enterprise.

A Councillor's partner was the manager of an independently run local community centre. The Council made payments of £0.075 million to the centre in 2016/17.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

A director is also a chief officer for North Kirklees Clinical Commissioning Group. In 2016/17 the Council made payments of £0.640 million to the group and received £19.163 million from the group.

ii) Companies

The Council has a number of interests in companies. The main transactions were as follows (payments and receipts shown gross):

	Receipts from the companies		Payments to the companies		Net amounts owed to/by(-) the Council	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	31 March 2017 £000	31 March 2016 £000
Kirklees Henry Boot Partnership Limited	-3	-19	0	0	0	1,093
Calderdale and Kirklees Careers Service	-118	-118	2,576	2,832	18	41
Kirklees Active Leisure	-1,965	-1,562	2,922	3,201	251	175
Kirklees Community Association	-160	-131	0	0	5	21
Kirklees Theatre Trust	-3	-4	267	273	3	-5
Kirklees Music School	-15	-11	7	306	0	1
Media Centre Network Ltd	0	0	21	5	0	0
Yorkshire Energy Services	-142	-29	6	0	12	5
Locala Community Partnerships	-599	-476	12,075	8,387	195	282
Northern College For Residential Adult	0	0	16	11	0	0
Deighton & Brackenhall Initiative Ltd	0	-237	0	0	0	0
YHGfL Foundation	-51	-50	0	17	32	0

Kirklees Henry Boot Partnership Limited has become dormant and as part of that process transferred two properties to the Council valued at £0.392 million.

The Council has given a loan to Media Centre Network Ltd. As at 31 March 2017, £0.203 million was outstanding (£0.203 million as at 31 March 2016).

The following related party transactions are disclosed elsewhere in the accounts:

- The UK Central Government exerts significant influence through legislation and grant funding (see note 37).
- NHS Bodies (see note 33 and 37).
- Precepting authorities (see the CIES and the Collection Fund Income and Expenditure Statement). The Council also pays Joint Committees for providing services such as Trading Standards and West Yorkshire Combined Authority. Payments in 2016/17 amounted to £20.5 million (2015/16 £20.0 million). Certain Parish Councils have also invested funds with the Council. As at 31 March 2017, £0.374 million (£0.326 million at 31 March 2016) was invested.
- Pension Fund (see note 41).
- Subsidiary (Kirklees Neighbourhood Housing Limited) and joint venture company (Kirklees Stadium Development Limited) included in Group Accounts.
- PFI Transactions (see note 40 and note H10 in the HRA).

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

37 Grant Income

The Council credited the following grants and contributions to the CIES:

	2016/17 £000	2015/16 £000
<u>Credited to Taxation and Non Specific Grant Income</u>		
Revenue Support Grant (RSG)	-47,846	-64,556
NNDR Top up Grant	-21,429	-21,252
PFI Grants	-11,359	-11,359
Education Services Grant	-4,598	-5,184
New Homes Grant	-8,860	-7,660
Small Businesses Rate Relief	-5,361	-4,824
Other Non-Specific Grants (under £2 million)	-4,463	-7,317
<u>Grants and Contributions related to capital financing which cannot be identified to particular services or assets</u>		
Standards Fund	-10,114	-6,926
Local Transport Plan (LTP)	-7,853	-8,537
Other Capital Grants and Contributions (under £2 million)	-5,174	-2,647
Total	-127,057	-140,262
<u>Credited to Services</u>		
<u>Revenue</u>		
Dedicated Schools Grant	-242,892	-250,121
DWP – Rent Allowance	-62,875	-65,194
DWP – Rent Rebate	-51,555	-53,773
Department of Health Grant (Public Health)	-27,347	-24,991
Clinical Commissioning Groups (CCGs)	-15,944	-14,860
Pupil Premium Grant	-14,928	-15,632
PFI Grant (ring fenced to HRA)	-7,912	-7,912
Universal Infant Free School Meals Grant	-4,720	-4,987
Other Revenue Grants and Contributions (under £2 million)	-16,027	-15,647
<u>Capital (REFCUS)</u>		
Standards Fund	-2,758	-3,429
Disabled Facilities Grant	-2,483	-1,362
Various Capital Grants and Contributions (under £2 million)	-281	-476
Total	-449,722	-458,384
Total Grants in CIES	-576,779	-598,646

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

38 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The movement in CFR is analysed in the second part of this note.

	2016/17	2015/16
	£000	£000
<i>Opening Capital Financing Requirement</i>	720,740	740,594
<u>Capital Investment</u>		
Property, Plant and Equipment	52,111	63,925
Heritage Assets	0	17
Investment Property	331	134
Intangible Assets	133	112
Revenue Expenditure Funded from Capital under Statute	14,658	9,833
Loans and Investments	3,599	1,120
<u>Sources of Finance</u>		
Capital Receipts	-10,457	-6,592
Government Grants and Other Contributions	-25,929	-25,307
Major Repairs Reserve	-10,965	-11,457
Direct Revenue Contributions	-6,201	-20,357
To repay debt:		
Minimum Revenue Provision	-17,490	-26,400
Major Repairs Reserve	-6,259	-4,173
Capital Receipts	-2,948	-709
<i>Closing Capital Financing Requirement</i>	711,323	720,740
<u>Explanation of movements in year</u>		
Increase in underlying need to borrow:		
PFI Finance Lease Liability	188	164
Other	17,092	11,264
Provision for Repayment of Debt	-26,697	-31,282
<i>Decrease in Capital Financing Requirement</i>	-9,417	-19,854

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

39 Leases

Council as Lessee

Finance Leases

The Council has a finance lease on Civic Centre 1, the Stadium Pool & Fitness Suite and also on part of Dewsbury Sports Centre. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2017	31 March 2016
	£000	£000
Cost or valuation		
At 1 April	14,594	14,035
Additions & Transfers	210	2,309
Revaluation decreases recognised in the Revaluation Reserve	0	-1,750
At 31 March	14,804	14,594
Depreciation and impairments		
At 1 April	-442	-1,033
Depreciation charge	-368	-364
Depreciation written out to the Revaluation Reserve	0	955
At 31 March	-810	-442
Net Book Value as at 31 March	13,994	14,152

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

	31 March 2017	31 March 2016
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
Non-current	1,049	1,049
Finance costs payable in future years	6,511	6,601
Minimum lease payments	7,560	7,650

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	£000	£000	£000	£000
Not later than one year	90	90	0	0
Later than one year and not later than five years	360	360	0	0
Later than five years	7,110	7,200	1,049	1,049
	7,560	7,650	1,049	1,049

In year the amount of contingent rents paid was £0.2 million (2015/16 £0.2 million).

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Council as Lessor

Finance Leases:

The Council leases out large numbers of long land leases on 999 year terms and various ground leases on varying terms, mainly between 99 and 150 years. In addition, schools that have been transferred to academy status are on long-term leases. However, these are at peppercorn rentals and therefore there is no value in the leases.

The Council has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2017 £000	31 March 2016 £000
Finance lease debtor (net present of value of minimum lease payments):		
Non-current	3,415	3,416
Unearned finance income	15,654	15,928
Gross investment in the lease	19,069	19,344

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Not later than one year	275	275	275	275
Later than one year and not later than five years	1,100	1,100	1,100	1,100
Later than five years	17,694	17,969	17,694	17,969
	19,069	19,344	19,069	19,344

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into. As there are no contingent rents the minimum lease payments are the same as the gross investment in the leases.

Operating Leases:

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

- For service provision. For example, the Markets' service hires out stalls within Market Halls.
- Receiving income from land and property on a commercial basis.
- Sports facilities to Kirklees Active Leisure (a company that runs community recreation facilities on behalf of the Council). The rentals are at peppercorn rents.
- Various buildings and sites leased to contractors carrying out the Council's PFI schemes. Rentals are at peppercorn rents.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The value of the assets leased out is as follows:

	31 March 2017 £000	31 March 2016 £000
Cost or valuation		
At 1 April	167,965	148,525
Additions	987	1,966
Revaluation decreases recognised in the Revaluation Reserve	-22	-7,748
Revaluation decreases recognised in provision of services	-2,544	-8,063
De-recognition - disposals	-15,757	-602
De-recognition - other	-5,067	0
Other movements in cost or valuation (re-classifications)	-3,271	33,887
At 31 March	142,291	167,965
Depreciation and impairments		
At 1 April	-17,707	-20,969
Depreciation and impairment charge for year	-6,530	-2,063
Depreciation written out to the Revaluation Reserve	1,964	4,133
Depreciation written out to the Surplus/Deficit to Services	419	1,191
De-recognition - disposals	14,807	1
De-recognition - other	5,067	0
At 31 March	-1,980	-17,707
Net Book Value at 31 March	140,311	150,258

The other movements line in the table above includes the new Huddersfield Sports Centre being transferred from assets under construction in 2015/16. The figures for 2016/17 include the de-recognition of the old Huddersfield Sports Centre and Whitcliffe Mount Sports Centre which have been demolished.

The Council received £5.0 million in rent on operating leases in 2016/17 (£5.4 million 2015/16). Total contingent rents recognised in the period was £0.1 million (£0.1 million in 2015/16).

The following shows commitments relating to non-cancellable contracts:

	31 March 2017 £000	31 March 2016 £000
Not later than one year	1,549	1,590
Later than one year and not later than five years	2,875	3,029
Later than five years	2,953	3,271
	7,377	7,890

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

40 Private Finance Initiative (PFI) Transactions

The Council has four PFI schemes – waste disposal, two school and housing schemes. A summary of all scheme future payments, asset values and liability values are shown below. This is followed by the details on each scheme with the exception of the Housing PFI, which is covered in note H10 for the HRA.

Estimated payments on all schemes are as follows:

	Service Charges £000	Interest Charges £000	Repayments Of Liability £000	Other £000	Total £000
In 2017/18	21,698	8,255	5,457	1,532	36,942
Between 2018/19 to 2021/22	91,463	28,959	23,487	6,753	150,662
Between 2022/23 to 2026/27	88,055	26,692	28,143	9,077	151,967
Between 2027/28 to 2031/32	83,357	14,988	42,165	8,220	148,730
Between 2032/33 to 2034/35	26,182	1,308	19,130	1,776	48,396
	310,755	80,202	118,382	27,358	536,697

The value of assets held under all schemes:

	2016/17 £000	2015/16 £000
Net Book Value at 1 April	88,797	99,394
Additions	4,040	1,419
Revaluations net of depreciation written back	-1,990	-3,660
Disposals	-6,223	-5,196
Depreciation	-2,608	-3,160
Net Book Value at 31 March	82,016	88,797

The value of liabilities for all schemes:

	2016/17 £000	2015/16 £000
At 1 April	-116,970	-121,753
Movement in the year	4,668	4,783
At 31 March	-112,302	-116,970

a) Waste Disposal Services

In April 1998, the Council entered into a twenty five year contract for waste disposal services, with Kirklees Waste Services Ltd (now Suez Recycling and Recovery Kirklees Ltd). The Council leased various sites, including landfill and civic amenity, to the operator and the operator pledged as part of the contract to carry out capital work, which included the building of a new waste to energy plant/recycling centre at Huddersfield and a transfer station at Dewsbury. All assets constructed on leased land come into Council ownership at the end of the contract and these assets must be in a condition which would allow services to continue. Contract payments are part fixed and the other part varies according to tonnages and meeting targets. The Council pays for any additional costs arising from new statutory requirements concerning waste disposal, such as Landfill Tax.

The Council incurred costs of £12.4 million under the contract in 2016/17 (2015/16 £13.0 million) and received £3.2 million in PFI Grant (2015/16 £3.2 million). Details of estimated payments due to be made are as follows:

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Service Charges £000	Interest Charges £000	Repayments Of Liability £000	Total £000
In 2017/18	9,115	664	1,421	11,200
Between 2018/19 to 2021/22	37,339	1,614	5,847	44,800
In 2022/23	9,367	127	1,706	11,200
	55,821	2,405	8,974	67,200

The estimated payments for service charges are based on expected tonnages and 2016/17 price base. The estimates do not include extra charges arising from changes in statutory regulations.

Under this contract, the operator receives a significant part of their income from third parties, either from gate fees, sale of energy production or recycled materials. A proportion of the assets are effectively financed with third party revenues rather than with fixed payments from the Council. A balancing credit, pro rata to the proportion of fixed payments from the Council and expected third party payments, has been created in the form of a Deferred Income balance. This balance is released to income and expenditure over the life of the contract, with a corresponding appropriation from the Capital Adjustment Account to the Movement in Reserves Statement. The balance as at 31 March 2017 was £3.2 million (31 March 2016 £3.8 million).

The value of assets (other land and buildings) held under this scheme is as follows:

	2016/17 £000	2015/16 £000
Net Book Value at 1 April	17,898	26,753
Additions	14	13
Revaluations net of depreciation written back	-352	-7,608
Depreciation	-781	-1,260
Net Book Value at 31 March	16,779	17,898

The value of liabilities held under this scheme is as follows:

	2016/17 £000	2015/16 £000
At 1 April	-10,351	-11,767
Movement in the year	1,437	1,416
At 31 March	-8,914	-10,351

b) Schools 1

In March 2001, the Council entered into a thirty two and a half year contract with Kirklees Schools Services Ltd for the delivery to nineteen of the Council's schools of:

- Initial investment to carry out major repairs and improvements.
- Maintenance of the buildings over the contract period.
- Provision of caretaking and cleaning services for the contract period.

At the start of the contract, existing school buildings were leased to the operator. At the end of the contract, the operator is obliged to hand over the schools to the Council in a specified condition for no incremental consideration. Some of the schools have transferred to academy/trust status during the contract and therefore hold no balance sheet value for the Council.

The operator does have the right to use the assets for appropriate third party use, outside the times they must be available to meet the Council's requirements. The amount of third party use varies from asset to asset, but is not significant within the overall context of the contract.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The Council incurred costs of £14.5 million under the contract in 2016/17 (2015/16 £14.4 million) and received £5.9 million in PFI Grant (2015/16 £5.9 million). Details of estimated payments due to be made are as follows:

	Service Charges £000	Interest Charges £000	Repayments Of Liability £000	Other £000	Total £000
In 2017/18	9,032	2,763	1,350	1,199	14,344
Between 2018/19 to 2021/22	39,370	10,005	5,191	5,245	59,811
Between 2022/23 to 2026/27	54,691	10,098	8,649	7,277	80,715
Between 2027/28 to 2031/32	58,537	5,767	16,483	7,349	88,136
Between 2032/33 to 2033/34	17,266	385	6,258	1,776	25,685
	178,896	29,018	37,931	22,846	268,691

Estimated payments assume annual inflation of 2.5%, where appropriate. Other costs largely relate to lifecycle replacement costs.

The value of assets (other land and buildings) held under this scheme is as follows:

	2016/17 £000	2015/16 £000
Net Book Value at 1 April	46,736	52,273
Additions	3,749	1,031
Disposals	0	-5,196
Depreciation	-1,259	-1,372
Net Book Value at 31 March	49,226	46,736

The value of liabilities held under this scheme is as follows:

	2016/17 £000	2015/16 £000
At 1 April	-38,498	-39,325
Movement in the year	565	827
At 31 March	-37,933	-38,498

c) Schools 2

In March 2005, the Council entered into a PFI contract with QED (KMC) Holdings Ltd for a period until 31 August 2031, for delivery to three of the Council's Special Schools of:

- New build schools at two sites, and major extensions to and full refurbishment of existing buildings at a third.
- Maintenance of the buildings over the contract period.
- Provision of caretaking, cleaning and other premises management functions over the term of the contract.

The operator is obliged to hand over the schools to the Council in a specified condition at the end of the contract for no incremental consideration. Some of the schools have transferred to academy/trust status during the contract and therefore hold no balance sheet value for the Council.

The Council incurred costs of £2.8 million under the contract in 2016/17 (£2.8 million in 2015/16) and received £2.2 million in PFI Grant (2015/16 £2.2 million). Details of estimated payments due to be made are as follows:

NOTES TO THE MAIN FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Service Charges	Interest Charges	Repayments Of Liability	Other	Total
	£000	£000	£000	£000	£000
In 2017/18	1,191	719	492	333	2,735
Between 2018/19 to 2021/22	5,016	2,525	1,835	1,508	10,884
Between 2022/23 to 2026/27	6,954	2,197	2,670	1,800	13,621
Between 2027/28 to 2031/32	6,925	778	3,632	871	12,206
	<u>20,086</u>	<u>6,219</u>	<u>8,629</u>	<u>4,512</u>	<u>39,446</u>

Part of the contract payment deflates at 2.5% annually, whilst the other part is indexed annually in line with "All items RPI". The estimated payments above assume future annual inflation of 2.5%, where appropriate. Other costs largely relate to lifecycle replacement costs.

The value of assets (other land and buildings) held under this scheme is as follows:

	2016/17	2015/16
	£000	£000
Net Book Value at 1 April	10,777	10,838
Additions	104	224
Disposals	-6,223	0
Depreciation	-291	-285
Net Book Value at 31 March	<u>4,367</u>	<u>10,777</u>

The value of liabilities held under this scheme is as follows:

	2016/17	2015/16
	£000	£000
At 1 April	-9,211	-9,743
Movement in the year	582	532
At 31 March	<u>-8,629</u>	<u>-9,211</u>

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

41 Pensions Disclosures

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

- The Local Government Pension Scheme (LGPS) – a funded defined benefit final salary scheme administered by the West Yorkshire Pension Fund (WYPF) whereby the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets in the long term. Employee benefits earned up to 31 March 2014 are linked to final salary, after 31 March 2014 benefits are based on a Career Average Revalued Earnings Scheme.
- Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited on behalf of the Department for Education. Under the Code, this scheme is classed as a multi-employer defined benefit scheme for which liabilities of individual employers cannot be separated. The scheme is therefore treated as a defined contribution scheme under the Code. In 2016/17, the Council paid £15.5 million (2015/16 £14.9 million) in respect of teachers' retirement benefits, representing 16.5% (2015/16 15.3%) of pensionable pay. A payment of £1.2 million was owing to the scheme as at 31 March 2017 (31 March 2016 £1.3 million). As a proportion of the total contributions to the scheme during the year ending 31 March 2017, the Council's contribution equated to approximately 0.28% (2015/16 0.28%).
- Employees transferred across from Kirklees PCT (Public Health) are members of the NHS Pension Scheme, administered by the NHS Business Services Authority (NHSBSA). Similar to the Teachers' Pension Scheme, this scheme is classed as a multi-employer defined benefit scheme and is treated as a defined contribution scheme under the Code. In 2016/17, the Council paid £0.2 million (2015/16 £0.2 million) to the NHSBSA, representing 14.3% (2015/16 14.3%) of pensionable pay. As a proportion of the total contributions to the Scheme during the year ending 31 March 2017, the Council's contribution equated to approximately 0.002% (2015/16 0.002%).

In addition, the Council has awarded discretionary post-retirement benefits upon early retirement (including to teachers) – these are unfunded defined benefit arrangements, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions' liabilities, and cash has to be generated to meet actual pensions' payments as they eventually fall due.

Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the CIES and the General Fund Balance via the Movement in Reserves Statement:

In terms of the LGPS, the actuary's calculations allowed for the 2016 Valuation of the Fund. The effect of allowing for this is shown in the actuarial gains/losses due to liability experience and the remeasurement of assets. The demographic assumptions have been updated to reflect those used at the 2016 Valuation. In addition, the calculations take into account the effect of building services staff transferred to Kirklees Neighbourhood Housing Ltd (KNH) and staff transferred to academies during the year:

- The transfer to KNH resulted in a decrease in the notional assets of £59.2 million and a decrease in liabilities of £87.3 million (a settlement gain of £28.1 million);
- The transfer of academy staff resulted in a decrease in the notional assets of £10.2 million and a decrease in liabilities of £14.1 million (a settlement gain of £3.9 million).

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	LGPS		Teachers	Total
	Funded	Unfunded	£000	£000
	£000	£000		
2016/17				
Comprehensive Income and Expenditure Statement				
<u>Cost of Services:</u>				
Current service cost	44,975	0	0	44,975
Past service cost	2,305	0	0	2,305
Settlements and Curtailments	-31,987	0	0	-31,987
<u>Financing and Investment income and Expenditure:</u>				
Net interest expense	13,988	971	1,845	16,804
Total Post-employment Benefits charged to the Deficit on the Provision of Services	29,281	971	1,845	32,097
<u>Remeasurement of the net defined benefit liability comprising:</u>				
Return on plan assets (excluding the amount included in the net interest expense)	-233,449	0	0	-233,449
Actuarial gains and losses arising on changes in demographic assumptions	-50,066	-273	-234	-50,573
Actuarial gains and losses arising on changes in financial assumptions	381,796	2,187	4,957	388,940
Actuarial gains and losses due to liability experience	-67,305	-267	-1,363	-68,935
Total Post Employment Benefit charged to the CIES	60,257	2,618	5,205	68,080
Movement in Reserves Statement				
Reversal of net charges made to the Deficit on the Provision of Services for retirement benefits	-29,281	-971	-1,845	-32,097
Actual amount charged against General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	28,906	2,184		31,090
Retirement benefits payable to pensioners			3,561	3,561

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

2015/16	LGPS		Teachers	Total
	Funded £000	Unfunded £000	£000	£000
Comprehensive Income and Expenditure Statement				
<u>Cost of Services:</u>				
Current service cost	49,487	0	0	49,487
Past service cost	1,235	0	0	1,235
Settlements and Curtailments	0	0	0	0
<u>Financing and Investment income and Expenditure:</u>				
Net interest expense	14,052	967	1,818	16,837
Total Post-employment Benefits charged to the Surplus on the Provision of Services	64,774	967	1,818	67,559
<u>Remeasurement of the net defined benefit liability comprising:</u>				
Return on plan assets (excluding the amount included in the net interest expense)	38,462	0	0	38,462
Actuarial gains and losses arising on changes in demographic assumptions	0	0	0	0
Actuarial gains and losses arising on changes in financial assumptions	-73,098	-842	-1,591	-75,531
Actuarial gains and losses due to liability experience	-17,203	-548	-1,037	-18,788
Total Post Employment Benefit charged to the CIES	12,935	-423	-810	11,702
Movement in Reserves Statement				
Reversal of net charges made to the Surplus on the Provision of Services for retirement benefits	-64,774	-967	-1,818	-67,559
Actual amount charged against General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	29,400	2,293		31,693
Retirement benefits payable to pensioners			3,581	3,581

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	LGPS		Teachers	Total
	Funded	Unfunded		
	£000	£000	£000	£000
2016/17				
Opening balance 1 April 2016	-1,887,026	-29,630	-56,019	-1,972,675
Current Service Cost	-44,975	0	0	-44,975
Interest cost	-62,193	-971	-1,845	-65,009
Contributions by scheme participants	-12,073	0	0	-12,073
Remeasurement gain/loss(-):				
Arising on changes in demographic assumptions	50,066	273	234	50,573
Arising on changes in financial assumptions	-381,796	-2,187	-4,957	-388,940
Due to liability experience	67,305	267	1,363	68,935
Benefits/transfers paid	57,095	2,184	3,561	62,840
Past service costs	-2,305	0	0	-2,305
Settlements	101,462	0	0	101,462
Closing balance 31 March 2017	-2,114,440	-30,064	-57,663	-2,202,167
2015/16				
Opening balance 1 April 2015	-1,909,580	-32,346	-60,410	-2,002,336
Current Service Cost	-49,487	0	0	-49,487
Interest cost	-60,427	-967	-1,818	-63,212
Contributions by scheme participants	-12,885	0	0	-12,885
Remeasurement gain/loss(-):				
Arising on changes in financial assumptions	73,098	842	1,591	75,531
Due to liability experience	17,203	548	1,037	18,788
Benefits/transfers paid	56,287	2,293	3,581	62,161
Past service costs	-1,235	0	0	-1,235
Closing balance 31 March 2016	-1,887,026	-29,630	-56,019	-1,972,675

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

	31 March 2017 £000	31 March 2016 £000
Opening balance 1 April	1,449,758	1,455,847
Interest income on assets	48,205	46,375
Remeasurement gains and losses	233,449	-38,462
Employer contributions	28,906	29,400
Contributions by scheme participants	12,073	12,885
Benefits paid	-57,095	-56,287
Settlements	-69,475	0
Closing balance 31 March	1,645,821	1,449,758

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The actual return on scheme assets in the year showed a return of £281.7 million (2015/16 return of £7.9 million). WYPF does not hold any of the Council's transferable financial instruments as plan assets.

Assets in the LGPS are valued at fair value, principally market value for investments, totalling £13.54 billion for the Fund as a whole at 31 March 2017 (£11.15 billion at 31 March 2016). The approximate split of assets for the Fund as a whole is shown in the table below. The assets allocated to each employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the total Fund. The Fund is largely liquid and as a consequence there would be no significant restriction on realising assets if a large payment is required to be paid (e.g. bulk transfer payment).

The administering authority does not invest in property or assets related to itself. It is possible, however, that assets may be invested in shares relating to some of the private sector employers participating in the Fund, if it forms part of their balanced investment strategy.

The percentage breakdown of Fund assets is as follows:

			2016/17	2015/16
	Quoted	Unquoted	Total	Total
	%	%	%	%
Equity investments	70.3	6.9	77.2	75.2
Government Bonds	10.1	0.0	10.1	10.7
Other Bonds	3.9	0.0	3.9	4.6
Property	4.3	0.0	4.3	4.9
Cash/ liquidity	1.2	0.0	1.2	1.3
Other	1.4	1.9	3.3	3.3
	91.2	8.8	100.0	100.0

A more detailed breakdown of assets and associated risks are published in the accounts for the West Yorkshire Pension Fund. These form part of Bradford MDC Statement of Accounts and can be found at –

<http://www.bradford.gov.uk/your-council/council-budgets-and-spending/statement-of-accounts>

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the LGPS and Teachers' Unfunded Discretionary Benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the LGPS being based on the latest full valuation of the West Yorkshire Pension Fund carried out as at 31 March 2016.

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The principal assumptions used by the actuary have been:

	2016/17			2015/16		
	LGPS		Teachers	LGPS		Teachers
	Funded	Unfunded		Funded	Unfunded	
Rate of inflation – RPI	3.10%	3.10%	3.10%	2.90%	2.90%	2.90%
Rate of inflation – CPI	2.00%	2.00%	2.00%	1.80%	1.80%	1.80%
Rate of increase in salaries	3.25%	n/a	n/a	3.30%	n/a	n/a
Rate of increase in pensions	2.00%	2.00%	2.00%	1.80%	1.80%	1.80%
Rate for discounting liabilities	2.60%	2.60%	2.60%	3.40%	3.40%	3.40%
Take up of option to convert annual pension into retirement grant	75%	n/a	n/a	75%	n/a	n/a
<u>Mortality assumptions (years):</u>						
Longevity at 65 for current pensioners:						
Men	22.1	22.1	22.1	22.7	22.7	22.7
Women	25.2	25.2	25.2	25.6	25.6	25.6
Longevity at 65 for future pensioners:						
Men	23.0	n/a	n/a	24.9	n/a	n/a
Women	27.0	n/a	n/a	28.0	n/a	n/a

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 that for each change only the assumption being analysed changes, whilst all other assumptions remain constant. The analysis only applies to Funded LGPS benefits – the sensitivity of unfunded benefits is not included on materiality grounds. The base figure for the liabilities is £2,114.4 million and for projected service cost is £60.1 million.

	2016/17		2015/16	
Discount rate assumption				
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.	+0.1% p.a.	-0.1% p.a.
Present value of total obligation £k	2,075,909	2,153,686	1,851,714	1,923,012
% change in present value of total obligation	-1.8%	+1.9%	-1.9%	+1.9%
Projected service cost £k	58,292	61,921	46,551	49,717
Approximate % change in projected service cost	-3.0%	+3.1%	-3.2%	+3.3%
Rate of general increase in salaries				
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.	+0.1% p.a.	-0.1% p.a.
Present value of total obligation £k	2,122,620	2,106,339	1,895,724	1,878,422
% change in present value of total obligation	+0.4%	-0.4%	+0.5%	-0.5%
Projected service cost £k	60,084	60,084	48,114	48,114
Approximate % change in projected service cost	0.0%	0.0%	0.0%	0.0%

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

Rate of increase to pensions in payment and deferred pensions assumptions, and rate of revaluation of pension accounts assumption				
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.	+0.1% p.a.	-0.1% p.a.
Present value of total obligation £k	2,145,433	2,083,938	1,914,234	1,860,239
% change in present value of total obligation	+1.5%	-1.4%	+1.4%	-1.4%
Projected service cost £k	61,921	58,292	49,717	46,551
Approximate % change in projected service cost	+3.1%	-3.0%	+3.3%	-3.2%
Post retirement mortality assumption*				
Adjustment to longevity	-1 Year	+1 Year	-1 Year	+1 Year
Present value of total obligation £k	2,177,723	2,051,512	1,935,529	1,858,391
% change in present value of total obligation	+3.0%	-3.0%	+2.6%	-2.6%
Projected service cost £k	62,264	60,084	49,703	46,520
Approximate % change in projected service cost	+3.6%	-3.6%	+3.3%	-3.3%
<i>*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them.</i>				

Asset and Liability Matching Strategy

	2016/17	2015/16	2014/15	2013/14	2012/13
	£000	£000	£000	£000	£000
Present value of liabilities:					
LGPS Funded	-2,114,440	-1,887,026	-1,909,580	-1,672,002	-1,888,995
LGPS Unfunded	-30,064	-29,630	-32,346	-31,664	-33,089
Teachers	-57,663	-56,019	-60,410	-58,471	-58,433
Fair value of assets in the LGPS	1,645,821	1,449,758	1,455,847	1,313,769	1,272,570
Deficit in the scheme:					
LGPS Funded	-468,619	-437,268	-453,733	-358,233	-616,425
LGPS Unfunded	-30,064	-29,630	-32,346	-31,664	-33,089
Teachers	-57,663	-56,019	-60,410	-58,471	-58,433
Total	-556,346	-522,917	-546,489	-448,368	-707,947

The net liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £556.3 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- Funding is only required to be raised to cover the unfunded benefits when the pensions are actually paid.

It should be noted that the net liability is volatile as:

- The liabilities are linked to yields on AA-rated corporate bonds
- A significant proportion of the assets of the scheme are invested in equities.

Changes in equity markets in conjunction with any volatility on the discount rate, leads to volatility in the funded status of the pension plan. This volatility also affects actuarial gains and losses in Other Comprehensive Income.

An asset-liability matching strategy aims to match the amount and timing of cash inflows from plan assets with those of cash outflows from the defined benefit obligation. WYPF does not currently

NOTES TO THE MAIN FINANCIAL STATEMENTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

have any formal asset liability matching strategies in place such as annuities or longevity swaps to manage risk, although it does review the mix of assets held after each triennial valuation, to ensure there is an appropriate balance between the expected return from those assets and the risk that outcomes will not meet expectations.

WYPF aim to reach 100% funding over a period of time and therefore that the assets built up will be able to meet all present and future liabilities. The way in which WYPF seeks to achieve this is set out in their Funding Strategy Statement (FSS), which in turn also refers to the Statement of Investment Principles (SIP) governing the asset mix which WYPF would seek to hold at any time. Both the Funding Strategy Statement and Statement of Investment Principles can be found at WYPF's website:

http://www.wypf.org.uk/Member/Publications/PolicyStatements/WYPF/PolicyStatements_WYPF_Ind ex.aspx

The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2018 is £27.5 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

42 Contingent Liabilities

The Council has the following significant contingent liabilities:

- The Council has given guarantees for outstanding contributions to Pension Funds, in the event of default by the following bodies: Calderdale and Kirklees Careers Company Ltd; North Kirklees CAB; Kirklees Active Leisure; Deighton and Sheepridge Partnership; and Locala Community Partnerships CIC. In addition, the Council gives assurance to the Board of Kirklees Neighbourhood Housing, in the form of an annual letter, that it will underwrite the company's pension liabilities.
- The Council has given an unlimited guarantee in perpetuity to the Homes & Communities Agency (HCA) in the event of default by Kirklees Community Association (KCA) of the conditions of their grant agreement with HCA for the redevelopment of the Fieldhead Estate. The guarantee contains two elements: that KCA will complete the development required by HCA; and that KCA will discharge the clawback obligations due to the HCA whenever there is a disposal of the land – either under right to acquire legislation or to a disponent that is not a registered social landlord. In practice, the guarantee will not be discharged until the last dwelling on the estate built with HCA grant monies has been acquired under right to acquire legislation.
- The Council has several closed landfill sites which it continues to monitor and incur costs for gas control, leachate disposal and, in a few cases, restoration work. This is an extremely complex exposure to compute with very uncertain, potentially indefinite, timescales and therefore as a reliable estimate cannot be made, no provision has been made in the accounts for this obligation. Based on a worst case scenario, it is considered that total restoration and aftercare costs could be up to £4 million over the next 30 years.
- Many NHS trusts across the country have made a backdated claim for mandatory charitable business rates relief. The Council has yet to receive a claim for NHS trusts in the area, but estimates that such a claim, should it be successful, would amount to £6.3 million. This would be charged to the Collection Fund, with 51% being charged on to the other beneficiaries of NNDR income.

43 Impairment

During 2016/17 there were impairment losses of £4.3 million due to demolition of Whitcliffe Mount Sports Centre.

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents 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 rents are raised, is shown in the Movement on the HRA Statement.

	2016/17 £000	2015/16 £000	Notes
Expenditure			
Repairs and maintenance	21,214	20,052	
Supervision and management	23,592	23,504	
Special services	1,520	1,390	
Rent, rates, taxes and other charges	288	418	
Depreciation of non-current assets	17,224	15,630	H1
Debt management costs	13	11	
Movement in the allowance for bad debts	679	890	
Revaluation losses on property, plant and equipment	79,898	5	H1
Total Expenditure	144,428	61,900	
Income			
Dwelling rents	-82,791	-84,136	
Non-dwelling rents	-233	-250	
Charges for services and facilities	-2,960	-3,029	
Contributions towards expenditure	0	-2	
Grants and contributions	-7,987	-7,917	H10
Revaluation gains on property, plant and equipment	-3,350	-179,473	H1
Total Income	-97,321	-274,807	
Net Expenditure/Income(-) of HRA Services as included in the CIES	47,107	-212,907	
HRA share of Corporate & Democratic Core	391	384	
HRA share of Non-distributed costs	28	28	
Net Expenditure/Income(-) of HRA Services	47,526	-212,495	
HRA share of operating income and expenditure included in the CIES:			
Gain on sale of HRA non-current assets	-3,066	-1,880	H4
Interest payable and similar charges	13,307	13,947	
Interest and investment income	-150	-726	H1
Income and expenditure in relation to investment properties and changes in fair value	-1,322	-1,128	
Capital grants and contributions receivable	-123	-351	
Surplus(-)/deficit for the year on HRA services	56,172	-202,633	

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

MOVEMENT ON THE HRA STATEMENT

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

	2016/17		2015/16	
	£000	£000	£000	£000
				Note
Balance on the HRA at the end of the previous year		-42,804		-35,770
Surplus for the year on the HRA Income and Expenditure Statement		56,172		-202,633
<u>Adjustments involving the Capital Adjustment Account:</u>				
Net revaluation gains/losses(-) on PPE	-76,548		179,468	H1
Movements in the market value of Investment Property	931		732	
Capital grants and contributions applied	123		351	
Amounts of non-current assets written off on disposal or sale	-4,898		-3,710	H4
Capital expenditure charged against balances	4,823		10,430	
Provision for the financing of capital investment	2,259	-73,310	2,159	189,430
<u>Adjustments involving the Capital Receipts Reserve:</u>				
Transfer of cash sale proceeds credited as part of the gain/ loss on disposal	8,023		5,617	H4
Contribution towards administrative costs of asset disposals	-58	7,965	-27	5,590
<u>Adjustments involving the Financial Instruments Adjustment Account:</u>				
Amount by which finance costs charged to the HRA Income and Expenditure Account are different from those required by statutory regulations		-36		579
Increase in the year on the HRA		-9,209		-7,034
Balance at the end of the current year		-52,013		-42,804

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

NOTES TO THE HRA

H1 Depreciation and revaluation gains/losses

The depreciation charge for council dwellings in 2016/17 is £17.1 million (2015/16 £15.4 million). Revaluations of council dwellings during the year resulted in £76.5 million loss (2015/16 £179.5 million net gain). This loss is a result of a reduction in the adjustment factor used to arrive at the value of housing stock. The value is obtained by taking the cost of buying a vacant dwelling of a similar type, and applying an adjustment factor according to the type of tenancy and regional factors to reflect that the property is used for social housing. The Stock Valuation guidance provides the adjustment factor. However if the valuer feels that this does not provide a fair reflection of the existing use social housing for the portfolio as a whole in the local area then a different adjustment factor can be used. After valuing the Kirklees housing stock, the valuer felt that this was the case, thus reducing the adjustment factor from 41% to 35%. There are transitional arrangements in place permitting impairment and revaluation gains/losses to be reversed out in the Movement on the HRA statement to the leave the HRA balance unaffected.

There was a revaluation gain on investment properties of £0.9 million in 2016/17 (2015/16 £0.7 million gain).

H2 Movement in HRA Fixed Assets

	PPE Council Dwellings £000	Council Dwellings Held For Sale £000	Other Land and Buildings £000	Investment Properties £000	Total Assets £000
Cost or Valuation					
At 1 April 2016	680,119	1,924	3,697	8,441	694,181
Additions	16,382	0	0	0	16,382
Revaluation decreases recognised in the Revaluation Reserve	-679	0	-5	0	-684
Revaluation increases/decreases(-)					
Revaluation recognised in Surplus on the Provision of Services	-93,586	0	-21	931	-92,676
De-recognition - disposals	-3,261	-1,637	0	0	-4,898
Assets reclassified to(-)/ from Held for Sale	-1,884	1,884	0	0	0
Other movement in cost or valuation	10	0	-10	-50	-50
At 31 March 2017	597,101	2,171	3,661	9,322	612,255
Accumulated Depreciation and Impairment					
At 1 April 2016	0	0	-305	0	-305
Depreciation charge	-17,054	0	-170	0	-17,224
Depreciation written out to the Revaluation Reserve	0	0	465	0	465
Depreciation written out to Surplus on the Provision of Services	17,054	0	5	0	17,059
Other movements in depreciation and impairment	-5	0	5	0	0
At 31 March 2017	-5	0	0	0	-5
Net Book Value					
at 31 March 2017	597,096	2,171	3,661	9,322	612,250
at 1 April 2016	680,119	1,924	3,392	8,441	693,876

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

H3 Fixed Asset Valuation

A revaluation of HRA dwellings was carried out as at 1 April 2016 by Cushman and Wakefield, who are RICS qualified. As at that date, the vacant possession value of dwellings was £1,674 million. The difference between this and the Balance Sheet value reflects the economic cost of providing council housing at less than open market rents.

H4 Gains and Losses on Asset Disposals

Gains and losses on asset disposals are shown on the face of the HRA Income and Expenditure Statement. The gain on disposal in 2016/17 was £3.1 million (2015/16 gain £1.9 million).

H5 Major Repairs Reserve

Statutory regulation requires that a Major Repairs Reserve is maintained. The main credit to the reserve is an amount equivalent to the charge for depreciation on HRA assets. The reserve can be used to finance new capital expenditure on HRA assets or repay HRA debt.

	2016/17	2015/16
	£000	£000
Balance at 1 April	0	0
Amount equivalent to depreciation	-17,224	-15,630
	-17,224	-15,630
Financing of new capital expenditure	10,965	11,457
Used to repay debt	6,259	4,173
Balance at 31 March	0	0

H6 Capital Expenditure and Sources of Finance

	2016/17	2015/16
	£000	£000
Capital Expenditure:		
Fixed Assets (including PFI)	16,382	22,806
Total Capital Expenditure	16,382	22,806
Financed by:		
Finance Lease (PFI)	-173	-151
Major Repairs Reserve	-10,965	-11,457
Capital Receipts	-298	-417
Capital Grant and Contributions	-123	-351
Revenue	-4,823	-10,430
Total Sources of Finance	-16,382	-22,806

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

H7 Capital Receipts

	2016/17	2015/16
	£000	£000
Capital receipts from sales of:		
Dwellings	-7,945	-5,245
Land	-70	-389
Clawback of legal title on Right to Buy sales	-7	0
Capital receipts from mortgage repayments	-12	-4
	-8,034	-5,638
Contribution to Housing Pooled Capital Receipts	2,043	2,087
Disposal costs	58	27
Usable capital receipts	-5,933	-3,524

The HRA is required to pay over a certain proportion of capital receipts into a national pooling arrangement.

H8 Housing Stock

The Council's housing stock at 31 March 2017 is analysed below by size and age:

	1	2	3	4+	
<u>By Size</u>	Bedroom	Bedrooms	Bedrooms	Bedrooms	Total
Houses/ Bungalows	2,793	5,602	4,510	333	13,238
Flats/ Bedsits and Maisonettes	7,020	2,416	113	0	9,549
	9,813	8,018	4,623	333	22,787
<u>By Age</u>	Pre 1945	1945-64	1965-74	Post 1974	
Houses/ Bungalows	5,706	5,340	1,543	649	13,238
Flats/ Bedsits and Maisonettes	189	2,355	3,888	3,117	9,549
	5,895	7,695	5,431	3,766	22,787

H9 Rent Arrears

Net rent arrears have increased over the year, as follows:

	2016/17	2015/16
	£000	£000
Rent Arrears	2,366	2,468
Less Bad Debt Provision	-737	-778
Net Rent Arrears	1,629	1,690

H10 Housing PFI

In December 2011, the Council entered into a twenty two and a half year contract with Regenter Excellent Homes for Life for the design, build, financing and operation of a PFI contract to provide 466 units of HRA housing. The contractor has a licence from the Council to build and operate on Council sites. The operator is obliged to hand over the housing units in a specified condition at the end of the contract for no incremental consideration. Rent income is collected by Kirklees Neighbourhood Housing (KNH) on behalf of the Council.

The Council incurred costs of £8.8 million under the contract in 2016/17 (2015/16 £8.8 million) and received £7.9 million in PFI Grant (2015/16 £7.9 million). Details of estimated payments due to be made are as follows:

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	Service Charges £000	Interest Charges £000	Repayments of Liability £000	Total £000
In 2017/18	2,360	4,109	2,194	8,663
Between 2018/19 and 2021/22	9,738	14,815	10,614	35,167
Between 2022/23 and 2026/27	17,043	14,270	15,118	46,431
Between 2027/28 and 2031/32	17,895	8,443	22,050	48,388
Between 2032/33 and 2034/35	8,916	923	12,872	22,711
Total	55,952	42,560	62,848	161,360

Part of the contract is indexed annually in line with RPI (assumed to be 2.5% throughout the life of the contract).

The value of assets (Council Dwellings) held under this scheme is as follows:

	2016/17 £000	2015/16 £000
Net Book Value at 1 April	13,386	9,530
Additions	173	151
Revaluations net of depreciation written back	-1,638	3,948
Depreciation	-277	-243
Net Book Value at 31 March	11,644	13,386

The value of liabilities held under this scheme is as follows:

	2016/17 £000	2015/16 £000
At 1 April	-58,910	-60,918
Movement in the year	2,085	2,008
At 31 March	-56,825	-58,910

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

COLLECTION FUND STATEMENT

The Collection Fund Statement shows the transactions of the billing council in relation to the collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic (Business) Rates.

	2016/17			2015/16			
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	Note
Income							
Income from Council Tax		-177,597	-177,597		-168,786	-168,786	C1
Income Collectable from Business Ratepayers	-106,407		-106,407	-102,346		-102,346	C2
Contributions towards previous years' Collection Fund deficit	-8,599	0	-8,599	-6,166	0	-6,166	
Total Income	-115,006	-177,597	-292,603	-108,512	-168,786	-277,298	
Expenditure							
Precepts and demands -							
Central Government	52,491		52,491	52,493		52,493	
Kirklees Council	51,441	149,913	201,354	51,443	141,463	192,906	
West Yorkshire Fire and Rescue	1,050	6,770	7,820	1,050	6,513	7,563	
West Yorkshire Police		16,549	16,549		15,681	15,681	
Allowance for impairment of debt	1,424	1,726	3,150	1,149	1,761	2,910	
Provision for Appeals	-159	0	-159	1,063	0	1,063	
Cost of collection	613		613	611		611	
Transitional Protection Payment	553		553	209		209	
Interest paid on refunds	0		0	81		81	
Distribution of previous year's Collection Fund surplus		4,531	4,531		3,268	3,268	
Total Expenditure	107,413	179,489	286,902	108,099	168,686	276,785	
Surplus(-)/Deficit	-7,593	1,892	-5,701	-413	-100	-513	
Balance at 1 April	10,269	-5,385	4,884	10,682	-5,285	5,397	
Balance at 31 March	2,676	-3,493	-817	10,269	-5,385	4,884	C3

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

NOTES TO THE COLLECTION FUND STATEMENT

C1 Council Tax

The Council Tax is charged on a series of property valuation bands. These bands, the charges due for the year and the average Council Tax are shown below.

Estimated at the start of the year						
Number of Chargeable Dwellings	2016/17		Band	2015/16		
	Band D Equivalent Dwellings	Average Council Tax		Number of Chargeable Dwellings	Band D Equivalent Dwellings	Average Council Tax
		£				£
72	40	848.77	A (5/9)	75	42	817.24
50,877	33,918	1,018.52	A (6/9)	50,299	33,533	980.69
26,732	20,791	1,188.27	B (7/9)	26,580	20,673	1,144.13
26,462	23,522	1,358.03	C (8/9)	26,307	23,384	1,307.58
14,557	14,557	1,527.78	D (9/9)	14,455	14,455	1,471.03
10,236	12,511	1,867.29	E (11/9)	10,170	12,430	1,797.93
4,677	6,756	2,206.79	F (13/9)	4,621	6,675	2,124.82
1,907	3,179	2,546.30	G (15/9)	1,884	3,140	2,451.72
98	196	3,055.56	H (18/9)	93	187	2,942.06
	115,470		Total		114,519	
	-2,081		Estimated losses on collection		-3,266	
	113,389		Council Tax Base		111,253	

C2 Non-Domestic (Business) Rates

The Government specifies a multiplier and, subject to the effects of transitional arrangements and other reliefs, local businesses pay rates calculated by applying the multiplier to their rateable value. There are two multipliers – the national non-domestic rating multiplier of 49.7p (2015/16 49.3p) and the small business non-domestic rating multiplier of 48.4p (2015/16 48.0p) which is applicable to those that qualify for small business rate relief. The Council is responsible for collection rates due from ratepayers in its area and pays 50% of the proceeds to Central Government and 1% to West Yorkshire Fire and Rescue Authority.

	2016/17	2015/16
	£000	£000
Non-domestic rate income 2016/17 (average rateable value £279,858,911.49)	-139,262	
Non-domestic rate income 2015/16 (average rateable value £281,261,920.10)		-138,176
Allowance and other adjustments (net)	32,855	35,830
	-106,407	-102,346

The actual non-domestic rateable value at 31 March 2017 was £279,886,053 (£281,094,949 at 31 March 2016).

Kirklees has been part of a Leeds City Region (LCR) business rates pool since April 2013. It pools the business rates income of member authorities, which includes Kirklees, Bradford, Wakefield & Calderdale (top up authorities), and Leeds, Harrogate and York (tariff authorities). Leeds are the lead authority for the administration of the LCR Pool. The Pool is established for one year at a time, and member authorities have confirmed their continued participation in the Pool in 2017/18.

ADDITIONAL FINANCIAL STATEMENTS
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

The pooling proposals offer suitable groups of authorities (where there is a mixture of top-ups and tariffs) the opportunity to avoid or significantly reduce government levies for which their tariff authorities would otherwise be liable if they grow their business rates income by more than inflation. As a result of the latter, the LCR Pool was able to generate £4.1 million in 2016/17 for the benefit of all Pool members. It is anticipated that, after allowing for agreed expenses, it will be allocated to the Investment Fund established by the Leeds City Region.

C3 Movement on Balances

The balance on the Collection Fund relates to Council Tax, Community Charge and Business Rates. That part of the balance which relates to Community Charge will be paid to the Council in subsequent financial years. That part of the balance which relates to Council Tax will be shared between the Council, West Yorkshire Police Authority and West Yorkshire Fire and Rescue Authority in proportion to their precepts and demand on the Fund, again in subsequent financial years. That part of the balance which relates to Business Rates will be shared between the Council, Central Government and West Yorkshire Fire and Rescue Authority in proportion to their precepts and demand on the Fund, again in subsequent financial years. The balance is split as follows:

	1 April 2016 £000	Share of 2016/17 Surplus(-)/ Deficit £000	31 March 2017 £000
Council Tax and Community Charge			
Kirklees Council : Community Charge	-10	0	-10
Council Tax	-4,646	1,638	-3,008
Collection Fund Adjustment Account – Council Tax	-4,656	1,638	-3,018
West Yorkshire Police Authority – Council Tax	-515	180	-335
West Yorkshire Fire and Rescue Authority – Council Tax	-214	74	-140
	-5,385	1,892	-3,493
Business Rates			
Kirklees Council – Business Rates	5,032	-3,721	1,311
Collection Fund Adjustment Account - Business Rates	5,032	-3,721	1,311
Central Government - Business Rates	5,134	-3,796	1,338
West Yorkshire Fire and Rescue Authority – Business Rates	103	-76	27
	10,269	-7,593	2,676

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the CIES as it falls due from payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

GROUP ACCOUNTS

INTRODUCTION

The increasing diversity of service delivery vehicles used by local authorities over recent years has resulted in a requirement to produce Group Accounts. Rather than just using traditional types of service provision, many local authorities now form or invest in separate companies in the public and private sector. As these companies and investments are separate entities, they are not considered in the accounts of the Council. This can result in accounts that do not give a full picture of the services provided and the risks, rewards and costs taken on as a result.

The Group Accounts include:

- **Movement in Reserves Statement**
- **Comprehensive Income and Expenditure Statement**
- **Balance Sheet**
- **Cash Flow Statement**
- **Notes to the Accounts**

The Council's Group Accounts for 2016/17 are made up of the accounts of the Council, a wholly owned subsidiary (Kirklees Neighbourhood Housing Limited) and a joint venture (Kirklees Stadium Development Limited). The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the subsidiary aforementioned. The subsidiary is consolidated using "the acquisition method". The consolidation has been prepared in accordance with the IFRS Code and CIPFA's Group Accounts in Local Authorities Practitioners' Workbook. Any divergences from these recommended practices are explained in the notes to the Group Accounts.

Kirklees Neighbourhood Housing Limited (KNH)

The principal activity of KNH is to manage, maintain and improve the housing stock owned by the Council. The body is a company limited by guarantee. The Company has fifteen directors, five nominated by the Council, five tenant representatives and five independent representatives. Despite the composition of the board, the Council maintains 100% of the risk, reward and control.

KNH produce their own set of accounts with a year end date of 31 March. Copies of the accounts can be obtained from Kirklees Neighbourhood Housing, 2nd Floor, Perseverance House, St Andrews Road, Aspley, Huddersfield, HD1 6RY. Due to the timing of the requirement to produce the Group Accounts, draft KNH accounts have been used for this consolidation.

The Council's building services staff (508 staff in total), transferred to KNH in October 2016. This was a preliminary step in advance of the formal transfer of building services operation to the company in April 2017. The transferred staff were charged back to the Council on an agency basis for the period October 2016 to March 2017 (£7.8 million). The staff transfer also involved a corresponding transfer of net pension liability from the Council to KNH's balance sheet of £28.1 million. The Council ultimately underwrites 100% of the net pension liabilities of KNH.

In 2016/17, the Company made an operating deficit of £0.7 million (operating deficit £1.2 million 2015/16). The figures including the effects of IAS19 are an operating deficit of £27.3 million (operating surplus of £0.5 million 2015/16).

As at 31 March 2017, the Company had net assets of £1.5 million (£2.3 million at 31 March 2016). The figures including the effects of IAS19 are net liabilities of £32.5 million (£5.1 million at 31 March 2016).

Kirklees Stadium Development Limited (KSDL)

The company was formed to carry out the development, construction and running of the sports stadium in Huddersfield. At the Company's Balance Sheet date, the Council had a shareholding of 40%, with Huddersfield Sporting Pride Limited holding 20% and Huddersfield Town Association Football Limited holding 40%.

Given the nature of KSDL's business, the ideal time for preparing accounts is during the football close season, giving the company a year end date of 31 July. In order to achieve a consolidation consistent

GROUP ACCOUNTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

with the Council's Balance Sheet date, KSDL management have provided management accounts as at 31 March 2017.

In 2016/17, based on the Council's interest and adjusted in line with the Group's accounting policies, the Company made an operating deficit of £0.2 million (operating deficit £0.1 million 2015/16). Similarly, as at 31 March 2017, the Company had net assets of £5.5 million (£5.7 million at 31 March 2016).

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This Statement sets out the accounting cost of the Group providing services in accordance with generally accepted accounting practices. This may be different from the accounting cost.

	2016/17			2015/16		
	Gross Exp £000	Gross Income £000	Net Exp £000	Gross Exp £000	Gross Income £000	Net Exp £000
Children & Young People	388,173	-289,447	98,726	385,329	-296,305	89,024
Commissioning, Public Health & Adults	174,676	-81,926	92,750	165,293	-74,425	90,868
Place	111,845	-44,603	67,242	123,381	-42,502	80,879
Resources	163,409	-122,703	40,706	166,671	-126,456	40,215
Communities, Transformation & Change	14,750	-1,562	13,188	21,071	-3,505	17,566
Economic Resilience	13,016	-2,425	10,591	13,722	-979	12,743
Early Intervention & Prevention	24,676	-1,010	23,666	23,406	-1,209	22,197
Central Budgets	25,926	-3,983	21,943	28,854	-2,819	26,035
District Committee managed budgets	448	0	448	316	0	316
HRA	129,099	-95,717	33,382	46,923	-272,845	-225,922
Subsidiary (KNH)	24,065	-228	23,837	13,382	-222	13,160
Cost of Services	1,070,083	-643,604	426,479	988,348	-821,267	167,081
Other operating expenditure			52,223			18,195
Financing and investment income and expenditure			30,414			32,709
Taxation and non-specific grant income			-330,198			-333,258
Surplus(-)/Deficit on Provision of Services			178,918			-115,273
Joint venture accounted for on an equity basis			158			98
Tax expenses of subsidiary and joint venture			3			4
Group Surplus(-)/Deficit			179,079			-115,171
Surplus(-)/Deficit on revaluation of PPE and Heritage assets			-16,699			-6,560
Impairment losses on non-current assets to the Revaluation Reserve			384			314
Surplus on revaluation of available for sale financial assets			-30			-113
Remeasurements of the net defined benefit liability			31,373			-59,215
Share of other comprehensive income and expenditure of joint venture			77			52
Other Comprehensive Income and Expenditure			15,105			-65,522
Total Comprehensive Income and Expenditure			194,184			-180,693

GROUP ACCOUNTS

KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

GROUP STATEMENT OF MOVEMENT IN RESERVES

This statement shows the movements in year on the different reserves held by the Group, analysed between usable reserves and unusable reserves.

	General Fund Balances £000	Housing Revenue Account £000	Useable Capital Reserves £000	Total Council Usable Reserves £000	Total Council Unusable Reserves £000	Total Council Reserves £000	Group Entities Usable Reserve £000	Group Entities Unusable Reserves £000	Total Group Reserves £000
2016/17									
Balance at 31 March 2016	-113,156	-42,804	-24,414	-180,374	-413,705	-594,079	3,537	-4,173	-594,715
Movement in reserves during 2016/17									
Total Comprehensive Income and Expenditure	112,092	42,447	0	154,539	19,639	174,178	20,006	0	194,184
Adjustments between group and authority accounts	-21,315	13,725	0	-7,590	0	-7,590	7,590	0	0
Adjustments between accounting & funding basis under regulations	-67,731	-65,381	22	-133,090	133,090	0	0	0	0
Net Increase(-)/ Decrease	23,046	-9,209	22	13,859	152,729	166,588	27,596	0	194,184
Balance at 31 March 2017 carried forward	-90,110	-52,013	-24,392	-166,515	-260,976	-427,491	31,133	-4,173	-400,531
2015/16									
Balance at 31 March 2015	-135,505	-35,770	-24,175	-195,450	-219,447	-414,897	5,048	-4,173	-414,022
Movement in reserves during 2015/16									
Total Comprehensive Income and Expenditure	86,929	-215,648	0	-128,719	-62,216	-190,935	10,242	0	-180,693
Adjustments between group and authority accounts	-1,262	13,015	0	11,753	0	11,753	-11,753	0	0
Adjustments between accounting & funding basis under regulations	-63,318	195,599	-239	132,042	-132,042	0	0	0	0
Net Increase(-)/ Decrease	22,349	-7,034	-239	15,076	-194,258	-179,182	-1,511	0	-180,693
Balance at 31 March 2016 carried forward	-113,156	-42,804	-24,414	-180,374	-413,705	-594,079	3,537	-4,173	-594,715

GROUP BALANCE SHEET

This Group Balance Sheet summarises the financial position of the Group. It shows the value of the Group assets and liabilities at the end of the financial year.

	31 March 2017 £000	31 March 2016 £000	Note
Property, Plant & Equipment	1,362,348	1,511,803	
Heritage Assets	49,578	37,172	
Investment Property	95,465	89,463	
Intangible Assets	1,610	3,039	
Long Term Investments	2,803	1,881	
Investments in Joint Venture	5,508	5,743	
Long Term Debtors	27,592	27,683	
Long Term Assets	1,544,904	1,676,784	
Inventories	2,613	2,719	
Short Term Debtors	53,145	52,934	
Assets Held for Sale	2,797	1,924	
Cash and Cash Equivalents	35,629	33,687	G3
Current Assets	94,184	91,264	
Short Term Borrowing	-42,404	-20,920	
Short Term Creditors	-71,392	-73,037	
Other Short Term Liabilities	-5,588	-4,993	
Provisions	-4,559	-4,959	
Current Liabilities	-123,943	-103,909	
Long Term Borrowing	-400,498	-408,402	
Other Long Term Liabilities	-714,116	-661,022	
Long Term Liabilities	-1,114,614	-1,069,424	
Net Assets	400,531	594,715	
Usable Reserves	-135,382	-176,837	
Unusable Reserves	-265,149	-417,878	G4
Total Reserves	-400,531	-594,715	

GROUP CASH FLOW STATEMENT

This Group Cash Flow Statement summarises the cash flows of the Group during the year.

	2016/17		2015/16		Note
	£000	£000	£000	£000	
Net surplus(-)/deficit on the provision of services		178,918		-115,273	
Adjustments to net surplus/deficit on the provision of services for non-cash movements		-228,229		27,342	
Adjustment for items included in the net surplus/deficit on the provision of services that are investing and financing activities		33,251		29,288	
Net cash flows from Operating Activities		-16,060		-58,643	
Net cash flows from Investing Activities					
Purchase of PPE, investment property and intangible assets	54,588		64,030		
Purchase of short-term and long-term investments	3,666		1,120		
Proceeds from the sale of PPE, investment property and intangible assets	-10,544		-11,808		
Proceeds from short-term and long-term investments	-3,344		-942		
Other receipts from investing activities	-21,848	22,518	-18,264	34,136	
Net cash flows from Financing Activities					
Cash receipts of short and long-term borrowing	-84,053		-5,860		
Other receipts from financing activities	-282		-1,074		
Cash payments for the reduction for the outstanding liabilities relating to finance leases and PFI contracts	4,806		4,926		
Repayments of short and long-term borrowing	70,491		25,314		
Other payments for financing activities	638	-8,400	0	23,306	
Net increase in cash and cash equivalents		-1,942		-1,201	
Cash and cash equivalents at the beginning of the reporting period		33,687		32,486	G3
Cash and cash equivalents at the end of the reporting period		35,629		33,687	G3

G1 Accounting Policies

The main accounting policies to which the Council now complies with under IFRS for Group Accounts are IAS27 “Consolidated and Separate Financial Statements” and IAS31 “Interests in Joint Ventures”.

Companies do have some scope to adopt different accounting policies under UK GAAP and therefore adjustments must be made to the company figures and policies where necessary in order to bring them into line with the reporting authority’s policies.

The accounting policies used in the Group Accounts are the same as those for the single entity accounts unless otherwise stated.

Pensions

The Council is required to account for its group companies with defined benefit pension schemes using IAS19. The specific accounting treatments of IAS19 are detailed in the single entity’s accounting policies.

KNH has a defined benefit pension scheme and accounts for this under Financial Reporting Standard 102. For group consolidation, figures have had to be converted to an IAS19 basis. Companies are not allowed to reverse out the effect of pension accounting entries, unlike local authorities. This means that they must be accounted for in the Group CIES, rather than by an appropriation to/from a pension reserve.

Tangible Fixed Assets

The Code requires that the reporting authority and its companies share the same accounting policies in relation to measurement, recognition, valuation and depreciation of fixed assets. These policies are detailed in the single entity accounting policies.

Due to its size and unique nature, the stadium owned by KSDL has not been revalued and is held on the Balance Sheet at historical cost.

G2 Adjustment between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

This note details the adjustments between group accounts and authority accounts which is needed because the movements in the authority’s reserves may be affected by the consolidation adjustments. The entry to balance the adjustment to the authority’s balances has been made against the usable reserves of the Group.

	General Fund Balances	Housing Revenue Account	Useable Capital Reserves	Total Council Usable Reserves	Total Council Unusable Reserves	Total Council Reserves	Group Entities Usable Reserve	Group Entities Unusable Reserves	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2016/17									
Purchase of goods and services from subsidiary	-21,315	13,725	0	-7,590	0	-7,590	7,590	0	0
Total adjustments between Group Accounts	-21,315	13,725	0	-7,590	0	-7,590	7,590	0	0
2015/16									
Purchase of goods and services from subsidiary	-1,262	13,015	0	11,753	0	11,753	-11,753	0	0
Total adjustments between Group Accounts	-1,262	13,015	0	11,753	0	11,753	-11,753	0	0

G3 Cash and Cash Equivalents

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

	KNH £000	Council £000	Total £000
Cash held	1	32	33
Bank current accounts	1,010	5,269	6,279
Instant access interest accounts	7,272	31,276	38,548
	8,283	36,577	44,860
Cash in transit	0	1,189	1,189
BACs payments and cheques not yet cleared	-160	-10,260	-10,420
Total Cash and Cash Equivalents as at 31 March 2017	8,123	27,506	35,629
Cash held	1	34	35
Bank current accounts	42	5,193	5,235
Instant access interest accounts	2,488	38,374	40,862
	2,531	43,601	46,132
Cash in transit	0	1,630	1,630
BACs payments and cheques not yet cleared	0	-14,075	-14,075
Total Cash and Cash Equivalents as at 31 March 2016	2,531	31,156	33,687

G4 Unusable Reserves

The following table provides details of the unusable reserves of the group:

	KSDL £000	Council £000	Total £000
Capital Adjustment Account	-4,173	-651,904	-656,077
Revaluation Reserve	0	-173,361	-173,361
Pensions Reserve	0	556,347	556,347
Other	0	7,942	7,942
Balance at 31 March 2017	-4,173	-260,976	-265,149
Capital Adjustment Account	-4,173	-775,358	-779,531
Revaluation Reserve	0	-171,404	-171,404
Pensions Reserve	0	522,917	522,917
Other	0	10,140	10,140
Balance at 31 March 2016	-4,173	-413,705	-417,878

G5 Related Party Transactions

The notes below disclose the related party transactions between the Council and KNH and KSDL.

Kirklees Neighbourhood Housing Limited

During 2016/17, KNH incurred costs of £2.6 million (2015/16 £2.5 million) for Council services including insurance and office accommodation. The transfer of building services involved a transfer of net pension liability of £28.1 million from the Council to KNH.

The Council incurred costs of £14.7 million (2015/16 £14.4 million) in relation to KNH's management fee, and a further £7.8 million in relation to the building services staff charged back from October 2016. At 31 March 2017, £0.3 million was outstanding (31 March 2016 nil).

Kirklees Stadium Development Limited

The Council made grant payments totalling £0.1 million to KSDL (2015/16 £0.1 million).

G6 Notes to the Cash Flow Statement

The cash flows of KNH are consolidated into the statement -

KNH - The Company has a Net Cash inflow of Operating Activities of £5.6 million (2015/16 £1.0 million Net Cash outflow).

Accruals

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

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Receipts

These are the proceeds from the sale of capital assets.

Cash Equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Community Assets

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

Contingent Asset

A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Examples of contingent assets include claims for compensation being pursued through the legal process.

Contingent Liability

A possible obligation at the Balance Sheet date, whose existence will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a liability is accrued in the financial statements. If, however a loss cannot be accurately estimated or its occurrence is not considered sufficiently probable to accrue it, the obligation is disclosed in a note to the Balance Sheet. Examples of contingent liabilities include legal claims pending settlement.

Corporate and Democratic Core

Costs of corporate policy making and all Council member-based activities, together with costs relating to corporate management, public accountability and treasury management.

Current Service (Pensions) Cost

The current service cost is an estimate of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to the receipt of a lump sum and pension when they retire. It measures the full liability estimated to have been generated in the year (at today's prices) and is thus unaffected by whether any fund established to meet liabilities is in surplus or deficit.

Defined Benefit Pension Scheme

A scheme in which retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. Accounted for by recognising liabilities as benefits are earned (i.e. employees work qualifying years of service), and matching them with the organisation's attributable share of the scheme's investments.

Depreciated Replacement Cost

A method of valuation which provides a recognised proxy for the market value of specialised properties. It is an estimate of the market value for the existing use of land, plus the current gross replacement (or reproduction) costs of improvement, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

Depreciation

The measure of the cost or revalued amount of the benefit, of the fixed asset that has been consumed during the period. Consumption includes the wearing out or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Existing Use Value (EUV)

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing, wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Existing Use Value – Social Housing (EUV – SH)

Existing Use Value for Social Housing is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arms-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following assumptions:

- The property will continue to be let by a body and used for social housing;
- At the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably hinder the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;
- Properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let then, rather than with vacant possession; and
- Any subsequent sale would be subject to all of the above assumptions.

Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. It covers the most straightforward financial assets and liabilities such as trade receivables and payables, and more complex ones such as forward investments and stepped rate loan instruments.

General Fund

This is the account for the major functions for which the Council is responsible, excluding the HRA and Collection Fund.

Heritage Assets

A type of asset which is kept primarily for its contribution to knowledge and culture. Examples of heritage assets include museum artefacts, paintings, sculptures and civic regalia.

Housing Revenue Account (HRA)

This fulfils the statutory obligation for Councils to account separately for the provision of Council houses. The Local Government and Housing Act 1989 ring fenced the HRA so that no subsidy can be received from the General Fund.

Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets

Intangible assets are assets which do not have a physical form e.g. externally purchased software.

Interest Cost (Pensions)

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

Leasing

A method of financing capital expenditure which allows the Council to use, but not own an asset. A third party (the lessor) purchases the asset on behalf of the Council (the lessee) which then pays the lessor a rental over the life of the asset. A finance lease substantially transfers the risks and rewards of ownership of a fixed asset to the lessee. An operating lease is any lease other than a finance lease.

Live Condition – Grant

Live conditions are those conditions that specify that a grant must be used for a specific purpose and if it isn't used for that purpose, the grant funding must be returned to the giver.

Net Realisable Value

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

Non-Domestic Rates (also known as Business Rates)

This is the levy on business property, based on a national rate in the pound applied to the rateable value of the property. The Government determines national rate poundage each year.

Non-distributed Costs

These are overheads from which no service now benefits. Costs that may be included are certain pension costs and expenditure on certain unused assets.

Past Service (Pensions) Costs

Past service costs are a non-periodic cost, arising from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. Discretionary benefits, particularly added years, awarded on early retirement are treated as past service costs.

Precept

This is a charge levied by a local authority which is collected on its behalf by another authority (for example, the Police or Fire Authority). It does this by adding the precept to its own Council Tax and paying over the appropriate cash collected.

Provisions

These are liabilities of uncertain timing or amount.

Related Parties

Individuals or bodies who have the potential to influence or control the Council or to be influenced or controlled by the Council.

Revenue Expenditure

This is money spent on the day to day running costs of providing services. It is usually of a recurring nature and produces no permanent asset.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's Council Tax. These items are generally grants and expenditure on property not owned by the Council.

Settlements and Curtailments (Pensions)

Settlements and curtailments are non-periodic costs. They are events that change the pensions' liabilities but are not normally covered by actuarial assumptions, for example a reduction in employees through a transfer or termination of an operation.

Soft Loans

Authorities sometimes make loans to individuals or organisations at less than market rates, where a service objective would justify the council making a concession. The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time. In subsequent years this discount is unwound by applying a market rate of interest, which will write up the value of the loan less any repayments of principal.

Usable Reserves

These represent reserves available to support revenue and capital expenditure and are divided as follows:

- General Fund Balances – This is the general reserve available for Council use, excluding Housing Revenue Account purposes.
- Earmarked General Fund Reserves – These are reserves set aside for specific areas of expenditure and risk.
- Housing Revenue Account (HRA) – This is a general reserve available for HRA purposes.
- Capital Receipts Reserve – Income from the disposal of assets and capital loans is credited to this reserve. A proportion of the receipts relating to housing disposals is payable to the Government. The balance on the reserve can be used to finance new capital investment or set aside to reduce the Council's underlying need to borrow.
- Major Repairs Reserve – The Council is required by regulations to maintain this reserve. The main credit to the reserve is an amount equivalent to the charge for depreciation on HRA assets. The reserve can be used to finance capital expenditure on HRA assets or repay HRA debt.
- Capital Grants Unapplied – Capital grants and contributions received by the Council are credited to this reserve when there is an expectation that any conditions related to the grants will be met. These grants and contributions are then used to fund related capital expenditure when it is incurred.

Unusable Reserves

- Capital Adjustment Account - This account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.
- Revaluation Reserve - This account records the net gain from fixed asset revaluations made after 1 April 2007.
- Accumulated Absences Account – This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.
- The Collection Fund Adjustment Account – This account manages the differences arising from the recognition of Council Tax income in the CIES as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
- The Deferred Capital Receipts Reserve – This reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new Capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.
- Financial Instruments Adjustment Account – This account provides a balancing mechanism between different rates at which gains and losses (such as premiums on the early repayment of debt and soft loans) are recognised under the Code and are required by statute to be met from the General Fund.
- Available for Sale Financial Instruments Reserve - This Reserve records gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.



Independent auditor's report to the members of Kirklees Council

We have audited the financial statements of Kirklees Council for the year ended 31 March 2017 on pages 17 to 113. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Service Director (Finance, IT and Transactional Services) and auditor

As explained more fully in the Statement of Responsibilities and Certificate on page 16, the Service Director (Finance, IT and Transactional Services) 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, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Council's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance, IT and Transactional Services); and the overall presentation of the financial statements.

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

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

- the Annual Governance Statement set out on pages 117 to 129 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition)
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Kirklees Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Council's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2016, as to whether Kirklees Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Kirklees Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects,

Kirklees Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

On 25 November 2016 Ofsted published a report on their inspection of the Council's children's services. The report rated Children's Services in Kirklees as 'Inadequate', and concluded that there were serious and widespread failures which result in some children not being protected or having their needs met. We have reviewed the Ofsted report, considered the findings and conclusions, and reviewed audit evidence supporting the Council's subsequent progress since the report. We are satisfied that the inspection report and subsequent evidence of progress in implementing the report's recommendations in 2016/17 provides evidence that, in respect of Children's Services, the Council did not put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes, including working with partners, for the year ended 31 March 2017.

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Kirklees Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017

Certificate

Delay in certification of completion of the audit

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

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors relating to 2016/17. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

John Prentice
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

17 November 2017

Annual Governance Statement 2016/17

Scope of responsibility

Kirklees Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Kirklees Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. Kirklees Council has a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government*. A copy of the Code is available from the Monitoring Officer.

This Statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2015, Regulation 6, which requires all relevant bodies to publish an annual governance statement to accompany their Statement of Accounts.

This Statement aims to provide assurance about the Council's governance framework to enable users of the Accounts to be satisfied that proper arrangements are in place to govern spending and safeguard assets. Where improvements are needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2016/17 and are being developed going forward in 2017/18, together with an Action Plan to assign responsibility and a timescale for implementation.

The purpose of the governance framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a Council relates to the communities that it serves. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives as set out in the Corporate Plan and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Kirklees Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

Kirklees Council has been working to its Code of Corporate Governance for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

The governance framework

Key elements of the systems and processes that comprise Kirklees Council's governance include arrangements for:

- a local Code of Corporate Governance that assigns overall responsibility for corporate governance to the Service Directors of Legal, Governance & Commissioning and Finance, IT & Transactional Services, this was formerly the Director of Resources, working with the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and prepare

this Statement. The key policies and procedures that comprise the core of this process are described within the Code, together with the standards and cultural expectations of the organisation

- a Leader and Cabinet model of governance. During the summer of 2016, Council was unable to elect a Leader and consequently the former Chief Executive assumed this role for a number of weeks as prescribed in the Constitution. In February 2017 the former Deputy Chief Executive assumed the role of Chief Executive on an acting basis which was approved as substantive in Summer 2017
- a Corporate Plan that outlines how officers will seek to run the Council to meet our community commitments at the same time as achieving our objectives within the continuing and significant financial constraints on the Council over the medium term.
- Improved governance arrangements for oversight and delivery of the New Council Transformation Programme were introduced in May 2016, in particular:
 - a New Council Board consisting of the Chief Executive and Directors to provide clear strategic direction, a shared vision and accountability for savings being achieved.
 - a Redesign Board consisting of Service Directors and Corporate Heads of Service to provide a link between the New Council Board and changes being delivered across all directorates. The Board has oversight of all corporate and service level change projects, with particular focus on projects that are complex and high risk.
 - a Management Planning Forum consists of the Chief Executive, Strategic Directors and Service Directors to facilitate collaboration on work undertaken collectively with other Senior Officers.

Agendas for these meetings are set by the respective Chairs and based on an agreed forward programme of business. The forward programme of business also combines work generated by Cabinet Members and their portfolio briefings with strategic work associated with the management of the Council's budget and workforce.

Decisions concerning design and implementation are made in accordance with agreed terms of reference for each group in the governance structure, which are consistent with the Council's Scheme of Delegation. The items and recommendations for action that require consideration or formal decisions are also shared with the Leader and Cabinet, Overview and Scrutiny and Council, as appropriate.

Each project within the New Council work programme has a Strategic Director or a Service Director lead to oversee its development and implementation. Managers and staff at other levels are also engaged via task and finish groups and other forums to encourage buy-in at all levels.

- a Monitoring Officer with responsibility for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions in the Constitution, with clear delegation arrangements and protocols for effective communication, and ensuring the legality of the Authority's actions. During the year there has been a considerable turnover of senior management, necessitating various alterations to the Delegation Scheme to reflect new and changed responsibilities, including re-designation of the Council's S151 Officer (Service Director Finance, IT & Transactional Services) & Senior Information Risk Officer (SIRO) (Service Director Legal, Governance & Commissioning).
- the S151 Officer is a professionally qualified accountant and reports directly to the Chief Executive as a member of the Executive Team (ET), as part of ensuring that the financial management arrangements conform with all of the governance requirements of the five

principles that define the core activities and behaviours that belong to the role in the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)

- developing, communicating and embedding codes of conduct defining the standards of behaviour for members and staff;
- a mechanism to enable both employees and the public to anonymously share concerns through the whistle blowing arrangements
- a system for receiving, investigating and reporting the outcome of complaints from residents and service users as well as requesting information about the Council's activities and about themselves under the Freedom of Information and Data Protection legislation
- a nominated senior manager to act as the Caldicott Guardian responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information-sharing in conjunction with the Council's information governance and security policies and arrangements
- incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the Council's overall governance arrangements. The Service Director Finance, IT & Transactional Services monitors and reports on the financial effectiveness of the subsidiary and joint venture companies, whose accounts are subject to external audit, albeit that the joint venture companies have a different financial year. In addition, the Council provides an internal audit service to Kirklees Neighbourhood Housing (KNH) Limited and the Company's governance arrangements include an Audit Committee. Kirklees Safeguarding Children's Board (KSCB) is led by an Independent Chair, who is directly accountable to the Chief Executive, and works closely with the Director for Children's Services and key statutory partners to discuss safeguarding issues.

Arrangements are underpinned by a protocol agreed by the KSCB to provide a framework for ensuring safeguarding issues and challenges are communicated to those at the most senior level. The protocol outlines the role of the independent chair and the accountability arrangements. This includes the examination of the annual report and an annual appraisal of the Chair's effectiveness by the Chief Executive. The protocol also sets out the relationship between the Independent Chair of KSCB and the Health and Wellbeing Partnership, the Children's Trust and KSCB in accordance with Working Together to Safeguarding Children guidance, 2013.

- a Child Sexual Exploitation (CSE) and Safeguarding Member Panel to:
 - oversee local developments in the monitoring of, and response to, the risks associated with CSE.
 - satisfy themselves, as corporate parents that the arrangements for safeguarding looked after children in Kirklees are sufficiently robust.
 - ensure that, where appropriate and having regard to confidentiality requirements, individual members of the Panel ensure that feedback is provided to members of their wider political groups.

The Panel comprises one member from each of the political groups on the Council plus the Cabinet Member with statutory responsibility. It meets four weekly in private and all members are bound by the confidentiality requirements which apply to the Safeguarding Boards and sign an undertaking as such. The Health and Well Being Board is the parent committee for the Panel. The Panel will, as appropriate, report on progress and emerging issues to the Board in the first instance. Given the cross cutting nature of CSE and Safeguarding the Overview and Scrutiny Management Committee is responsible for putting in place appropriate overview and scrutiny arrangements.

Annual Review of effectiveness

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework and that of the other parts of its Group activities such as KNH, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council has four bodies / committees jointly responsible for monitoring and reviewing governance. These are:

- the Executive (Cabinet);
- the Corporate Governance & Audit Committee;
- the Overview & Scrutiny Committee; and
- the Standards Committee.

The main parts of the review process are as follows:

1. Review of effectiveness of the system of internal control

In accordance with the requirements of the Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards (PSIAS) the Council conducts an annual review of the effectiveness of its system of internal control to be considered as part of its governance assurance processes, including the production of the AGS.

Responsibility for the review rests with the Corporate Governance & Audit Committee. The 2016/17 review approved by the Corporate Governance & Audit Committee 21 April 2017 demonstrated that we have an effective system of internal control including a policy framework, internal audit function, Audit Committee and effective management engagement, although there is scope for improvements in a number of areas as outlined later in this report. The Head of Audit & Risk has reported on the current degree of compliance with the Public Sector Internal Audit Standards and this will be monitored by the Corporate Governance & Audit Committee. KPMG, our external auditors, confirmed that, where required, they take assurance from the quality and extent of internal audit work done in 2016/17, including assurance over the core financial systems activity.

2. Head of Audit and Risk Annual Assurance Opinion 2016/17

The Head of Audit and Risk is responsible for providing an independent opinion on the adequacy and effectiveness of the Council's systems of internal control, risk management and governance arrangements. This is delivered through an annual risk based programme of audit work designed to raise standards across the Council. Internal Audit Quarterly Summary Reports are presented to the Corporate Governance & Audit Committee to provide assurance that the annual programme is being delivered as planned. This culminates in the Annual Opinion Report.

Based on the programme of planned Internal Audit work and other than in respect of a small number of significant control issues that have arisen during the year, the Head of Audit and Risk has provided assurance that overall the Council's systems of governance, risk management and internal control are generally sound and operate reasonably consistently across Services. However, the Annual Report of Internal Audit comments upon the need for improvement in both compliance with procurement rules and processes and applying more cost effective income recovery methods to strengthen the overall control environment and performance. The governance of associated parties was also found to be in need of greater clarity around the roles and responsibilities of those representing the Council.

The main issue and priority, as recognised by management, continues to be that the Council sustains and completes the programme of transformational change and embeds improvement across the Council whilst maintaining service delivery and the effective operation of key controls. In a Council of Kirklees' size and complexity, with its significant change agenda and the impact of the Comprehensive Spending Review settlement, there is a heightened risk of reduced compliance with control mechanisms, particularly where roles and systems are changing.

Individual areas of potential risk and areas for improvement have been identified, recommendations have been made to address the risk, and management action plans have been agreed. The Council's continues to conform to the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption and its response is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

The Corporate Governance & Audit Committee has recently considered the future shape and size of the internal audit function. It approved a realignment of approach to audit planning and providing assurance to reflect key risks within available resources.

3. External Auditor's Review of the Effectiveness of our Governance Arrangements

During the year the External Auditor's Annual Report to those charged with Governance confirmed

- an unqualified opinion on the Council's 2015/16 financial statements; and
- an unqualified value for money conclusion, stating that we have made proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

4. Corporate Governance & Audit Committee

The Committee's terms of reference include agreeing and updating regularly the Council's Code of Corporate Governance, monitoring its operation and compliance with it.

During 2016/17 the Corporate Governance & Audit Committee reviewed a number of aspects of the Council's governance arrangements and noted or approved revisions or made recommendations to Council as appropriate, including:

- Revision to parts of the Constitution which were approved and subsequently passed at Annual Council. Council, Contract and Financial Procedure Rules for 2016/17
- External Audit reports
- Corporate Customer Standards Annual Report 2015/16
- Information Governance Annual Report 2015/16
- Emergency Planning & Continuity Annual Report 2015/16
- Standards Regime & Members' Code of Conduct Review
- the Head of Audit & Risk's Quarterly and Annual Reports
- the Treasury Management Strategy – confirmed ongoing compliance with the CIPFA Code of Practice and various statutory requirements.

5. Overview & Scrutiny Committee

During 2016/17 the Committee reviewed a number of aspects of the Council's governance arrangements including:

- Overviews of Early Intervention & Prevention and Economic Resilience
- Call-ins of Parks & Open Spaces Maintenance Standards, Libraries and Mirfield Community Centre Asset Transfer
- Joint Health & Wellbeing Strategy

- Community Safety Partnership Plan
- Children’s Safeguarding Board Annual update
- A protocol of effective working with Health Scrutiny, Health & Wellbeing Board and Healthwatch in the Kirklees District
- Performance Management Reporting

6. Standards Committee

The Committee reviewed the Standards Regime and Member Code of Conduct and a number of recommendations have been approved for incorporation into amendments to the Constitution at the meeting of Annual Council, principally about providing greater clarity about what would represent poor behaviour, speeding up the complaint review process partly by revising the role of the Monitoring Officer and adopting clearer sanctions for non-compliance.

7. Role of the Chief Financial Officer

The role of the Chief Financial Officer (CFO) continues to reflect the governance arrangements set out in the CIPFA Statement, which are required to ensure the CFO is able to operate effectively and perform their core duties as part of the review of the Constitution. During 2016/17 the previous incumbent, the Director of Resources, left the Council and the role was assumed by the Service Director of Finance, IT & Transactional Services, as ratified by the Corporate Governance & Audit Committee meeting of 23 September 2016. The Council’s financial management arrangements fully conform to those set out in the Statement.

8. External Agencies’ Reviews

Ofsted

At the end of 2016 the Council received a report from Ofsted about the performance of its Children’s Social Services activity. An Inadequate opinion was allocated, representing the lowest opinion, although not an uncommon one across the country. As reported in last year’s Statement, the Council had already identified a number of areas requiring improvement and these were being progressed through a Children’s Services Development Board, chaired by the then Chief Executive, set up to drive implementation of a development plan to address issues of inconsistent social work practice identified by quality oversight. Nevertheless this was a matter of serious concern.

Following the Ofsted report the Government appointed a Commissioner to advise the Secretary of State for Education about the prospects for delivery of the required improvement within the designated timescale. The Secretary of State subsequently determined that Leeds City Council should act as the councils partner in achieving improvement to Children’s Services, and the Director of Children’s Services at Leeds City Council is now also holds the statutory post of Director for Children’s Services at Kirklees, and a number of other Leeds Council managers are also working with the council as part of this partnership.

9. Significant Partnerships

Partnerships range from joint venture partnerships, thematic partnerships and their subsidiaries to key contractual agreements managing substantial amounts of public money. The main contact officer for each Partnership is responsible for assessment of the governance arrangements and providing details of any significant changes to the membership and circumstances of the partnership. This information is used by senior officers of the Council to assess the potential risk that the partnership presents to the

reputation or financial standing of the Council. A review by the Head of Audit & Risk has identified a number of areas where arrangements need to be revised to strengthen the governance framework.

10. New Council Officer Governance

The Council's Executive Team has reflected on the arrangements in light of the pace of change now required to deliver New Council Programme within the context of the Medium Term Financial Plan and concluded that structural changes were needed to lead, manage and resource delivery of the Programme with renewed rigour and pace. The changes are described overleaf and ensure the Executive Team is now more strategically placed to oversee the work of these boards & respond to escalated issues. These new officer governance arrangements are subject to both Cabinet and Scrutiny oversight.

Overall Conclusion & Opinion

We have been advised on the implications of the results of the above review of effectiveness of the governance framework by the Corporate Governance and Audit Committee, and are satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The areas with ongoing and revised actions planned are outlined below.

Progress with significant governance issues in last year's Statement

1. **Achieving objectives with significantly less resources** in the context of decreasing resources from central government and increasing demand pressures locally continues to be the single biggest challenge facing the Council, even more so, as the pace of change in which the move to New Council is required is accelerating.

Council approved budget plans for 2016-19 had included the planned drawdown of Council general fund reserves to achieve a balanced budget in 2016-17, and planned annual savings proposals increasing to £30m by 2018-19. The Council's Medium Term Financial Plan has since been refreshed with an updated 4 year plan 2017-21 and accompanying Efficiency Statement. The updated plan includes significant additional revenue resources allocated to both Adults and Children's Services activity in light of significant service pressures. Alongside further Government funding cuts, this has now resulted in an approved overall balanced budget which is dependent on the delivery of £54m planned savings in 2017-18 alone, increasing to £104m by 2020-21.

To respond to this challenge and increase the pace of change, the Council approved further changes to officer and governance processes in April 2017. This includes bringing all change and transformation resources together under a single accountable lead, and amending ways of working to streamline governance and ensure that it is efficient and effective.

The Council has also procured support from Deloitte to act as its' Transformation Business Partner, providing the additional capacity and capability that the Council needs to deliver challenging savings targets in the next period.

2. **Risk Management arrangements** were slightly simplified during 2015/16, although these simplifications will not necessarily address the continuing doubts that arrangements are embedded fully across the Council at all levels of the organisation, although there is careful consideration of the risk of pursuing different options as a part of officer assessment of potential changes to the organisation.

Work is underway to ensure that a new approach to risk management will balance the identification of strategic, operational and project and event risks. A new formal strategy will be required, although it is likely that some trial activity will be undertaken to ensure that the process designed achieves an appropriate level of openness, is not over complex.

3 Procurement Rule Compliance.

Changes to EU Regulations and an increasingly litigious commercial culture as awareness of bidders' rights has developed have raised the financial and reputational risks for the Council of failing to comply with due process in its' major procurement, as a result of challenges from unsuccessful bidders.

The Council continues to take steps to improve its control processes to seek to minimise the risk incumbent in such processes and has strengthened the resources within the procurement function, developing forward procurement plans and on-line forms and guidance, and strengthened the emphasis of training related to procurement activity.

Significant governance issues identified in 2016/17

Arising from a fundamental period of change in the history of local government the annual review of governance effectiveness described above has identified the following additional significant governance issues in the current year;

1 Children's Services Performance Standards and Inspection Outcome

The adverse Ofsted Single Inspection Framework report concerning local services for children in need of help and protection, looked after children and care leavers and the independent Safeguarding Children Board which judged those to be 'inadequate' was a matter of serious concern. In particular standards, operational practice and case assessment were found to be deficient. Ofsted did report that significant changes had been made since the Council acknowledged that there were significant issues earlier in 2016, and they recognised that we have a "clear, long-term vision of services for children and families".

An interim Service Director plus an experienced Improvement Director drove a detailed Improvement Plan and help us to deliver long-term change. An update monitoring visit by Ofsted provided valuable feedback on progress with our improvement work, and also on the areas which could be developed further. Ofsted recognised that we had made some positive changes, whilst acknowledging that we still have a long way to go. Progress is now being supported by way of a partnership with Leeds City Council as recommended by the Children's Commissioner and sanctioned by the Secretary of State, and colleagues from Leeds are currently working alongside the Council's own staff helping to deliver change in this vital service.

It is important not to downplay the scale of change that is required nor the pace at which it needs to happen, however we are now confident that we have the right expertise in place to achieve the outcomes that are needed.

The Improvement Plan will be monitored closely by Executive Team.

2 Safeguarding Children's Board

An associated concern was identified as regards the effectiveness and clarity of the accountability and governance relationship with and the operation of the Board. A concern related to communication of the level of assurance provided by the Kirklees Safeguarding of Children Board audit process as regarding compliance with the care practice framework and how issues were being monitored and challenged. A new Chair of the Children's Safeguarding Board has been appointed, with an agreed Action Plan meant to drive the improvements required.

3 Business Continuity following Information Technology Failure

On Boxing Day an electrical supply problem occurred around the area of the Data Centre in Huddersfield, the resilient electrical systems failed to operate and consequently caused a series of chain reaction events which led to the loss of Council IT systems and communications systems across the Council and to external agencies using the Council's network. Continuity Plans were put into effect to manage the situation and ensure essential services continued to be provided. From this, a number of learning points were derived. These were drawn out from those involved in the response from across the Council and the main affected partners.

Results of these debriefs have been analysed and an Action Plan to ensure lessons from them are implemented and learned into the organisation's culture has been identified and agreed by the Executive Team. A lead officer in IT will co-ordinate implementation of a number of cross cutting recommendations in the Action Plan.

4 Information Governance Issues

Information governance is an area we are aware raises particular challenges for the Council, most recently in two areas:

- preparing to comply with revised data protection requirements in 2018, as whilst many of the concepts and principles remain the same, there are some new elements and some significant enhancements, so we will need to approach data protection differently as an organisation. The changes place greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. Compliance will require the Council to review our approach to information governance and how we must manage data protection as a corporate issue. One aspect of this is to review the contracts and other arrangements we have in place for sharing data with other organisations. A recent survey of local authorities by the Information Commissioner has concluded this is a common picture; and
- managing the risk of a cyber-crime incident, for example the use of ransomware leading to a significant downtime in ability to operate following a network attack by a malicious third party, or malware deployed by staff opening an external email injudiciously.

The Acting Senior Information and Risk Owner and Information Governance Board have oversight and responsibility for managing compliance across the Council. Additional resources have been deployed in response and an external review of the position is being undertaken. Staff training and awareness raising is a key pre-requisite of managing these risks and the Council has recently obtained a software product to help raise key messages to all staff with IT access.

5 Corporate Plan / Performance Process

The Corporate Plan is not sufficiently linked to management arrangements and the budget process to drive the changes and downsizing required for the Council to reach its objective of assuming primarily an enabling role. Overall performance management processes lack robustness and discipline to be sure that sub-standard performance is identified and addressed satisfactorily, both corporately and at individual employee level. An under-developed reporting of risk management issues has also been identified.

The intention is to establish shared outcomes and reinvigorate the Strategic Partnership with other agencies as a key driver to delivery. Clearer targets around agreed commission outcomes, accompanied by a robust performance management arrangement, and a new approach to escalating emerging risks are intended to strengthen corporate management arrangements and achieve more successful outcomes with limited resources. Behaviours and expectations for all staff and managers have been reviewed and refreshed with a clear emphasis on driving improved performance.

6 Human Resources & Organisational Development Capacity / Skill

At a time of such fundamental change within the Council, the capacity and appropriate range of skills to deal with workforce management has emerged as an issue corporately and a one size fits all approach has not been conducive to resolving the range of challenges faced by managers across the organisation. There is a need for development of more effective workforce and succession planning, linked to ensuring employees have the right skills, behaviours and values for working effectively in New Council by means of a revised corporate training plan with the appropriate focus.

7 More Cost Effective Income Collection

Parts of the Council need to become more attuned to the cost effectiveness of recovering income due and not simply place reliance on retrospective invoicing which is managed by HD One but about which problems have been identified in terms of clarity over responsibilities for undertaking various tasks with service and finance staff, which has meant sub-optimal performance and management information.

Payment by direct debit is the method of choice for ongoing debt. Payment for one-off purchases should be obtained at the point of delivery. A new software application and roll out of device technology will enable payment by card to become the norm in a wider range of activities, whilst offering alternatives with contractors for those residents unable to do so.

8 Local Code of Corporate Governance

The Council reviewed its Code of Corporate Governance in November 2015 and adopted a new and more updated local code then based on the CIPFA /SOLACE guidance. CIPFA / SOLACE issued a revised framework for Delivering Good Corporate Governance in Local Government in 2016. The Council will review its own Code of Corporate Governance again to ensure it reflects the changes made in the new guidance 2016. Corporate Governance & Audit Committee will review the local Code in the new municipal year.

9 Working relationships with some key Partners

The governance framework within which the Council operates with many of its key partners is not sufficiently formalised, structured and reviewed to ensure that there is clarity and certainty corporately about its robustness and effectiveness at a time when the direction of travel is moving toward the Council adopting more of an enabling role in many aspects of service delivery. The roles and the skills needed to perform these, and the responsibility and accountability of officers and Members involved needs to be reviewed.

Executive Team are taking forward recommendations for consideration by appropriate parts of the organisation.

An Action Plan has been formulated and will be subject to regular review by Internal Audit, with initial reporting to the Executive Team and Corporate Governance & Audit Committee.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

David Sheard

Jacqui Gedman

Leader of the Council

Chief Executive

ANNUAL GOVERNANCE STATEMENT 2016/17

ACTION PLAN FOR 2017/18

	<u>Significant Governance Issue</u>	<u>Managed Action</u>	<u>Director Lead</u>	<u>Timescale</u>
1	The Council's Code of Corporate Governance has not been reviewed to ensure it reflects the current CIPFA / SOLACE Corporate Governance Framework	Review and revise the Local Code where necessary and report to Corporate Governance & Audit Committee	SD Governance & Commissioning	November 2017
2	Corporate management arrangements and the Corporate Plan need strengthening to achieve more successful outcomes of key Council objectives with limited resources	To establish shared outcomes and reinvigorate the Strategic Partnership with other agencies Clearer targets around agreed commission outcomes More robust performance management arrangements A new approach to escalating emerging risks	SD Policy, Intelligence & Public Health and Executive Team	September 2017
3	The governance framework with key Partners needs to be strengthened	Review and implement audit recommendations	SD Policy, Intelligence & Public Health and Executive Team	October 2017
4	Overall risk management arrangements do not reflect the current financial position	Develop a revised Strategy and approach Undertake some trial activity to ensure that the process designed achieves an appropriate level of openness but is not over complex	SD Finance, IT & Transactional Services Head of Audit & Risk	September 2017
5	Procurement Rule compliance needs strengthening to protect the Council from legal challenge and ensure value for money	More proactive role for Corporate Procurement Forward procurement plans Training & guidance for relevant staff Sanctions for any non-compliance	SD Governance & Commissioning	October 2017
6	There is a lack of sufficient capacity and skills to deal with workforce management	To use additional resources to improve workforce and succession planning To revise the corporate training plan with the appropriate focus	SD Policy, Intelligence & Public Health Head of HR / OD	October 2017
7	Business Continuity arrangements need strengthening following a critical IT failure	Implement the Action Plan agreed by ET re buildings, IT & operational remedial issues	SD Finance, IT & Transactional Services	As per the Action Plan
8	Current Information Governance arrangements require development in preparedness to be compliant with revised Data Protection regulation in 2018 and the risk of a cyber security incident	SIRO & IG Board to monitor and report to ET Respond to external review of required actions Further corporate training & awareness raising for staff IT technical response	SD Governance & Commissioning Head of IT	December 2017

ANNUAL GOVERNANCE STATEMENT
KIRKLEES COUNCIL – STATEMENT OF ACCOUNTS 2016/17

	<u>Significant Governance Issue</u>	<u>Managed Action</u>	<u>Director Lead</u>	<u>Timescale</u>
9	The Council needs to ensure it meets the challenging savings targets required in the Medium Term Financial Plan	Implement the Transformation Programme and achieve £54m planned savings in 2017/18 in conjunction with our chosen business partner Planned monitoring and reporting to ET, Cabinet & Council	Chief Executive SD Finance, IT & Transactional Services Head of Transformation	March 2018
10	Serious weaknesses were identified in the Ofsted inspection report of Children's Services	Implement and embed the Ofsted Improvement Plan in conjunction with Leeds City Council colleagues to improve the provision of Children's Services	Director for Children's Services	As per the Improvement Plan
11	A lack of accountability and clarity over the governance relationship with and working of the Safeguarding Children's Board	Implement and embed the Action Plan agreed with the new Chair	Director for Children's Services	As per the Action Plan
12	Income recovery and system control needs strengthening to ensure cost effectiveness	Complete the corporate Payments Project and monitor implementation Implement agreed audit recommendations to strengthen controls in the accounts receivable system	SD Finance, IT & Transactional Services	October 2017



KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

17 November 2017

Dear Mr Prentice

This representation letter is provided in connection with your audit of the financial statements of Kirklees Council ("the Council"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Expenditure and Funding Analysis, the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Council and the Group as at 31 March 2017 and of the Council's and the Group's expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. The uncorrected mis-statements are:
 - i. £1.4m relating to exit package costs for employees where the Council has agreed a leaving date in 2017/18 are included within the Balance Sheet Provisions balance of £4.6m. These should be accounted for as Short Term Creditors. The effect of this misstatement does not impact on any other account entries.
 - ii. The valuation of Council Dwellings recorded in the Balance Sheet and analysed in Note 15 includes valuation of Housing Revenue Account properties totalling £585.8m. The correct valuation figure, as provided in the Council's valuation report from its valuers, Cushman & Wakefield, is £578.5m. The overstatement to the Property, Plant & Equipment balance is £7.3m, with an equal and opposite overstatement of the Unusable Reserves.
 - iii. The Council's net pension liabilities recorded in the Balance Sheet and analysed in Note 25, totals £556.3m. The Pension Fund auditor of the West Yorkshire Pension Fund identified that overall West Yorkshire Pension Fund Assets had been undervalued by £44m at the balance sheet date. The Council's share of the undervalued assets equates to around £5M, which means that the net liabilities on the balance sheet is overstated by this amount, with an equal and opposite overstatement of the Unusable Reserves.

Information provided

5. The Council has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Council for the purpose of the audit; and
 - unrestricted access to persons within the Council and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Council confirms the following:
 - i) The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Council has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Council and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Council's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material

misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Council has disclosed to you the identity of the Council's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

11. The Council confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council's and the Group's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Council and the Group to continue as a going concern.
12. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Council further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

Valuation of Council Dwellings

13. With regards to the valuation of council dwellings, included in the Balance Sheet and Notes 15 and H3, the Council confirms that its valuations are based on the Existing Use Value – Social Housing, according to the guidance contained in the Stock Valuation for Resource Accounting – Guidance for Valuers 2016. In applying this guidance the Council has used a social housing adjustment factor which differs to that contained in the guidance on the advice of its valuer, Cushman & Wakefield. The Council believes that the social housing adjustment factor used in determining our valuations is based on more up to date and accurate information, and the resulting valuations are the materially correct fair values of the council dwellings based on the Existing Use Value – Social Housing.

This letter was tabled and agreed at the meeting of the Corporate Governance & Audit Committee on 17 November 2017.

Yours faithfully,

Hilary Richards
Chair of Corporate Governance & Audit Committee

Debbie Hogg
Service Director, Finance, IT & Transactional Services

Appendix to the Representation Letter of Kirklees Council: Definitions**Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and

- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
- i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the Council and other persons having the authority and responsibility for planning, directing and controlling the activities of the Council, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.