GOVERNANCE COMMITTEE

WEDNESDAY, 23RD SEPTEMBER 2015, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee

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Meeting contact Dianne Scambler on 01257 515034 or email dianneb.scambler@chorley.gov.uk

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Grant Thornton

The Audit Findings for Chorley Council

Year ended 31 March 2015

September 2015

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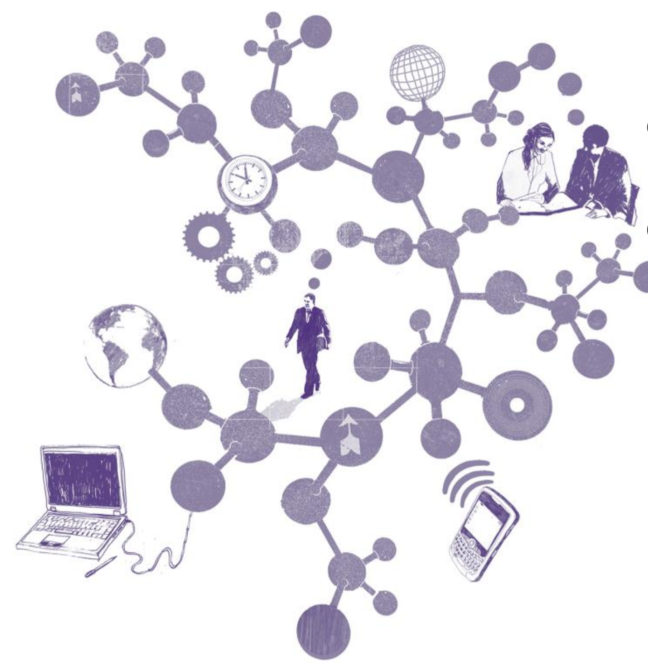

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September 2015

Dear Councillor Leadbetter

Audit Findings for Chorley Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Chorley Council, the Governance Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Fiona Blatcher

Engagement Lead

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Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Chorley Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have made one change to our planned audit approach in respect of welfare expenditure, which we communicated to you in our Audit Plan issued in March 2015. Further details are set out in Section 2 of this report.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt and consideration of initial queries raised in relation to the draft accounts
- review of the final version of the financial statements
- completion of our review of the NNDR provision
- review of the cash flow statement
- completion of our operating expenses work
- completion of our review of the segment reporting note
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements on the 30th September 2015.

During the course of the audit the need for an adjustment relating to s106 contributions was identified. This affects the Council's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded total comprehensive expenditure of £9.319m and a total net reserves figure of £3.181m.

The overall net effect of the adjustment is that short term debtors and usable reserves have both increased by £0.934m. The impact of the adjustment is that the recorded total comprehensive expenditure is now £8.385m with the total net reserves figure now £2.247m. Further detail is provided at pages 14 and 16.

We have also agreed some amendments to improve the classification and disclosure of the notes to the accounts. Officers have decided not to amend the accounts for additional disclosures in respect of the cash flow statement. Further details are set out in Section 2 of this report.

Value for Money conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)
The National Audit Office have changed their approach to the Whole of Government Accounts for 2014-15. We are no longer required to complete an audit of the Council's return since it is below their threshold of £350m.

Controls

Roles and responsibilities
The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings
We draw your attention in particular to the control issues identified:

- the arrangements for billing developers in respect of S106 monies
- the absence of independent checking of the monthly bank reconciliations.

Further details are provided within Section 2 of this report.

The way forward
Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive.

Recommendations are set out in the action plan in Appendix A. These have been discussed and agreed with the Chief Executive and the finance team.

Legislation has now been passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. Although July 2018 is over 3 years away, most local authorities will have to make significant changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

The shared financial services team has already liaised with health colleagues who currently work to a much shorter deadline and is looking to update its own closedown processes to start to bring the closure forward in 2015/16. In addition changes will also be required in relation to the audit process and how the Council engages with the audit process. Regular engagement with the Governance Committee will be important to provide members with the necessary assurances that the Council is well placed to meet the earlier timescale.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance Committee on 11th March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have made one change to our Audit Plan as previously communicated to you on 11th March 2015. Our walk through of the welfare benefits system in 2014/15 has not identified any additional inherent material risks other than those created by the overall size of expenditure and magnitude of transactions. This expenditure is subject to a very tight control environment. We are satisfied that this expenditure system does not represent a reasonably probable risk of material mis-statement to the Council's financial statements. We therefore obtain sufficient assurance for our opinion from our testing of a reduced sample of welfare expenditure together with testing of the reconciliation between the welfare benefits system, the ledger and the subsidy claim, ensuring the system has the correct calculation parameters input and completing a detailed analytical review. In due course the normal detailed testing of individual claims will be completed for the purpose of certification of the Council's housing subsidy claim.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Chorley, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Chorley Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • sample testing of non-pay operating expenditure, including waste management and leisure services, manual accruals and year end creditors including review of invoices paid since the year end and goods received notes prior to year end. • review of control account reconciliations.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • understanding of the process, identification of controls and a walkthrough test conducted • sample testing of payroll calculations and contracts of employment including senior officer remuneration • directional analytical review using trend analysis • reconciliation of monthly payroll totals to the ledger.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Accounting Policies Note 1 states that the income is accounted for in the period to which it relates regardless of when the cash is paid or received.	The recognition of revenue by the Council is in line with recognised accounting guidance and in line with CIPFA's recommended approach.	
Estimates and judgements	Key estimates and judgements include:: • useful life of capital equipment • pension fund valuations and settlements • revaluations • impairments • PPE valuations.	• We have reviewed the estimates and judgements made in the accounts as part of our work with no matters arising. • We undertook a detailed review of the work performed by the Council's valuer to provide asset valuations. We are satisfied from our review that the methodology and assumptions used by the valuer were reasonable. We are satisfied that the Council's non-current assets are not materially misstated as at 31 March 2015. • We have confirmed the entries relating to the pension scheme in the accounts agree through to the actuarial valuation. We have considered the qualifications of and the work completed by the actuary to ensure we can place reliance upon the their work. • The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment of your financial position and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	●
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	●

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have discussed the risk of fraud with the Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council.
4.	**Disclosures**	• A number of minor presentational amendments have been made to improve the clarity of the financial statements. Further details are provided for the key changes on page 17.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from banks for confirmation of the year end bank balance . The requests were returned with positive confirmation.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	During the course of the audit it was identified that the arrangements for recording s106 agreements with developers and the expected procedures for tracking trigger points and raising bills for income due had not been followed for over a year. Council officers had already identified the issue and took immediate action to review the position in detail. Internal audit are currently completing an investigation to assist management in this respect. Given the level of housing development in the area the amount of income involved is significant. The accounts for 2014-15 have been amended to include an accrual for s.106 monies relating to 2013/14 and 2014/15 of £0.934m.	• Arrangements for the recording of s106 agreements and expected income and billing of developers should be strengthened. Recommendations arising from the Internal Audit report should be implemented immediately and any wider lessons learnt shared appropriately across the council.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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Internal controls – review of issues raised in prior year

	Issue and risk previously communicated	Update on actions taken to address the issue
1.	**Bank reconciliation** Last year we reported that our work identified a weaknesses relating to the bank reconciliation process. The bank reconciliation had previously been independently reviewed and signed by off by a senior member of the finance team. However, that member of staff retired, and the review was no longer carried out. Cash is the most vulnerable asset of any organisation. Bank reconciliations provide the necessary control mechanism to help protect this valuable resource through uncovering irregularities such as unauthorised bank withdrawals. It is essential that management review the bank reconciliation process to seek assurance that the correct controls are in place and that there are no unexplained differences. We recommended last year that a more formal review process be re-introduced.	Similar issues were identified during our audit of the financial statements this year. The monthly bank reconciliations have not been independently reviewed throughout 2014/15. As last year, we recommend that the Council re-introduces a more formal review process.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1	S106 monies are amounts that developers of larger sites pay to the council to manage the wider impact of the development. Developers sign a S106 agreement as part of their planning permission. This is a legal document specifies the events which will trigger payment, what the money is spent on and where. During the audit it became clear that the Council had failed to properly administer S106 monies going back for over a year totalling £1.050m and therefore had not accounted for these sums. As a result the accounts for 2014/15 have been adjusted to reflect the Council's estimation of income due which had not been billed at year end. The amounts due in respect of prior years is not material and therefore no prior period adjustment is required.. The Council has made an assessment of the collectability of this debt and has increased its bad and doubtful debt provision by £0.116m. The overall net effect of this amendment is that short term debtors and usable reserves have both increased by £0.934m. Related changes have also been made to the cash flow statement, movement in reserves statement and notes 7, 11, 16, 17, 26, 32, 41.	Taxation and non specific grant income and expenditure +0.934m Total Comprehensive Expenditure -0.934m	Short term debtors +0.934m Usable reserves +0.934m

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Adjusted misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £m	Account balance	Impact on the financial statements
1	Disclosure	n/a	Accounting Policies Note	A number of changes have been made to the accounting policies note covering the general principle of measurement, going concern and revenue recognition. In addition the Council has removed any unnecessary accounting policies.
2	Disclosure	£0.703m (2013/14) £0.169m (2014/15)	Financial Instruments Note	A number of changes have been made to the financial instrument note: • the note has also been amended to remove capital grants receipts in advance, which had been incorrectly included for both years • the note has been expanded to include a reconciliation of how the note agrees to the balance sheet.
3	Disclosure	n/a	Critical Judgements Note	The note on critical judgements has been expanded to reflect the Council's judgement around the classification of finance and operating leases and the occurrence of trigger points relating to s106 monies.
4	Disclosure	0.747	Adjustment between accounting basis and funding basis under regulations Note	Revaluation gains of £0.747m had been incorrectly disclosed within the balance for charges for impairment of non current assets within Note 7. Notes 12 and 22b have also been amended.
5	Disclosure	0.070m	Nature and Extent of risks arising from financial instruments Note	The note has been amended to: • reflect the impact on the Comprehensive Income and Expenditure Statement of a 1% increase in interest rates • correctly analyse the maturity periods of the Council's borrowing.
6	Disclosure	n/a	Property, Plant and Equipment Note	The note of property, plant and equipment has been expanded to include: • reference to the Market Walk Shopping Centre acquisition in 2013/14, • how the Council has considered that the carrying value of property, plant and equipment of assets not valued in 2014/15 is not materially different to the fair value.

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Adjusted misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £m	Account balance	Impact on the financial statements
7	Disclosure	n/a	General	A number of other changes have been made to the disclosure notes including: • the inclusion of notes for material balances investments and borrowing • the deletion of some non material notes, • removal of lines/columns with no balances in 2013/14 and 2014/15, • updating IAS19 terminology to reflect the latest terms.

Unadjusted misclassifications & disclosure changes

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Adjustment type	Value £m	Account balance	Impact on the financial statements
1	Disclosure	n/a	Cash Flow Statement	The Cash Flow Statement did not have supporting notes detailing the breakdown of: • adjustments to net surplus or deficit on the provision of services for non-cash movements; and • adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities. Officers have decided not to amend the accounts in respect of this.

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Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Our work on financial resilience has concluded that the Council is performing well, has sound financial governance arrangements and financial controls in place, despite continuing to operate in a very challenging financial environment. The framework of sound financial management will assist the Council in managing the significant financial challenges that are likely to be faced over the next three to four years.

The Council continues to demonstrate that not only can it identify and set targets for efficiency savings, but that it can also deliver and exceed its targets. The savings target of £0.130m from management of the establishment was achieved, in addition to the £0.903m budget efficiency savings that were applied to the budget in setting the 2014/15 budget.

The Council's investment in the Market Walk Shopping Centre, as part of its overall regeneration plans for Chorley Town Centre has in 2014/15 delivered significant financial benefit to the Council. Net income from the shopping centre was £0.277m higher than anticipated when setting the 2014/15 budget and the total net income generated for the Council from the shopping centre year is close to £1m.

This year we identified the shopping centre as a risk areas to focus on. We have reviewed and gained an understanding of the management of the shopping centre and are satisfied that appropriate monitoring arrangements are in place and that any risks are appropriately considered and actions put in place to mitigate such risks.

Going forward, over the next few years the Council will, like all other Councils, continue to face some very challenging times. However, given the track record of the Council to continually deliver efficiencies and perform well, we are confident that the Council, is well placed to meet such challenges.

Value for Money

Challenging economy, efficiency and effectiveness
We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed the following reviews:
- prioritising resources; and
- improving efficiency and productivity

The Council continues to be proactive and challenge the way it delivers its services for the residents of Chorley, whilst driving out any inefficiencies. The Council understands its costs which enables it to make informed decisions based on accurate information to drive its Corporate Strategy. The Council has been at the forefront of trying to shape the way local public services are delivered for the benefits of the residents of the borough. The Commission day was only the start and the Council continues to take this forward.

Regular and detailed budget monitoring also ensures that the latest available information is available to be used to assess how well placed the Council is deliver its efficiency targets and income and expenditure targets.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Key indicators of performance	The Council has a strong track record in achieving its budget and managing its financial performance. The actual year end out-turn position saw an underspend against budget of £0.139m. The Council also delivered all of its £0.130m savings target. The Council's level of general balances has increased during the year by £0.099m to £2.288m which remains above the £2m limit set in the Council's medium term financial strategy. The Council has also increased its earmarked reserves by £0.588m, which now stand at £5.864m. The combined level of general and earmarked reserves has increased during the year by £0.687k to £8.152m. Collection rates for both Council Tax (97.80%) and Business Rates (97.95%) remain high, with improved collection rates in both areas compared to 2013/14. The Council has seen a reduction in the average number of days lost due to sickness per FTE employee from 6.44 days in 2013/14 to 5.98 days in 2014/15.	**Green**	**Green**

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Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Strategic financial planning	The Council continues to demonstrate that it has sound financial planning and review processes in place, which are based on its three year Medium Term Financial Strategy (MTFS) covering the financial period 2015/16 – 2017/18. The Council's Medium Term Financial Strategy (MTFS) effectively sets out the financial risks over the next three years and the level of savings required. The Council continues to take a prudent stance with regards to its receipt of New Homes Bonus Monies (NHB). Up to 2015/16 this will not be be applied to the base budget, allowing the NHB funds to be available for non-recurring new investment. The Council's MTFS is kept under regular review in the light of any emerging developments. The assumptions that the Council has built into its current MTFS appear reasonable. The Council has a significant budget gap up to 2017/18 which is currently estimated at £2.555 m by 2017/18. The Councils intends to use a combination of savings and NHB monies to help meet the budget gap. The Medium Term Financial Strategy (MTFS) also includes options which the Council will consider to help maintain financial balance. These include: • re-engineering of services to fundamentally review service provision to reduce net expenditure and improve efficiency • a programme of reducing the Council’s debt position which has an impact on the revenue account • income generation schemes as a continuation of the projects implemented to date • increasing in Council Tax is also available as an option available to Councils to close funding gaps. The Council's acquisition of the Market Walk Shopping Centre has in 2014/15 made a sizeable contribution to the Council’s overall financial position. The net income figure for 2014/15 was £0.936m which was £0.277m better than budget.	Green	Green

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Financial governance	The Council has good financial governance arrangements in place. Through the business planning and budget setting process, the Council understands its financial environment at all levels, including members, who are actively engaged in the process. Comprehensive reports are produced covering capital and revenue budgets and treasury management. The Council continues to undertaken extensive budget consultation around its areas of investment. High level budget consultation has been conducted using a combination of online, email and paper surveys, plus the use of social media. Performance against budget and progress against cost savings is reported quarterly to the Executive Cabinet. The Council also reports its corporate performance to members on a quarterly basis.	Green	Green
Financial control	Recent internal audit work programmes have provided assurance that the Council has generally sound internal financial controls in place across all key financial systems. The Council's assurance framework in relation to financial control, including an effective Governance Committee, works well. The Council's finance staff are experienced and appropriately qualified and the Council uses its financial system to ensure effective financial reporting throughout the year. Good arrangements are in place to meet year-end statutory financial reporting requirements. Through regular revenue budget monitoring, undertaken through the Executive, the Council is able to monitor the performance of services against budgets and respond to significant cost pressures and issues identified. The Council continues to demonstrate a track record for delivering efficiencies. During 2014/15 it delivered its savings target of £0.130m from management of the establishment, in addition to the £0.903m budget efficiency savings that were applied to the budget in setting the 2014/15 budget. This is a significant achievement given the current financial and economic climate.	Green	Green

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Prioritising resources	Members and senior management continue to work well together and demonstrate a clear understanding of the scale of the challenge needed to ensure resources are prioritised and spending reductions achieved. The Council remains keen to explore all options for alternative delivery models as a way of delivering efficiencies and providing first class services for the residents of the Borough. The Council continues to invests in a package of new investment projects aimed at delivering efficiencies whilst serving the needs of the local communities. For 2015/16 this investment totals £4.422m, which is in additional to the 2013/14 and 2014/15 investments that were approved for a period of 3 and 2 years respectively. The Council sees these investment projects as a means of strengthening local communities whilst also investing in key areas which will generate additional income for the Council, the proposed expansion of the Market Walk Shopping Centre being a prime example of this. The Council continues to have clear information on costs to help inform decision making. Budget monitoring and service and performance reports continue to be reported via the Executive Committee. The Council has also been pro-active in challenging the way public services are delivered throughout the Borough. Given the increased amount of pressure resources are under, the decreasing budgets for all public service providers and increased demand for services, the Council believed it was right to challenge the way residents of the borough receive its public services. In March 2015 it hosted an independent commission to examine the future of public services in the borough. The commission received evidence from a range of organisations and individuals and a number of recommendations were made to take the debate further and encourage participation from all public sector partners. The Commission report commented positively on the strong track record of the Council to work collectively with others to bring about improvements. Since March the Council has continued its work in these areas including: • Reforming and refocusing the Chorley Public Service Reform Board, with an aim to gain a greater degree of commitment from partners, and provide the collective capacity and leadership to public services.	Green	Green

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Prioritising resources	• Undertaking cost-benefit analysis of proposals to integrate health and well-being services in the borough. • Establishing a 'Chorley conversation' to engage residents and service users in any service change and design. The Council engages well with stakeholders and local residents to ensure that its resources are being prioritised in the areas that matter most. There is regular consultation on Council priorities and investment areas, for example the community had its say on the Chorley town centre improvements, parks and open spaces, a cleaner greener Chorley, supporting the local economy and planning and housing issues.	Green	Green
Improving efficiency & productivity	The Council has a proven track record of delivering savings having achieved approximately £2.8m over the last three years. Despite the need to achieve efficiencies the Council's overall performance continues to be good, in particular : • increase in the number of visits to Council leisure centres • reduction in the number of customers dissatisfied with the service they receive from the Council • reduction in the number of missed collections per 100,000 collections of household waste • 94% of key projects identified in the 2014/15 – 2016/17 Corporate Strategy either on track or scheduled to start later in the year. • a number of Chorley Town Centre improvement actions in line with the Town Centre Masterplan have taken place during the year including the ASDA junction developments, Market Street (south) public realm improvements, Market Street Shop Front Improvements, and the development of new retail outlets, all of which have been supported or pump primed by the Council.	Green	Green

Section 4: Fees, non-audit services and independence

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	59,440	59,440
Less rebate*		(6,109)
Grant certification on behalf of Audit Commission	8,910	8,910
Total audit fees	**68,350**	**62,241**

* a rebate of £6,109 was issued by the Audit Commission in October 2014

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High, Medium or Low

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Arrangements for the recording of and billing of income from developers in respect of S106 monies should be strengthened. Recommendations arising from the Internal Audit report should be implemented immediately and any wider lessons learnt disseminated across the council.	High		
2	A more formal review of the Council's bank reconciliation should be introduced, with clear evidence that a level of checking has been undertaken.	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHORLEY COUNCIL

We have audited the financial statements of [name of client] for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Chorley Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword [and the annual report] 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 Chorley Council as at 31 March 2015 and of its 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

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Agenda Item 3

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Chorley Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of [name of client] in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Fiona Blatcher, Engagement Lead
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Street
Manchester
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September 2015

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Report of	Meeting	Date
Chief Executive	Governance Committee	23 September 2015

STATEMENT OF ACCOUNTS 2014-15

PURPOSE OF REPORT

1. To present for approval, by the statutory deadline of 30 September 2015, the audited Statement of Accounts for 2014/15.

RECOMMENDATION(S)

2. That the Committee should approve the audited Statement of Accounts for 2014/15 (Appendix A).

3. That the Committee should authorise the Chief Executive to sign the Letter of Representation.

EXECUTIVE SUMMARY OF REPORT

4. Approval of the audited Statement of Accounts and publication by 30 September 2015 is a requirement of the Accounts and Audit (England) Regulations 2011. The approved and signed Statement would be published on the Council's web site.

5. Though many changes to the accounts since Governance Committee of 24 June 2015 are minor, the accrual of £0.934 additional net S106 income has required several statements and notes to be changed. The specific changes are explained in detail in the report.

6. The Appointed Auditor intends to issue an unqualified audit opinion of the Statement of Accounts; an unqualified Value For Money conclusion; and advises about improvements to internal controls in respect of collecting S106 income and checking monthly bank reconciliations.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

8. The draft Statement of Accounts 2014/15 was presented to the Governance Committee meeting of 24 June 2015. A small number of changes to the draft accounts were made before they were signed by the Chief Finance Officer on 29 June 2015. The signed accounts were then presented to Grant Thornton external auditors for audit. The audit of the accounts has now been completed, and the Appointed Auditor's Audit Findings Report is presented as a separate report on this agenda.

9. The Accounts and Audit (England) Regulations 2011 require that the statement should be approved by a meeting of members by 30 September 2015. The full statement for 2014/15 is attached as Appendix A.

10. Following consideration and approval by this Committee, the Chair should sign and date the Statement, which should also be re-certified by the Chief Finance Officer (Chief Executive), and be published by 30 September 2015. The Statement of Accounts will be published on the Chorley Council web site, www.chorley.gov.uk.

11. The Chief Executive, as Chief Finance Officer, should also sign the Letter of Representation.

CHANGES IN AUDITED STATEMENT OF ACCOUNTS

12. There have been a number of changes to the audited Statement of Accounts for 2014/15 compared to the draft (unaudited) Statement presented on 24 June 2015. This section documents the changes made up to 29 June 2015, when the accounts were first certified, and the subsequent changes. Minor changes are not documented. These include the deletion of notes explaining trivial balances, accounting policies not relevant for the financial year, deletion of lines in notes with zero balances, and typing errors.

13. Most changes to the draft accounts from the version presented on 24 June 2015 to the version signed by the Chief Finance Officer on 29 June 2015 were minor. These included text amendments such as changing references to CI&E to CI&ES for consistency throughout the document; removal of some unnecessary brackets around figures; updating note numbers and cross-referencing; and changing some years from 2013/14 to 2014/15 where not previously updated.

14. The Cash Flow Statement was amended to increase non-cash movements by £0.286m, and to reduce investing activities by the same value. In the Cash Flow Statement – Investing Activities note, other receipts relating to investing activities were reduced by £0.286m. In the Note 4 Estimation Uncertainty, the asset valuation figure increased from £54m to £57m. Note 12 Fixed asset Valuations – the figure for assets valued at fair value as at 31 March 2015 was reduced from £29.905m to £26.905m, to correct a typing error. There was a further typing correction to Note 39d (Transactions relating to retirement benefits) to disclose the correct total for post-employment benefit charged to the CI&ES.

15. There have been a number of changes to the signed Statement of Accounts presented for audit. The minor changes are not documented here, but the more significant changes are explained in the following paragraphs.

16. There were material changes in respect of accrued commuted sums due from housing developers under S106 agreements. Council officers identified income totalling £1.050m which should have been accrued as being due by 31 March 2015 because the relevant trigger stages had been reached. Some of the contributions were overdue by more than one year. An allowance of £0.116m for non-collection has also been included in the revised

accounts, the net effect being that the Capital Grants and Contributions Unapplied Reserve within the total for Usable Reserves has increased by £0.934m, and it is matched by an increase in Short-term Debtors by the same value. The Council's usual practice is that S106 commuted sums would not be applied until the actual cash sums had been received from the developers. None of the sums were applied in the 2014/15 accounts, and the process of recovering the income has now begun. Once received, use of the commuted sums will be reflected in the relevant budgets, in particular the Capital programme.

17. There were large adjustments to three notes in respect of impairment and revaluation of non-current assets. In the unaudited accounts, Note 7 and the Capital Adjustment Account note included a sum of £0.661m described as impairment. This should have been split to show revaluation of non-current assets separately. This has now been corrected, and related figures in Note 12 Property Plant and Equipment have also been adjusted. None of the changes have affected asset values or the balance held in Unusable Reserves.

18. The following changes are included in the audited Statement:

- **Movement in Reserves Statement (MIRS)** – this has been updated to reflect the accrual of £0.934m additional S106 income, which has increased the balance on the Capital Grants & Contributions Unapplied Reserve.

- **Comprehensive Income and Expenditure Statement (CI&ES)** – the accrual of £0.934m additional S106 commuted sums is included in Taxation & non-specific grant income & expenditure. The net effect if that Total Comprehensive Expenditure has reduced by £0.934m

- **Balance Sheet** – the accrual of £0.934m additional S106 income is reflected in the increase in Short-Term Debtors and Net Assets. This is matched by the £0.934m increase in Usable Reserves, in particular Capital Grants and Contributions Unapplied.

- **Cash Flow Statement** – the net surplus on the provision of services on the Comprehensive Income and Expenditure Statement has increased by £0.934m. This is matched by a reduction in the figure below for non-cash movements, so there is no overall change to the total for cash and cash equivalents.

- **Note 1: Accounting Policies** – the text of several policies has been amended to comply with current CIPFA guidance, and some have been added or deleted. Amended policies include General Principles, Accruals of Income and Expenditure, Employee Benefits, and Overheads. A Going Concern policy has been added, and the Inventories policy has been deleted following deletion of the Inventories note.

- **Note 3: Critical Judgements in Applying Accounting Policies** – now refers to judgements in respect of the accrual of additional S106 commuted sums; and treatment as operating leases various assets let to tenants.

- **Note 4: Assumptions about the future and other major sources of estimation uncertainty** – the Debtors figure has been increased to £7.4m to include the additional S106 income which has been accrued.

- **Note 7: Adjustments between accounting basis and funding basis under regulations** – the figure for Capital grants and contributions unapplied credited to CI&ES has been increased to reflect accrued S106 commuted sums. An additional line has been added below Charges for impairment of non-current assets, and the £0.661m has been split to show the element relating to revaluations.

- **Note 8: Transfers to/from Earmarked Reserves** - £1.75m on the line Reduce Pension Fund Liability has been moved from the In column to the Out column, and the column subtotals have been updated.

- **Note 11: Taxation and Non-Specific Grant Income and Expenditure** – now includes the additional £0.934m accrued S106 income.

- **Note 12: Property Plant and Equipment** – the 2014/15 table has been updated to show the split between revaluation and impairment correctly. Following the 2013/14 table, a disclosure about the purchase of Market Walk in that year has been added. In the Fixed Asset valuations section, a disclosure that the carrying value of PPE assets not revalued in the year is not materially different to fair value has been added.

- **Note 16: Financial Instruments** – figures for Debtors and Creditors that are not Financial Instruments have been added to note 16a so that the totals are reconcilable to the Balance Sheet figures. A rounding error has been corrected in 16b.

- **Note 17: Short-Term Debtors** – 31 March 2015 total has been increased following the inclusion of accrued S106 commuted sums.

- **Note 22b: Capital Adjustment Account** – includes the corresponding correction to the impairment figure disclosed in Note 7.

- **Note 29**: **Amounts Reported for Resource Allocation Decisions (Segments)** – this note has been amended to include the accrual of additional S106 income in the Government grants and contributions total. The surplus on the provision of services has therefore increased by £0.934m

- **Note 31: External Audit Costs** – the table has been amended to identify payments only to Grant Thornton. Payments to other auditors for other services are disclosed below the table.

- **Note 32: Grant Income** – The table includes the accrued S106 commuted sums in the total of Capital Contributions.

- **Note 34: Capital Expenditure and Financing** – the figure for capital investment on Property Plant and Equipment has been split to show the expenditure in respect of Heritage Assets.

- **Note 41: Nature and Extent of Risks arising from Financial Instruments** – A table confirming investments by counterparty has been added under Bank Loans. The Sundry Debtors table has been amended to include the additional accrued S106 commuted sums. The PWLB borrowings maturity table has been amended to match the Balance Sheet figures for the equivalent borrowing.

- **Collection Fund** – explanatory text had been added to the note Accounting for Business Rates (NNDR). A new table reconciles the Council's share of business rates as presented in the Collection Fund statement to the NNDR net income in Note 11.

AUDIT FINDINGS

19. The Audit Findings report by the Appointed Auditor (Grant Thornton) includes a draft audit opinion. This indicates that the Council will be provided with an unmodified audit report which is, in other words, an unqualified opinion. In addition, Grant Thornton propose to give an unqualified Value For Money conclusion. The report does include recommendations about arrangements for billing developers for S106 monies; and independent checking of monthly bank reconciliations.

IMPLICATIONS OF REPORT

20. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

21. All relevant comments are included within the report.

COMMENTS OF THE MONITORING OFFICER

22. Approval and publication of the Statement of Accounts by 30 September 2015 is required in order to comply with the Accounts and Audit (England) Regulations 2011.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	18 September 2015	Statement of Accounts Report 2014-15 – Governance Cttee 23-9-15.docx

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Chorley Council

Statement of Accounts 2014/2015

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Foreword by the Chief Finance Officer

INTRODUCTION

As the Chief Executive and Chief Finance Officer of the Council, I have the statutory responsibility for the proper administration of the Authority's financial affairs, and am required to confirm that the Council's systems can be relied upon to produce an accurate statement of accounts.

The required statement of assurance (The Annual Governance Statement) was reported to Governance Committee on 24 June 2015.

This Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code), which is based on International Financial Reporting Standards, and the Service Reporting Code of Practice for Local Authorities 2014/15 (SeRCOP).

ACCOUNTING CHANGES

There have been no accounting changes implemented in this Statement of Accounts for 2014/15.

CORE FINANCIAL STATEMENTS

The core financial statements consist of the following:-

Page 14 **Statement of Responsibilities for the Statement of Accounts** – This summarises the responsibilities of the Council and the Statutory Finance Officer in relation to the Statement of Accounts.

Page 15 **Movement in Reserves Statement** – Levels of reserves, and movements therein, are indicators of the financial strength of the organisation. This statement distinguishes usable from unusable reserves. The distinction is explained in the Balance Sheet comment below.

The Movement in Reserves Statement shows the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting, however, a series of statutory adjustments are then made, resulting in a line entitled "Net Increase/Decrease before transfers to Earmarked Reserves." The final line shows any such discretionary transfers to or from earmarked reserves.

Page 16 **Comprehensive Income and Expenditure Statement** – This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Page 17	**The Balance Sheet** – this shows the value of the assets and liabilities recognised by the authority. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet. Reserves are categorised into "Usable", i.e. available to fund expenditure or reduce local taxation, and "Unusable". The latter includes the Revaluation Reserve (holding unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and statutory basis prescribed for taxation purposes.
Page 18	**Cash Flow Statement** – this shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.
Page 19	**Notes to the Main Financial Statements** – these add to, and interpret, the individual statements.
Page 64	**Collection Fund Statement** – this is an agent's statement that reflects the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the Council itself.

FINANCIAL PERFORMANCE IN 2014/15

Reporting Cycle

The Council's 2014/15 revenue budget, capital programme, Medium Term Financial Strategy (MTFS), and Treasury Strategy were approved by the Council on 25 February 2014. Thereafter, monitoring and reports were submitted at quarterly intervals to the Executive Cabinet. The reports are available on the Council's web site.

The purpose of revenue reporting being in the main to forecast the anticipated out-turn against the budget and monitor progress in achieving planned budgetary efficiencies. With regard to the Capital Programme progress on individual schemes has been reported plus any changes to capital resources.

Major Issues in 2014/15

Local authorities in general faced a number of financial challenges in recent years which have continued into 2014/15, in particular the implementation of Business Rates Retention (BRR) to replace national pooling which still poses financial risk in terms of receipts despite it being implemented in 2013/14. The 2014/15 financial year saw the cut off period being reached for businesses to appeal against their Rateable Values on which their Business Rates tax is calculated. This resulted in a significantly increased number of appeals submitted to the Valuation Office Agency (VOA) at the end of the year which could be awarded in 2015/16 and in some cases back dated for a number of years.

The Lancashire Pension Fund also underwent its triennial re-valuation which determined the Council's Employers' Contributions due for the three years 2014/15 to 2016/17. The pension fund is currently in a deficit position, this means that the value of its total assets (what it owns) are less than the value of its total liabilities (what is owes). The Council has been given a target of 19 years in which it should make good this deficit position by paying additional payments each year into the fund. The way in which the deficit recovery contribution is calculated also changed from a percentage rate applied to total pensionable pay to a set lump sum that will not be eroded should the total pay bill reduce as is the general trend across the public sector due to the financial impact of Central Government's austerity measures. Therefore the total amount paid into the fund increased from £1.391m in 2013/14 to £1.528m in 2014/15.

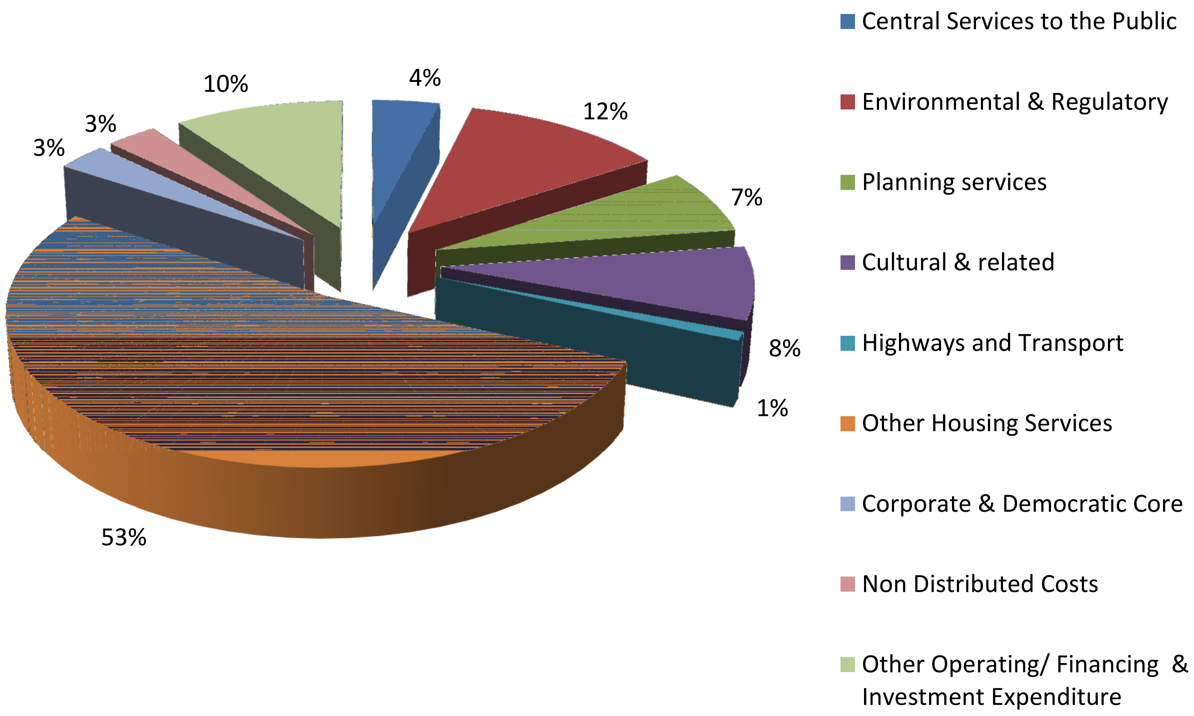
Actual Spend Compared to the Budget

The 2014/15 outturn position reports a £0.139m underspend compared to budget. The General Fund Balance at 31 March 2015 is £2.288m (page 15). Further comment on the reserves position is made below.

Figures in the following graphs are derived from the Comprehensive Income and Expenditure Statement and therefore include some data such as interest on pension assets and depreciation charges which are reversed out in the Movement in Reserves Statement and do not impact on the Council Tax Payer.

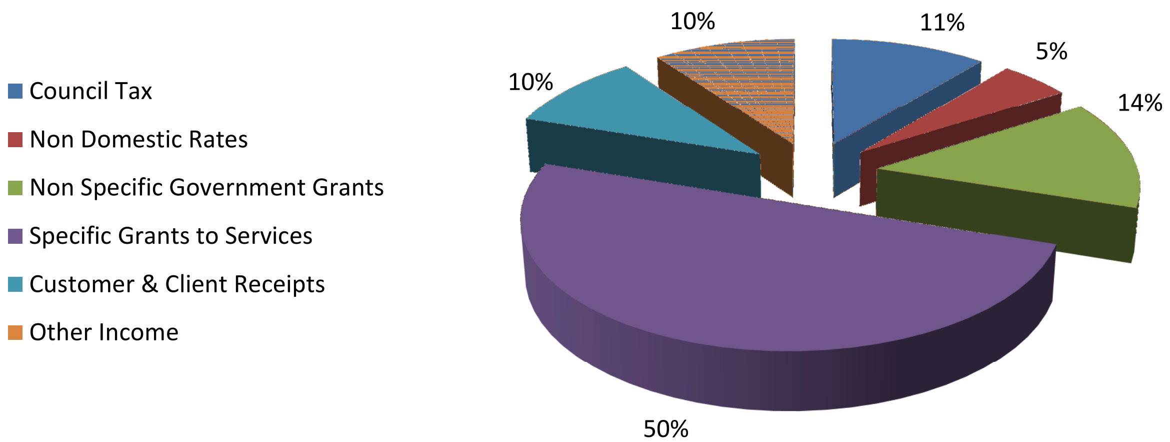
Where the money was spent

The Gross Expenditure for the Council is detailed in the Comprehensive Income and Expenditure Statement. In 2014/15 it consisted of:



Where the money came from

The Gross Income for the Council is disclosed in the Comprehensive Income and Expenditure Statement. It consisted of:



Other Income includes interest on pension assets, reversed to the Pensions Reserve in the MIRS; and capital receipts, reversed to the Capital Receipts Reserve.

Treasury Management

The treasury operations of the Council are conducted in accordance with its annual Treasury Strategy. This document identifies the investment and borrowing policies of the Council over a three-year period, specifying, amongst other things, the criteria for investment counterparties, the maximum duration, and amount, of investments, and the need for borrowings.

The key facts for 2014/15 were:

- Investments are of a short-term nature, the maximum period being one year.
- During the year investments peaked at £12.8m, averaged £5.86m per day, and, with cash, amounted to £1.62m at year-end. The reduction in the average balance available for investment from £12.8m in 2013/14 reflected the use of internal cash balances as part of the financing of the capital programme.
- The return on investments was 0.59%, a reduction compared to the 1.14% achieved in 2013/14.
- External borrowing reduced during the year from £22.6m to £19.2m (excluding accrued interest). The main reason for the reduction was that loan repayment instalments were made but no new loans were taken.
- In determining Council Tax charges authorities have to make a specific provision for the financing of capital expenditure. The outstanding amount for which provision has to be made is known as the Capital Financing Requirement (CFR). During the year the CFR increased from £32.9m to £33.2m, reflecting the use of prudential borrowing to finance the capital expenditure, less the statutory provision for debt repayment. (Note 34 gives details.) This increase will generate a charge to Council Tax (known as Minimum Revenue Provision – MRP) in future years.
- Note 41 presents more details of treasury operations, and the management of risk.

Capital Spend and Financing Summary

The Council incurs capital expenditure on its own buildings and equipment and it is also permitted to use capital resources to finance expenditure on grants for capital works by others, for instance for disabled adaptations by home owners.

The following tables details the areas of expenditure and sources of finance in 2014/15:

Capital expenditure in 2014/15	**Actual Capital Expenditure £'000**
Affordable Housing and Disabled Adaptations	1,572
Town Centre Regeneration	622
Parks and Play Area Improvements	465
Astley Development Programme	395
Town Centre Land Assembly	182
Asset Maintenance	130
Other	288
Total Capital Expenditure	**3,654**

Capital financing in 2014/15	Actual Capital Financing £'000
External Contributions	1,495
Revenue Budget Contributions	907
Prudential Borrowing	795
Government Grants	294
Capital Receipts	163
Total Capital Financing	**3,654**

The Balance Sheet includes unapplied grants and contributions totalling £4.935m, which can only be used for financing of capital investment. Of the total, £4.766m is held within Usable Reserves (see Movement in Reserves Statement); and £0.169m within Long-Term Liabilities (see Note 32).

Reserves and Balances Summary

The Authority's Medium Term Financial Strategy (MTFS) specifies that the general balance should be established at no lower than £3.0m over the period of the strategy to 2017/18. At the start of the year it totalled £2.189m. In addition there were reserves totalling £5.276m earmarked for specific purposes. The changes in the year are as follows:-

- The Income and Expenditure account incurred a surplus of £0.139m, of which £0.040m has been set aside for the Single Front Office project. The net increase in the General Fund balance by £0.099m can be seen in the Movement in Reserves Statement (MIRS).
- Further net transfers to Earmarked Reserves of £0.588m were also made.

The combination of these factors has resulted in the General Fund balance being £2.288m, and Earmarked Reserves being £5.864m, as presented in the MIRS on page 15. The purposes for which the Earmarked Reserves are held are given in Note 8.

The following extract from the MIRS reconciles the deficit on the CI&ES prepared on the accounting basis with the surplus or deficit prepared on the funding basis:-

Extract from Movement in Reserves Statement (page 15)	2013/14 £'000	2014/15 £'000
(Surplus)/Deficit on provision of service (CI&ES)	3,222	(1,503)
Adjustments between accounting basis & funding basis under regulation (note 7)	(4,318)	832
Transfers to/(from) earmarked reserves (note 8)	967	572
(Increase)/Decrease in General Fund balance	**(129)**	**(99)**

Pension Fund Liability

The pension fund deficit has increased by £11.9m, from £32.7m to £44.6m, which compares to the reduction of £8.3m in 2013/14. A key factor was the reduction in the rate used to discount future pension liabilities, which reduced from 4.5% to 3.3%. The discount rate is based on the yield on corporate bonds with a life exceeding 15 years. Those bond yields have fallen hence the lower discount rate. The same forces that have driven down corporate bond yields have also driven down future inflation and pay assumptions, which have offset the increase in the deficit. The value of the fund's assets has also increased, and the assets earned £3m interest, which also limited the increase in the net deficit.

This deficit figure is very much an estimate, being the actuary's assessment of the present value of the liabilities to be met by the fund over a long period less its current assets and anticipated future receipts. Note 38 presents detailed information about the Defined Benefit Pension Scheme.

The statutory provisions require that the deficit be made good by increased contributions over the remaining working life of employees. These contributions are reviewed every three years as part of the comprehensive actuarial review of the pension fund. Should the deficit not reduce, this would be expected to affect the deficit reduction contributions when they are next calculated in two years' time.

Looking Ahead – The Overall Financial Position of the Authority

The Council has managed, in a very difficult environment, to maintain a healthy financial position. The Medium Term Financial Strategy envisages no relaxing of the pressures and forecasts the following budget shortfalls over the next three years.

Year	Budget Gap/(Surplus) £'000	Cumulative £'000
2015/16	(95)	(95)
2016/17	1,797	1,702
2017/18	893	2,595

The main threats to these forecasts are perceived to be:

- Continuation of Central Government's austerity measures and as such further reductions to the public sector budget to be issued in the next Comprehensive Spending Review (CSR) and applied to 2016/17 onwards.
- A significant proportion of core funding now calculated and dependent upon annually fluctuating variable factors determined by a number of external factors. This, coupled with short term Central Government funding announcements exacerbates the increasingly uncertain nature of the Council's core funding streams.
- Within this overall core funding regime, the Business Rates Retention regime, merits particular mentions as it passes the risk of fluctuations in income from Central Government to Local Government. As a result changes in the tax base will have a direct and immediate impact on the Council's core funding, for example, uncertainty about the level of successful appeals by businesses against their rates poses a largely unknown risk for the Council's finances for 2015/16 onwards.

In order to achieve the required budget efficiencies the Council will continue to manage its budget effectively and will:

- Fundamentally review its costs.
- Review new and existing Income Steams.
- Undertake a project to extend Market Walk Shopping Centre.
- Seek to grow both the residential and business tax bases within the borough.

Capital expenditure over the next three years is constrained by the resources available. Planned spend is £15.437m. This includes the proposed Chorley East Health Centre which the Council is working with health sector partners to fund, by additional prudential borrowing, at an estimated cost of £7.036m. Any costs incurred by the Council are planned to be recovered from the partners.

Income Recovery

Note 17 analyses debtors by type, and note 41 further analyses the risk of default by debtors included within financial instrument.

The following table shows the in-year collection rates of local taxes. The reduction in rate of recovery of Council Tax in 2013/14 coincided with the implementation of the local Council Tax Support scheme to replace Council Tax Benefit. This required more residents to pay a share of Council Tax for the first time, however, the table below shows that Council Tax collection performance has improved and 20% of the previous reduction has been recouped in the last 12 months.

	2012/13	2013/14	2014/15
Council Tax	98.2%	97.7%	97.80%
NNDR	97.1%	97.1%	97.95%

Statement of Responsibilities

This statement defines the responsibility of the Council and the Responsible Financial Officer in respect of the Authority's financial affairs.

The Council's responsibilities

The Council shall:

- Make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for preparing the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code).

In preparing this Statement of Accounts, he has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that are reasonable and prudent.
- Complied with the local authority code.

He has also:

- Kept proper accounting records which are up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2015 and its Income and Expenditure for the year ended 31 March 2015.

Gary Hall BA CPFA
Chief Finance Officer
Date 23 September 2015

I confirm that the Statement of Accounts was approved by Governance Committee on 23 September 2015.

Councillor Paul Leadbetter,
Chair, Governance Committee
Date 23 September 2015

Movement in Reserves Statement

This statement shows the movements in the year on the different reserves held by the Council, analysed between those that are "usable" (available to fund expenditure or reduce local taxation), and other reserves.

The line "deficit/(surplus) on provision of service" shows the true economic cost of providing the authority's services, as detailed in the Comprehensive Income and Expenditure Statement. For the purposes of council tax setting however, a series of statutory adjustments are then made. These adjustments are shown in total below.

	General Fund £'000	Earmarked Reserves (Note 8) £'000	Capital Receipts Reserve £'000	Capital Grants and Contributions £'000	Total Usable Reserves £'000	Unusable Reserves Note 22 £'000	Total Reserves £'000
Balance 31 March 2013	**(2,060)**	**(4,309)**	**0**	**(3,004)**	**(9,373)**	**10,478**	**1,105**
<u>Movement in 2013/14</u>							
Deficit on provision of service	3,222	0	0	0	3,222	0	3,222
Other Comprehensive Income & Expenditure	0	0	0	0	0	(10,465)	(10,465)
Total Comprehensive Income & expenditure	**3,222**	**0**	**0**	**0**	**3,222**	**(10,465)**	**(7,243)**
Adjustments between accounting basis & funding basis under regulation (note 7)	(4,318)	0	(325)	(1,431)	(6,074)	6,074	0
Net change before transfers to/from earmarked reserves	**(1,096)**	**0**	**(325)**	**(1,431)**	**(2,852)**	**(4,391)**	**(7,243)**
Transfers to/(from) ear-marked reserves note 8	967	(967)	0	0	0	0	0
(Increase)/Decrease in year	**(129)**	**(967)**	**(325)**	**(1,431)**	**(2,852)**	**(4,391)**	**(7,243)**
Balance 31 March 2014	**(2,189)**	**(5,276)**	**(325)**	**(4,435)**	**(12,225)**	**6,087**	**(6,138)**
<u>Movement in 2014/15</u>							
Surplus on provision of service	(2,437)	0	0	0	(2,437)	0	(2,437)
Other Comprehensive Income & Expenditure	0	0	0	0	0	10,822	10,822
Total Comprehensive Income & expenditure	**(2,437)**	**0**	**0**	**0**	**(2,437)**	**10,822**	**8,385**
Adjustments between accounting basis & funding basis under regulation (note 7)	1,766	0	(206)	(1,281)	279	(279)	0
Net change before transfers to/from earmarked reserves	**(671)**	**0**	**(206)**	**(1,281)**	**(2,158)**	**10,543**	**8,385**
Transfers to/(from) ear-marked reserves (note 8)	572	(588)	0	16	0	0	0
(Increase)/Decrease in year	**(99)**	**(588)**	**(206)**	**(1,265)**	**(2,158)**	**10,543**	**8,385**
Balance 31 March 2015	**(2,288)**	**(5,864)**	**(531)**	**(5,700)**	**(14,383)**	**16,630**	**2,247**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This is not the amount to be funded from taxation, since authorities raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Movement in Reserves Statement.

2013/14				2014/15		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,273	(846)	427	Central services to the public	2,160	(943)	1,217
6,727	(1,555)	5,172	Environment & regulatory services	6,537	(1,415)	5,122
6,174	(2,433)	3,741	Planning services	3,744	(3,615)	129
5,297	(372)	4,925	Cultural & related services	4,380	(310)	4,070
555	(941)	(386)	Highways and transport services	629	(971)	(342)
29,273	(28,072)	1,201	Other housing services	29,836	(28,735)	1,101
2,162	(38)	2,124	Corporate and democratic core	1,864	(157)	1,707
1,129	(718)	411	Non-distributed costs	1,645	(903)	742
52,590	**(34,975)**	**17,615**	**Cost of Services**	**50,795**	**(37,049)**	**13,746**
1,086	(325)	761	Other operating expenditure (note 9)	565	(368)	197
4,832	(3,225)	1,607	Financing and investment income and expenditure (note 10)	5,049	(3,090)	1,959
8,148	(24,909)	(16,761)	Taxation & non-specific grant income & expenditure (note 11)	8,308	(26,647)	(18,339)
66,656	**(63,434)**	**3,222**	**(Surplus)/deficit on provision of services**	**64,717**	**(67,154)**	**(2,437)**
		(338)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(98)
		(10,127)	Re-measurements of the net defined benefit liability (note 38d)			10,920
		(10,465)	**Other Comprehensive (Income) and Expenditure**			**10,822**
		(7,243)	**Total Comprehensive (Income) and Expenditure**			**8,385**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority.

It shows the net assets of the authority which are matched by the reserves held.

Reserves are reported in two categories. Usable Reserves includes reserves available to provide services and other reserves which may only be used to fund capital expenditure or repay debt.

Unusable Reserves fall into two categories. The first consists of the Revaluation Reserve which holds unrealised gains and losses in asset values. The second category holds amounts resulting from the “adjustments between the accounting basis and the funding basis”, as shown in the Movement in Reserves Statement.

31 March 2014 £’000		Notes	31 March 2015 £’000
55,439	Property, Plant & Equipment	12	56,997
1,667	Heritage Assets	13	1,667
1,348	Investment Property	14	1,348
321	Intangible Assets	15	201
351	Long-Term Debtors		346
59,126	**Long-Term Assets**		**60,559**
2,008	Short-Term Investments	41	0
16	Inventories		13
4,389	Short-Term Debtors	17	5,916
1,854	Cash and Cash Equivalents	18	1,618
8,267	**Current Assets**		**7,547**
(337)	Bank Overdraft		(150)
(3,416)	Short-Term Borrowing	41	(6,431)
(4,043)	Short-Term Creditors	19	(5,115)
(531)	Provisions	20	(589)
(8,327)	**Current Liabilities**		**(12,285)**
(492)	Long-Term Creditors		(485)
(19,042)	Long-Term Borrowing	41	(12,801)
(32,676)	Other Long-Term Liabilities - pensions	38	(44,598)
(15)	Other Long-Term Liabilities - other		(15)
(703)	Grant Receipts in Advance – Capital	32	(169)
(52,928)	**Long-Term Liabilities**		**(58,068)**
6,138	**Net Assets**		**(2,247)**
12,225	Usable Reserves	MIRS	14,383
(6,087)	Unusable Reserves	22	(16,630)
6,138	**Total Reserves**		**(2,247)**

The unaudited accounts were issued on 29 June 2015, and the audited accounts were authorised for issue on 23 September 2015.

Cash Flow Statement

This shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

2013/14 £'000		2014/15 £'000
(3,222)	Net surplus or (deficit) on the provision of services (CI&ES)	2,437
8,629	Adjustments to net surplus or deficit on the provision of services for non-cash movements	1,199
(2,554)	Adjustments for items included in the net surplus or deficit on the provision of service that are investing & financing activity	(2,505)
2,853	Net cash flows from Operating Activities	1,131
(16,135)	Investing Activities (Note 24)	1,088
11,968	Financing Activities (Note 25)	(2,268)
(1,314)	Net increase or (decrease) in cash and cash equivalents	(49)
3,168	Cash and cash equivalents at the beginning of the reporting period	1,517
1,854	**Cash and cash equivalents at the end of the reporting period (note 18)**	**1,468**

Cash and cash equivalents at the beginning and end of the 2014/15 reporting period have been defined to be net of the Bank Overdraft.

Notes to the Accounts

1 ACCOUNTING POLICIES

These notes explain the policies used to ensure the Council's financial position is fairly presented.

General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and the Service Reporting Code of Practice for Local Authorities 2014/15 (SeRCOP), 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

The Income and Costs of the Council are accounted for in the period to which they relate, regardless of when the cash is paid or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- 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 in full, 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 consists of cash in hand and deposits repayable without penalty on notice of not more than 24 hours. Cash Equivalents consists of investments which mature in less than three months. In the Cash Flow Statement cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Longer-term investments are not reclassified if the outstanding period falls below three months at the date of account.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Authority is not required to raise council tax to meet these charges. Instead it has to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is achieved by means of an adjustment between the General Fund balance and the Capital Adjustment Account (in the Movement in Reserves Statement)

Contingent Assets and Liabilities

These are assets and liabilities arising from past events the existence of which will only be confirmed by future events not wholly within the Council's control. They are disclosed in notes to the accounts. See notes 39 and 40.

Exceptional Items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure statement or in the notes to the accounts, depending on their significance.

Employee Benefits

Benefits payable during employment
These are charged to the Surplus or Deficit on the Provision of Service. The charge includes an accrual for any untaken leave and holiday entitlement. This accrual does not affect council tax since it is reversed by transfer from the General Fund Balance to the Accumulating Compensated Absences Account (in the Movement in Reserves Statement).

Termination benefits
These are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or a decision by an officer to accept voluntary redundancy. The costs are recognised when the Council commits itself to terminate the employment of an officer or group of officers or makes an offer to encourage voluntary redundancy. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Post-employment benefits
Employees are members of the Local Government Pension Scheme which provides defined benefits to members. Full details are given in Note 38. An explanation of the methodology is provided below:

- The liabilities of the fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.9% (based on the indicative rate of return on high quality corporate bonds)
- The assets of the fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate

- unitised securities – current bid price
- property – market value

- The change in net pension liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income & Expenditure Statement to the services for which employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are charged to the Comprehensive Income & Expenditure Statement as part of Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is charged to Comprehensive Income & Expenditure Statement within the Financing & Investment Income and Expenditure line
  - Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return. This is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities, or events that reduce the expected future service or accrual of benefits of employees. These are charged to Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
  - Re-measurements of the net defined benefit liability – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited to the Pension Reserve.
  - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities. These are not accounted for as an expense.

Statutory provisions require the General Fund balance to be charged with the amount payable to the pension fund, not the amount calculated according to the relevant accounting standards. This is achieved by transfers between the Pensions Reserve and the General Fund to remove the actuarial debits and credits and replace them with amounts actually paid and those accrued at the year-end. The negative balance on the Pension Reserve thus measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities thus arising 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 Reporting Period

Where an event occurring after the Balance Sheet date provides evidence of conditions existing at the Balance Sheet date, the amounts recognised in the Statement of Accounts are adjusted. Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted. The "non adjusting event", and an estimate of the financial effect, is however disclosed in the notes to the accounts.

Financial Liabilities

Borrowings are initially measured at fair value and carried at their amortised cost. The annual charge to the Comprehensive Income & Expenditure Statement (CI&ES) is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal payable plus interest accrued at 31 March.

Gains or losses on premature redemption are charged to the Comprehensive Income & Expenditure Statement unless they are the result of a restructure in which case they are added to the amortised cost and charged over the life of the modified loan. However, Regulations require discounts to be amortised over the shorter of the life of the original loan or ten years. Greater discretion applies to premia: they can be amortised over the life of the original or replacement loan, or a shorter period. A transfer is done from the General Fund Balance to the Financial Instruments Adjustment account to give effect to these regulations.

Financial Assets

Loans and receivables

These are initially measured at fair value and carried at amortised cost. The annual credit to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal receivable plus interest accrued at 31 March.

Where assets are identified as impaired because of a likelihood from a past event that payments will not be received, the asset is written down and a charge made to the relevant service, or the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. 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.

Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

Government Grants and Other Contributions

Government grants and other contributions for both revenue and capital purposes are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with. If compliance has not been achieved, cash received is held on the Balance Sheet as a creditor.

The postings in the Comprehensive Income and Expenditure Statement relating to capital grants and contributions are reversed out of the General Fund balance in the Movement in Reserves Statement. If the monies have not been used they are credited to the Grants Unapplied Reserve. If they have been applied to fund capital expenditure they are credited to the Capital Adjustment Account.

Heritage Assets

Heritage assets are assets held principally for their contribution to culture and knowledge. Note 43 gives details of the heritage assets held, and their treatment in this statement.

Intangible assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences), is capitalised at cost if it will bring benefits to the Council for more than one financial year. Internally generated assets are capitalised where it is demonstrable that the Council will generate future economic benefits.

The cost is amortised over the economic life to reflect the pattern of consumption, the first year of charge being that in which the expenditure is incurred. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The postings in the Comprehensive Income and Expenditure Statement are reversed from the General Fund balance in the Movement in Reserves Statement and charged to the capital Adjustment Account.

Investment Properties

Investment properties are those held solely to earn rentals or for capital appreciation.

They are measured initially at cost and subsequently at fair value. They are not depreciated but are re-valued annually. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Gains and losses on revaluation and disposal are not permitted by statute to impact on the council tax. A reversal is therefore done between the General Fund Balance and the Capital Adjustment Account (or, in the case of sale proceeds exceeding £10,000 to the capital receipts Reserve).

Income and expenditure from investment properties are charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

Leasing

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

If the lease covers both land and buildings, then the land and building 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.

<u>The Authority as lessee</u>

Operating leases
Rentals are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the asset.

<u>The Authority as lessor</u>

Finance Leases
Where the Authority grants a finance lease over an asset, it is written out of the Balance Sheet and charged to the “gain or loss on disposals” line in Other Operating Expenses in the Comprehensive Income and Expenditure Statement. The Authority’s net investment in the lease is credited to the same line, matched by a Long-Term Debtor in the balance Sheet.

Lease rental receipts are split between finance income (credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement), and the principal element applied to write down the Long-Term Debtor.

Operating leases
Where the Authority grant an operating lease over an asset it remains on the Balance Sheet, and the income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
(See note 35).

Overheads

The Service Reporting Code of Practice (SeRCOP) 2014/15 requires that all Central Support and Administrative costs, with the exception of those mentioned below, be allocated to services in proportion to the benefit received.

The exceptions are:
- The costs of Democratic Representation and Management
- A narrow range of costs defined as Corporate management
- Non Distributed costs. These consist of certain costs relating to retirement benefits (past service, curtailment and settlement costs), and costs associated with unused IT facilities and surplus assets.

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

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

Changes in accounting policies are only made when required by proper accounting practice or if the change provides more reliable or relevant information about the effect of transactions on the Council's financial performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts from prior periods.

Material errors also will require a prior period adjustment.

Property Plant and Equipment (PPE)

All expenditure on the acquisition, creation, or enhancement of fixed assets is capitalised on an accruals basis in the accounts provided it exceeds the 'de minimis' threshold of £5,000 and provides benefits to the Council for a period of more than one year.

<u>Measurement</u>
PPE is accounted for in accordance with IAS 16. As adapted for the public sector this provides that:
- Infrastructure, Community Assets, Assets under Construction, and equipment, are held at depreciated historical cost.
- All other assets are measured at fair value. In respect of specialised assets, if there is an absence of market based evidence of value, fair value will be assessed using the depreciated replacement cost approach.

Valuations are provided by qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Property assets are re-valued, at a minimum, every 5 years.

A gain on revaluation is credited to the Revaluation Reserve unless it reverses a previous loss charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement

Depreciation
Non-current assets held for sale are not depreciated.
Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the closing value of assets, weighted for part-year acquisitions or disposals if appropriate. Components are separately depreciated if:

- The total value of the host asset (excluding land) exceeds £500k and
- The value of the component exceeds 20% of the asset value (excluding land)

Depreciation periods are as follows:

	years
Property (excluding components separately identified)	5-70
Property components - mechanical	25
Portable office facilities	10-15
Vehicles	3-10
IT equipment	3-5
Other equipment	5-15

Revaluation gains are also depreciated by transfer of the difference between the current valuation depreciation charge and the historic cost depreciation charge, from the Revaluation Reserve to the Capital Adjustment Account

Impairment
All assets are reviewed annually for impairment. Impairment losses are charged against revaluation gains held in the Revaluation Reserve. If these are inadequate the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

If an impairment loss is subsequently reversed, the reversal, up to the amount of the original loss adjusted for depreciation, is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposal 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 continuing use, it is reclassified as an Asset Held for Sale and shown within current assets. The asset is re-valued immediately and carried at the lower of this amount and fair value less costs to sell. If assets subsequently fail to meet the criteria to be classified as Assets Held for Sale, they revert to their Non-. The income from these assets should be in Current Asset classification, and are re-valued at their original value adjusted for any depreciation, impairment or revaluation that would have applied.

On disposal the carrying amount of an asset is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts exceeding £10,000 from disposal are credited to the same line; lesser receipts are included as service income in cost of services. Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Capital Charges and Council Tax
The postings in the Comprehensive Income and Expenditure Statement in respect of depreciation, impairment, disposals and revaluation are reversed in the Movement in Reserves Statement to avoid impacting on council tax. Capital Receipts exceeding £10,000 are reversed to the Capital Receipts Reserve. Other reversals are to the Capital Adjustment Account

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing is uncertain. Provisions are charged to the appropriate revenue account. Expenditure, when incurred, is charged directly to the provision.

Reserves

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement, and the reserve is appropriated back into the General Fund Balance through the Movement in Reserves Statement.

Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement.

If the Authority has determined to use capital resources to meet the cost (as opposed to funding from revenue), a transfer is done in the Movement in Reserves Statement, from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the council tax.

Value Added Tax

VAT is included in the accounts only to the extent that it is irrecoverable.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

Changes in the following accounting standards have not been included in this statement:

- IFRS 13 Fair Value measurement. The Local Authority application of this standard will require value to be based on value in use rather than exit value. This maintains current practice. The value attached in future to Surplus Assets will however change from existing use to Fair value. The Standard therefore has very limited impact..
- Issues included in the “Annual Improvements to IFRSs. This covers a number of Standards to clarify their meaning and scope.
- IFRS 21 Levies. This is concerned with when a liability arising from the imposition of a government levy should be recognised. No significant impact is anticipated.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired as a result of a need to close facilities or to reduce levels of service expenditure.

- Commuted sums due from developers in order to fulfil obligations of S106 Agreements have been accrued and added to the Capital Grants and Contributions Unapplied Reserve. The commuted sums become receivable when trigger stages defined in the S106 Agreements have been reached. Judgement has been applied in deciding whether each development had reached the trigger stage by 31 March 2015.
- Judgement has been applied in accounting for the leasing by the Council to tenants of offices, industrial units and sites, and retail units in Market Walk Shopping Centre as operating leases. The Code defines operating leases as a lease other than a finance lease; whereas a finance lease transfers substantially all the risks and rewards incidental to ownership of an asset, potentially including title. The accounts have been prepared by applying the judgement that ownership of such leased assets would not transfer to the lessees.

4 ASSUMPTIONS ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains figures estimated on the basis of historical experience, current trends and other relevant factors. The following table notes items for which there is a significant risk of material future adjustment:

Item	Uncertainty	Effect if actual results differ
Pensions liability	The estimated liabilities depend on a number of complex judgements. These include future retirement ages, mortality rates, salary increases, returns on investments and discount rates. A firm of consulting actuaries is engaged to provide advice on these assumptions. .	The sensitivity to changes is shown at note 38i. Small changes have major impacts on the pension deficit
Debtors	Note 17 shows non-public sector debtors of £7.4m. This includes housing benefit debts totalling £1.3m. Of this sum, a significant amount is expected to be recovered from on-going benefit, but changes in housing benefit administration may affect the ability to do this. A provision for impairment has been made of 70%.	Any increase in impairments will be a charge to the revenue account.
Asset valuations	Note 12 shows that fixed assets valued at £57m, including the Market Walk shopping centre, are carried at either fair value or depreciated replacement cost value. The valuations have been carried out by qualified valuers in accordance with RICS Guidance	The values are only estimates and thus could over or understate the actual values realisable if sale actually occurred. Market Walk shopping centre will be revalued annually at fair value.
Provisions	The Authority has made a provision of £0.56m for its share of the cost of backdated appeals against overcharging of business rates. See Note 20.	If the value of successful appeals exceeded the provision there would be a reduction in the local share of business rates income available to fund the Authority's services.

5 MATERIAL ITEMS OF INCOME AND EXPENSE

All material items have been disclosed in the statement or in the notes to the accounts.

6 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 23 September 2015. Subsequent events are not reflected in the financial statements or in the notes.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The surplus or deficit on the provision of service is subject to adjustment in order to calculate the amount to be met from taxation. This statement details those adjustments and agrees to the Movement in Reserves Statement.

	2014/15			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves (Note 22) £'000
Adjustments involving the Capital Adjustment Account				
Reversal of debits and credits to the Comprehensive Income and Expenditure Statement (CI&ES)				
Charges for depreciation of non-current assets	(1,925)			1,925
Charges for impairment of non-current assets	(86)			86
Revaluation losses & reversals of non-current assets	747			(747)
Amortisation of intangible assets	(120)			120
Revenue expenditure funded from capital under statute	(930)			930
Capital grants funding REFFCUS	413			(413)
Capital grants received & used to fund capital in year	563			(563)
Insertion of items not posted to CI&ES				
Statutory & voluntary provision for the repayment of debt	460			(460)
Capital expenditure charged to the General Fund Balance	907			(907)
Adjustments involving Capital Grants Unapplied				
Capital grants and contributions unapplied credited to CI&ES	1,622		(1,622)	
Community Infrastructure Levy unapplied credited to CI&ES	472		(472)	
Grants applied to fund capital expenditure transferred to CAA			813	(813)
Adjustments involving the Capital Receipts Reserve				
Capital receipts from the disposal of non-current assets	40	(40)		
Preserved Right to Buy receipts	329	(329)		
Capital receipts used to finance new capital expenditure		163		(163)
Capital receipts credited to CI&ES to meet pooling liability	(1)	1		
Transfer from Deferred Capital Receipts		(1)		1
Adjustments involving Financial Instruments Adj. A/c				
Difference between finance costs in CI&ES and those chargeable in accordance with statutory regulation				
Adjustments involving the Pensions Reserve				
Reversal of pension charges made in the CI&ES	(2,798)			2,798
Employer's contributions and payments made to pensioners	1,796			(1,796)
Adjustments involving the Collection Fund Adj. A/c				
Difference between credit to CI&ES and precepted amount of council tax	33			(33)
Difference between credit to CI&ES and local share of business rates	266			(266)
Adjustments involving the Accumulated Absences A/c				
Difference between remuneration charged to the CI&ES and that chargeable per statutory requirement	(22)			22
TOTAL ADJUSTMENTS	**1,766**	**(206)**	**(1,281)**	**(279)**

2013/14 Comparative figures	2013/14 General Fund Balance £'000	Capital Receipts Reserve £,000	Capital Grants Unapplied £'000	Unusable Reserves (Note 22) £'000
Adjustments involving the Capital Adjustment Account (CAA)				
Reversal of debits and credits to CI&ES				
Charges for depreciation of non-current assets	(1,506)			1,506
Charges for impairment of non-current assets	(1,239)			1,239
Revaluation losses on Property, Plant and Equipment	(1,091)			1,091
Movements in the market value of Investment Property	143			(143)
Amortisation of intangible assets	(130)			130
Revenue expenditure funded from capital under statute	(624)			624
Capital grants funding REFFCUS	457			(457)
Capital grants received & used to fund capital in year	53			(53)
Non-current assets charged to CI&ES on disposal	(555)			555
Insertion of items not posted to the CI&ES				
Statutory &voluntary provision for the repayment of debt	270			(270)
Capital expenditure charged to the General Fund Balance	152			(152)
Adjustments involving Capital Grants Unapplied				
Capital grants and contributions unapplied credited to CI&ES	1,719		(1,719)	
Grants applied to fund capital expenditure transferred to CAA			288	(288)
Adjustments involving the Capital Receipts Reserve				
Capital receipts from the disposal of non-current assets	162	(162)		
Preserved Right to Buy receipts	163	(163)		
Capital receipts used to finance new capital expenditure		0		(0)
Capital receipts credited to CI&ES to meet the pooling liability	(1)	1		
Transfer from Deferred Capital Receipts		(1)		1
Adjustments involving Financial Instruments Adj. A/c				
Difference between finance costs in CI&ES and those chargeable in accordance with statutory regulation				
Adjustments involving the Pensions Reserve				
Reversal of pension charges made in the CI&ES	(3,536)			3,536
Employer's contributions and payments made to pensioners	1,766			(1,766)
Adjustments involving the Collection Fund Adj. A/c				
Difference between credit to CI&ES and precepted amount of council tax	9			(9)
Difference between credit to CI&ES and local share of business rates	(508)			508
Adjustments involving the Accumulated Absences A/c				
Difference between remuneration charged to the CI&ES and that chargeable per statutory requirement	(22)			22
TOTAL ADJUSTMENTS	**(4,318)**	**(325)**	**(1,431)**	**6,074**

8 TRANSFERS TO/FROM EARMARKED RESERVES

The movements in reserves during the year were as follows

	Balance 1 April 2013 £'000	Transfers Out £'000	Transfers (In) £'000	Balance 31 March 2014 £'000	Transfers Out £'000	Transfers (In) £'000	Balance 31 March 2015 £'000
Rephasing of planned expenditure	**(521)**	281	(368)	**(608)**	363	(577)	**(822)**
Rephasing New Investment Projects	**0**	0	(591)	**(591)**	235	(330)	**(686)**
Grants reserved for specific expend.	**(616)**	39	0	**(577)**	384	(85)	**(278)**
Financing of capital expenditure	**(296)**	36	(332)	**(592)**	279	(1,933)	**(2,246)**
Planning purposes including appeals	**(225)**	177	0	**(48)**	9	0	**(39)**
Restructuring of services	**(23)**	16	(261)	**(268)**	25	(141)	**(384)**
Reduce Pension Fund Liability	**(1,750)**	0	0	**(1,750)**	1,750	0	**0**
Non-recurring projects	**(115)**	115	0	**0**	0	0	**0**
Town Centre investment	**(422)**	182	(11)	**(251)**	229	(88)	**(110)**
Apprenticeships for young people	**(79)**	35	0	**(44)**	5	0	**(39)**
Resource equalisation	**0**	0	(96)	**(96)**	0	(438)	**(534)**
Maintenance of Council buildings	**(126)**	23	(100)	**(203)**	66	(138)	**(275)**
Maintenance of Grounds	**0**	0	(62)	**(62)**	0	(10)	**(72)**
Elections	**0**	0	(85)	**(85)**	27	0	**(58)**
Other	**(136)**	3	32	**(101)**	2	(222)	**(321)**
Total	**(4,309)**	**907**	**(1,874)**	**(5,276)**	**3,374**	**(3,962)**	**(5,864)**

9 OTHER OPERATING EXPENDITURE

2013/14 £'000		2014/15 £'000
530	Parish council precepts	565
1	Payments to the Government's Capital Receipt Pool	1
555	(Gains)/losses on disposal of non-current assets	0
(163)	Capital receipts from the sale of previously transferred housing stock	(329)
(162)	Other capital receipts	(40)
761	**Total**	**197**

10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2013/14 £'000		2014/15 £'000
323	Interest payable and similar charges	586
1,687	Pensions interest cost net of expected return on pension assets	1,432
(260)	Interest receivable and similar income	(59)
(143)	Income and Expenditure in relation to investment properties and changes in their fair value	0
1,607	**Total**	**1,959**

11 TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

2013/14 £'000		2014/15 £'000
(6,426)	Council Tax income	(6,598)
(2,263)	Non-Domestic Rates Income and Expenditure	(2,688)
(6,240)	Non ring-fenced Government Grants (Note 32)	(6,371)
(1,832)	Capital grants and contributions (Note 32)	(2,682)
(16,761)	**Total**	**(18,339)**

12 PROPERTY PLANT AND EQUIPMENT

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
Cost or valuation						
At 1 April 2014	**52,348**	**4,760**	**563**	**2,905**	**1,097**	**61,673**
Additions	2,323	245		117		**2,685**
Revaluations recognised in Revaluation Reserve (RR)	(26)				(201)	**(227)**
Revaluations recognised in CI&ES	700				(60)	**640**
At 31 March 2015	**55,345**	**5,005**	**563**	**3,022**	**836**	**64,771**
Depreciation and Impairment						
At 1 April 2014	**(1,839)**	**(3,618)**	**(257)**	**(520)**	**0**	**(6,234)**
Depreciation charge	(1,187)	(585)	(40)	(114)		**(1,926)**
Depreciation written out of RR	325					**325**
Depreciation written out of CI&ES	107					**107**
Impairment losses recognised in CI&ES	(46)					**(46)**
At 31 March 2015	**(2,640)**	**(4,203)**	**(297)**	**(634)**	**0**	**(7,774)**
Net Book Value						
At 31 March 2015	**52,705**	**802**	**266**	**2,388**	**836**	**56,997**

Comparative Movements in 2013/14	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
Cost or valuation						
At 1 April 2013	**29,588**	**4,666**	**459**	**3,353**	**2,012**	**40,078**
Additions	24,576	145	104	166		**24,991**
Revaluations recognised in Revaluation Reserve (RR)	95	16			(375)	**(264)**
Revaluations recognised in CI&ES	(1,867)	(67)		(614)	(25)	**(2,573)**
De-recognition - disposals	(44)				(515)	**(559)**
At 31 March 2014	**52,348**	**4,760**	**563**	**2,905**	**1,097**	**61,673**
Depreciation and Impairment						
At 1 April 2013	**(1,763)**	**(3,101)**	**(198)**	**(514)**		**(5,576)**
Depreciation charge	(696)	(640)	(59)	(110)		**(1,505)**
Depreciation written out of RR	348	56				**404**
Depreciation written out of CI&ES	72	67		104		**243**
Impairment losses recognised in RR	197					**197**
De-recognition - disposals	3					**3**
At 31 March 2014	**(1,839)**	**(3,618)**	**(257)**	**(520)**	**0**	**(6,234)**
Net Book Value						
At 31 March 2014	**50,509**	**1,142**	**306**	**2,385**	**1,097**	**55,439**

During 2013/14, £24.576m was added to the valuation of Other land & Buildings, of which £23.341m was in respect of expenditure on the purchase of the Market Walk Shopping Centre.

Fixed Assets Valuations

During 2014/15 the valuations were carried out by the Council's Surveyor Mr K Davy. The basis of valuation is set out in the Statement of Accounting Policies.

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
Carried at historical cost	**2,550**	**4,906**	**563**	**2,774**		**10,793**
Valued at fair value as at:						
31 March 2015	26,616			218	71	**26,905**
31 March 2014	6,410	99		3	240	**6,752**
31 March 2013	12,688			26	525	**13,239**
31 March 2012	273					**273**
31 March 2011	6,760			1		**6,761**
Total cost or valuation	**55,297**	**5,005**	**563**	**3,022**	**836**	**64,723**

The Authority has considered whether the carrying value of PPE assets that have not been revalued in the year is materially different to fair value. In revaluing assets during 2014/15, the Council's Surveyor has considered the effect any significant movement in the value of revalued assets on the remaining assets not scheduled for revaluation, and has confirmed that no further adjustments are required.

Capital Commitments

The Authority does not have any significant capital projects in construction.

13 HERITAGE ASSETS

Cost or Valuation	2013/14 £'000	2014/15 £'000
As at 1 April	1,667	1,667
Additions	0	40
Impairment	0	(40)
As at 31 March	**1,667**	**1,667**

Note 43 gives details of the types of assets and the basis of valuation.

14 INVESTMENT PROPERTIES

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or its right to receipt of income or the proceeds of disposal.

The assets are comprehensively re-valued every five years, and annually reviewed for any indications that changes in yields or void levels warrant a review of fair values. The following table summarises the movement in the fair value of these properties over the past years.

	2013/14 £'000	2014/15 £'000
Fair value at the start of the year	1,205	1,348
Net gain (loss) from revaluation	143	0
Value at year-end	**1,348**	**1,348**

15 INTANGIBLE ASSETS

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The following periods have been used in amortising the Authority's significant intangible assets.

Asset Description	Amortisation Period
e-planning software	5 years
Website	3 years
Thin client implementation	7 years
Core financial management information system	5 years

Amortisation is on a straight line basis. In 2014/15 the amortisation charge of £0.120m was charged principally to Customer ICT and Transactional Services (£0.114m). The cost centres of this support service are absorbed as overheads across all services. It is not possible therefore to simply indicate the amount charged to each heading in the Comprehensive Income and Expenditure Statement.

The movements on Intangible Asset balances during the year are as follows:

	2013/14 £'000	2014/15 £'000
Balance at the start of the year		
Gross carrying amount	1,529	1,529
Accumulated amortisation	(1,078)	(1,208)
Net carrying amount at year start	**451**	**321**
Movements in the year		
Amortisation in year	(130)	(120)
Net carrying amount at the year-end	**321**	**201**

There are no significant contractual commitments, and no individual intangible assets the amortisation of which is materially significant to the Council.

16 FINANCIAL INSTRUMENTS

16a Categories of Financial Instrument

The following categories of Financial Instruments are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
<u>Cash & cash equivalents</u>				
Cash in hand, at Bank, less Bank Overdraft (Note 18)	0	0	1,854	1,468
<u>Investments</u>				
Loans and receivables	0	0	2,008	0
<u>Debtors</u>				
Loans and receivables	351	346	3,474	4,787
Debtors that are not Financial Instruments	0	0	915	1,129
Total Debtors	351	346	4,389	5,916
<u>Borrowings</u>				
Financial liabilities at amortised cost	(19,042)	(12,801)	(3,416)	(6,431)
<u>Creditors</u>				
Financial liabilities carried at contract amount	(492)	(485)	(2,277)	(2,128)
Creditors that are not Financial Instruments	0	0	(1,766)	(2,987)
Total Creditors	(492)	(485)	(4,043)	(5,115)

There has been no reclassification of assets and no pledges of collateral have been made in the periods reported in these statements.

16b Income, Expense, Gains and Losses

The amounts charged in the Comprehensive Income and Expenditure Statement are as follows:

	2013/14			2014/15		
	Financial Liabilities at Amortised Cost £'000	**Financial Assets Loans & Receivables £'000**	**Total £'000**	**Financial Liabilities at Amortised Cost £'000**	**Financial Assets Loans & Receivables £'000**	**Total £'000**
Interest expenses	315	0	315	586	0	586
Impairment	0	(26)	(26)	0	0	0
	315	**(26)**	**289**	**586**	**0**	**586**
Interest income	0	(188)	(188)	0	(59)	(59)
Interest income accrued on impaired assets	0	(37)	(37)	0	0	0
Total income	**0**	**(225)**	**(225)**	**0**	**(59)**	**(59)**
Net (gain)/loss for the year			**64**			**527**

16c Fair Values of Assets and Liabilities

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

- any borrowings or investments are discounted at the rates applying to equivalent transactions at the Balance Sheet date.
- where an instrument will mature in the next twelve months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2014		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial liabilities				
Borrowings (Short-Term and Long-Term excluding temporary loans)	(20,459)	(21,722)	(19,232)	(21,997)
Deferred liabilities	(15)	(15)	(15)	(15)
Total	**(20,474)**	**(21,737)**	**(19,247)**	**(22,012)**

Interest rates on borrowing from the Public Works Loan Board vary between 1.55% and 4.34%.

	31 March 2014		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial assets				
Long-term debtors	351	423	346	419
Total	**351**	**423**	**346**	**419**

17 SHORT TERM DEBTORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	77	279
Other local authorities	802	561
NHS bodies	0	36
Other entities and individuals	5,518	7,379
	6,397	8,255
Less provision for bad debts	(2,008)	(2,339)
Net carrying amount at the year-end	**4,389**	**5,916**

The bad debt provision has been made against debtors classified as "other entities and individuals".

18 CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Authority	363	262
Bank current and call accounts	1,491	1,356
Bank Overdraft	0	(150)
Total cash and cash equivalents	**1,854**	**1,468**

19 SHORT TERM CREDITORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	(23)	(1,382)
Other local authorities	(819)	(1,619)
NHS bodies	(1)	0
Other entities and individuals	(3,200)	(2,114)
Net carrying amount at the year-end	**(4,043)**	**(5,115)**

20 PROVISIONS

The movements in provisions during the year were as follows

	Balance 31 March 2014 £'000	Movements Used £'000	Added £'000	Balance 31 March 2015 £'000
Municipal Mutual Insurance	(21)	2	0	(19)
Business rates appeals	(500)	297	(357)	(560)
Town Centre Development	(10)	0	0	(10)
Total	**(531)**	**299**	**(357)**	**(589)**

Municipal Mutual – This Company was the Council's insurer prior to it becoming insolvent in 1993. Under a Scheme of Arrangement the Council shares a liability with other Councils to pay back a part of settlements received if the insurer's ongoing liabilities exceed its assets.

Business Rates Appeals – This is held against the possibility of successful backdated appeals against Business Rates valuations. There is a high degree of uncertainty about the amount of any reduction granted, how far back it will apply, and when the appeal will be decided.

21 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 15). The purpose of General Fund Earmarked Reserves is detailed in Note 8.

22 UNUSABLE RESERVES

	31 March 2014 £'000	31 March 2015 £'000
Revaluation Reserve (Note 22a)	(5,839)	(5,845)
Capital Adjustment Account (Note 22b)	(20,990)	(22,088)
Financial Instruments Adjustment Account (Note 22c)	0	0
Deferred Capital Receipts Reserve (Note 22d)	(292)	(290)
Pensions Reserve (Note 22e)	32,676	44,598
Collection Fund Adjustment Account (Note 22f)	406	107
Accumulated Absences Account (Note 22g)	126	148
Total Unusable Reserves at year-end	**6,087**	**16,630**

22a Revaluation Reserve

The Revaluation Reserve holds the gains arising from increases in the valuation of Property, Plant and Equipment. The balance is reduced by any subsequent reductions in value, by impairment, by depreciation, and by disposal.

The Reserve holds only gains accumulated since 1 April 2007. Gains prior to that date were consolidated in the Capital Adjustment Account.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**(5,591)**	**(5,839)**
Upward revaluation of assets	(338)	(98)
Difference between fair value and historic cost depreciation	90	92
Balance at 31 March	**(5,839)**	**(5,845)**

22b Capital Adjustment Account

This account contains the following:

- Sums set aside to finance capital expenditure
- Accumulated gains and losses on Investment Properties
- Revaluation gains on Property, Plant and Equipment accumulating prior to 1 April 2007
- The difference between the charges required by accounting practice for the amortisation of assets (depreciation and impairment) and the de-recognition of assets, and the capital charges required by statute.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**(24,681)**	**(20,990)**
Adjustments between accounting and regulatory funding bases (see note 7)		
Items relating to capital charges		
Charges for depreciation of non-current assets	1,506	1,925
Charges for impairment of non-current assets	1,239	86
Revaluation losses & reversals of non-current assets	1,091	(747)
Amortisation of intangible assets	130	120
Revenue expenditure funded from capital under statute	624	517
Net cost assets disposed of	555	0
Movements in the market value of Investment Properties	(143)	0
Capital financing applied in the year		
Capital receipts used to finance new capital expenditure	0	(163)
Capital expenditure charged to the General Fund Balance	(152)	(907)
Statutory & voluntary provision for the repayment of debt	(270)	(460)
Grants used in the year to fund capital expenditure	(799)	(1,377)
Adjustments with the Revaluation Reserve (see note 23a)		
Difference between fair value and historic cost depreciation	(90)	(92)
Balance at 31 March	**(20,990)**	**(22,088)**

22c Financial Instruments Adjustment Account

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of certain financial instruments. At both year-ends there were no such differences

22d Deferred Capital Receipts Reserve

This account shows the sums recognised as due to the Council on the disposal of non-current assets but for which cash settlement has yet to take place.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**(293)**	**(292)**
Transfer to Capital Receipts Reserve on receipt of cash	1	2
Balance at 31 March	**(292)**	**(290)**

22e Pensions Reserve

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of pensions.

The costs of benefits are charged to the Comprehensive Income and Expenditure Statement when they are earned rather than when they are paid. Statutory arrangements however require that benefits be financed only when the Authority makes contributions to the pension fund. The debit balance on the Pension Reserve therefore shows that benefits earned by employees exceed the payments made by the authority to fund them.

Statutory arrangements require that adequate funding will ultimately be set aside.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**41,032**	**32,676**
Remeasurement of the net defined benefit liability	(10,127)	10,920
Reversal of charges posted to the Comprehensive Income & Expenditure Statement	3,536	2,798
Employers contributions and direct payments to pensioners payable in the year	(1,765)	(1,796)
Balance at 31 March	**32,676**	**44,598**

22f Collection Fund Adjustment Account

This account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**(93)**	**406**
Amount by which Council Tax and Business Rates income credited to the Comprehensive Income & Expenditure Statement differs from the amount required by statute	499	(299)
Balance at 31 March	**406**	**107**

22g Accumulated Absences Account

The cost of compensated absences (e.g. leave entitlement) not taken by employees during the year of account, is charged to the Comprehensive Income and Expenditure Statement. Statutory arrangements require however that the impact on the General Fund Balance is neutralised by transfers to or from this account.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**104**	**126**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis differs from remuneration chargeable in the year in accordance with statutory requirements	22	22
Balance at 31 March	**126**	**148**

23 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2013/14 £'000	2014/15 £'000
Interest received	467	49
Interest paid	(141)	(592)
Net	**326**	**(543)**

24 CASH FLOW STATEMENT – INVESTING ACTIVITIES

The following items have been included within investing activities in the cash flow statement.

	2013/14 £'000	2014/15 £'000
Purchase of property, plant & equipment, investment property and intangible assets.	(24,996)	(2,438)
Purchase of short and long-term investments.	(7,000)	0
Proceeds from the sale of assets.	326	371
Proceeds from short and long-term investments.	15,894	2,000
Other payments for investing activities	(4)	(13)
Other receipts relating to investing activity (government grants).	(355)	1,168
Total investing activities	**(16,135)**	**1,088**

25 CASH FLOW STATEMENT – FINANCING ACTIVITIES

The following have been included within financing activities in the cash flow statement.

	2013/14 £'000	2014/15 £'000
Cash receipts from short and long-term borrowing	15,678	0
Repayments of borrowings	(3,612)	(3,221)
Change in indebtedness relating to NNDR (due from Government and preceptors) and Council Tax (due from preceptors)	(98)	953
Total financing activities	**11,968**	**(2,268)**

26 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (SEGMENTS)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- They exclude capital charges (depreciation, impairment and revaluation losses)
- Retirement benefits are included on the basis of cash flows rather than current service costs
- Expenditure on some support services is budgeted for centrally

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2013/14	Chief Executive £'000	Partnerships Planning & Policy £'000	People and Places £'000	Total £'000
Fees, charges & other service income	(2,067)	(1,889)	(2,861)	(6,817)
Government grants	(723)	(8)	0	(731)
Total Income	**(2,790)**	**(1,897)**	**(2,861)**	**(7,548)**
Employee expenses	4,840	2,321	3,417	10,578
Other service expenses	3,435	1,141	5,925	10,501
Total Expenditure	**8,275**	**3,462**	**9,342**	**21,079**
Net Expenditure	**5,485**	**1,565**	**6,481**	**13,531**
Directorate Income and Expenditure 2014/15	**Chief Executive £'000**	**Customer Advice Services £'000**	**Public Protection Streetscene & Community £'000**	**Total £'000**
Fees, charges & other service income	(1,899)	(1,284)	(3,707)	(6,890)
Government grants	(57)	(776)	0	(833)
Total Income	**(1,956)**	**(2,060)**	**(3,707)**	**(7,723)**
Employee expenses	3,230	2,682	4,058	9,970
Other service expenses	3,113	1,514	6,052	10,679
Total Expenditure	**6,343**	**4,196**	**10,110**	**20,649**
Net Expenditure	**4,387**	**2,136**	**6,403**	**12,926**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2014/15 £'000
Net expenditure in the Directorate Analysis	13,531	12,926
Net expenditure of services and support services not included in the Analysis (Note a)	(154)	(682)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis (Note b)	4,238	1,502
	17,615	**13,746**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	0	0
Cost of Services in Comprehensive Income and Expenditure Statement	**17,615**	**13,746**

Notes

(a) Though all cash income and expenditure budgets are monitored throughout the year, some budgets are excluded from the monitoring of directorate totals. In 2014/15, the expenditure and income reported separately included payments to the pension fund in respect of past service, and housing benefits.

(b) Non-cash budgets are excluded from monitoring of income and expenditure. These include budgets that do not affect the cost to the council tax payer, in particular depreciation, amortisation and impairment of fixed and intangible assets, accrual of employee benefits, and technical pensions accounting entries.

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the surplus or deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Directorate Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management for decision making £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(6,890)	(2,728)	(31)	(16,275)	(25,924)	(369)	(26,293)
Interest and Investment Income						(3,090)	(3,090)
Income from council tax						(6,598)	(6,598)
Local share of business rates						(10,996)	(10,996)
Government grants and contributions	(833)	(26,215)	(373)		(27,421)	(9,053)	(36,474)
Total Income	**(7,723)**	**(28,943)**	**(404)**	**(16,275)**	**(53,345)**	**(30,106)**	**(83,451)**
Employee expenses	9,970	940	(408)		10,502		10,502
Other service expenses	10,679	27,321	930		38,930		38,930
Support Service recharges				16,275	16,275		16,275
Depreciation, amortisation & impairment			1,384		1,384		1,384
Interest Payments						5,049	5,049
Precepts & Levies						565	565
Business rates tariff and levy						8,308	8,308
Payments to Housing Capital Receipts Pool						1	1
Total Expenditure	**20,649**	**28,261**	**1,906**	**16,275**	**67,091**	**13,923**	**81,014**
(Surplus) or deficit on the provision of services	**12,926**	**(682)**	**1,502**	**0**	**13,746**	**(16,183)**	**(2,437)**

2013/14	Directorate Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management for decision making £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(6,817)	(1,478)	(48)	(15,917)	(24,260)	(325)	(24,585)
Interest and Investment Income						(3,225)	(3,225)
Income from council tax						(6,426)	(6,426)
Local share of business rates						(10,411)	(10,411)
Government grants and contributions	(731)	(25,589)	(409)		(26,729)	(8,072)	(34,801)
Total Income	**(7,548)**	**(27,067)**	**(457)**	**(15,917)**	**(50,989)**	**(28,459)**	**(79,448)**
Employee expenses	10,578	231	105		10,914		10,914
Other service expenses	10,501	26,682	624		37,807		37,807
Support Service recharges				15,917	15,917		15,917
Depreciation, amortisation & impairment			3,966		3,966		3,966
Interest Payments						4,832	4,832
Precepts & Levies						530	530
Business rates tariff and levy						8,148	8,148
Payments to Housing Capital Receipts Pool						1	1
Gain or Loss on Disposal of Fixed Assets						555	555
Total Expenditure	**21,079**	**26,913**	**4,695**	**15,917**	**68,604**	**14,066**	**82,670**
(Surplus) or deficit on the provision of services	**13,531**	**(154)**	**4,238**	**0**	**17,615**	**(14,393)**	**3,222**

27 MARKET WALK

The Authority owns the Market Walk shopping centre, generating rental income from letting premises.

	2013/14 £'000	2014/15 £'000
Turnover	(574)	(1,813)
Expenditure	99	(87)
Surplus	**(475)**	**(1,900)**

The surplus, which is included within Net Expenditure of Planning Services in the Comprehensive Income and Expenditure Statement, excludes the costs of financing the acquisition. These are not being charged directly to the shopping centre account but are included within Financing and Investment Income and Expenditure (note 10). Financing costs include the statutory provision for repayment of debt relating to the purchase, which are included in the total disclosed in note 7 and the Movement in Reserves Statement.

28 AGENCY SERVICES

The Council acts as agent for central government, County Council and Fire Authority in the collection of National Non-Domestic Rates; and as agent for major preceptors in the collection of Council Tax. Further details are given in the notes to the Collection Fund.

29 MEMBERS ALLOWANCES

The Council paid the following amounts to its members during the year.

	2013/14 £'000	2014/15 £'000
Allowances	291	294
Expenses	4	2
Total	**295**	**296**

30 OFFICERS REMUNERATION

Remuneration of Senior Employees was as follows:

SENIOR EMPLOYEES Post Title	Year	Salary £'000	Expense Allowances £'000	Benefits In kind £'000	Compensation for loss of office £'000	Total Remuneration (excl. Pension Contributions) £'000	Pension Contribution £'000	Total Remuneration (including Pension Contributions) £'000
Chief Executive	2014/15	108		0		108	12	120
	2013/14	108		1		109	22	131
Director Customer and Advice Services (note a)	2014/15	89		0		89	10	99
	2013/14	97		0		97	20	117
Director Public Protection, Streetscene and Communities (note b)	2014/15	81		0		81	9	90
	2013/14	81		0		81	17	98
Head of Shared Financial Services (note f)	2014/15	58		6		64	7	71
	2013/14	58		6		64	12	76
Head of Governance	2014/15	51		4		55	5	60
	2013/14	48		3		51	10	61
Head of Customer, ICT and Transactional Services (note c)	2014/15	No longer reports directly to Chief Executive in 2014/15						
	2013/14	50		5		55	10	65
Head of Policy and Communications/Project Manager (note e)	2014/15	53		1		54	6	60
	2013/14	47		4		51	9	60
Head of Economic Development (note d)	2014/15	48		5		53	5	58
	2013/14	Did not report directly to Chief Executive in 2013/14						

Note a Director of Partnerships, Planning and Policy has changed title during 2014/15 to Director Customer and Advice Services.
Note b Director of People and Places has changed title during 2014/15 to Director Public Protection, Streetscene and Communities.
Note c Head of Customer, ICT & Transactional Services reported directly to the Chief Executive in 2013/14 but not in 2014/15.
Note d Head of Economic Development as Senior Officers post reporting directly to the Chief Executive in 2014/15 was not in 2013/14.
Note e Head of Policy and Communications changed position to Project Director on 1 October 2014. Head of Policy and Communications is shared between two employees but is now under £50K threshold.
Note f The cost of Head of Shared Financial Services post is shared between Chorley and South Ribble Borough Councils.

Other employees receiving more than £50,000 remuneration, excluding pension contributions, were as follows:

Remuneration band	2013/14 Number of employees	2014/15 Number of employees
£50,000 - £54,999	3	5
£55,000 - £59,999	1	-
£60,000 - £64,999	-	-
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	-

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

Packages banded by cost	**Number of compulsory redundancies**		**Number of other agreed departures**		**Total number of exit packages**		**Total cost of exit packages £'000**	
	2013/14	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**
£0 -£20,000	1	1	10	1	11	2	106	13
£20,001 - £40,000	0	0	0	2	0	2	0	58
£40,001 - £60,000	0	0	1	0	1	0	48	0
£60,001 - £80,000	0	0	2	0	2	0	125	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,000 - £150,000	0	0	0	0	0	0	0	0
Total	1	1	13	3	14	4	279	71

31 EXTERNAL AUDIT COSTS

The Authority has incurred the following costs relating to external audit.

	2013/14 £'000	2014/15 £'000
Fees for statutory inspection and audit	60	59
Less Audit fees rebate		(6)
Fees for the certification of grant claims and returns	12	10
Total	**72**	**63**

A rebate of £6,109 was issued by the Audit Commission in October 2014.
Additional fees payable to auditors in respect of other services in 2014/15 include payments totalling £4,230 to the Audit Commission (National Fraud Initiative), and BDO (Shared Services Joint Committee annual return).

32 GRANT INCOME

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

	2013/14 £'000	2014/15 £'000
Credited to Taxation and Non-Specific Grant Income & Expenditure		
Revenue Support Grant (RSG)	(3,903)	(2,998)
New Homes Bonus grant	(1,805)	(2,639)
Other revenue grants	(532)	(734)
Capital Contributions – S106 Contributions/Community Infrastructure Levy	(1,779)	(2,158)
Capital Other grants and contributions	(53)	(524)
Total	**(8,072)**	**(9,053)**
Credited to Services		
Grants – benefits related	(26,305)	(26,916)
Grants – other	(424)	(505)
Contribution – County Council reimbursement	(1,053)	(1,219)
Contributions – other	(618)	(572)
Total	**(28,400)**	**(29,212)**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached that could require the monies to be returned to the giver. The balances at year-end, shown separately on the balance sheet as Grant Receipts in Advance - Capital, are as follows:

Grant Receipts in Advance - Capital	2013/14 £'000	2014/15 £'000
Grant – Regional Housing Pot	(664)	(123)
Grant – Lancashire County Council	(10)	(25)
Other grants and contributions	(29)	(21)
Total	**(703)**	**(169)**

33 RELATED PARTIES

The financial statements must disclose material transactions with related parties, to draw attention to the possible extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

- **Central Government**
  Central government has effective control over the general operations of the council as it provides the statutory framework within which the Authority operates and the majority of its funding in the form of grants. Details of government grants received are given in note 33.

- **Members of the Council**
  Members have direct control over the council's financial and operating policies. Elected members are required to complete a Notice of Registerable Interests and notify the council of any changes within 28 days. Declarations of interests in items relating to the personal interest of partners, relatives or friends, are also recorded in the minutes of the meeting and the member will leave the meeting. Declarations are open to public inspection.

  Note 29 refers to the allowances paid to members. The amounts paid to individual members are reported on the Council's web site.

  Members are also appointed to represent the Council on various external organisations some of which receive financial assistance from the Council. The amounts paid were immaterial, and were properly approved.

- **Officers**
  The staff Code of Conduct requires declaration, to the departmental Chief Officer, of close personal relationships with Councillors and Contractors, financial and non-financial interests in, or membership of, external organisations, and all hospitality or gifts. These arrangements are subject to monitoring and reporting by the Council's HR Department. There were no material related party transactions in respect of officers.

- **Chorley Community Housing Ltd (CCH)**
  In 2006/07 the Council's housing stock was transferred to CCH. The Council receives a proportion of the receipts from the preserved right to buy sales of dwellings to former Chorley council tenants (see note 410 Contingent Assets). In 2014/15 this totalled £0.329m (2013/14 £0.163m).

- **Partnerships, Companies and Trusts**
  <u>Financial & Assurance Shared Services Partnership</u> – In January 2009 this partnership was established under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. This provides for the provision of accountancy, exchequer, treasury management, procurement and assurance services across the administrative areas of the two Councils.

  A Shared Services Joint Committee has been established to discharge the Chorley and South Ribble Councils' functions of providing the services detailed in the Shared Services Agreement.

  In 2014/15 gross expenditure of £1.7m (2013/14 £1.862m) was incurred on the shared services, which was fully funded by recharges to the two Councils.

34 CAPITAL EXPENDITURE AND FINANCING

The total capital expenditure in the year is shown in the following table, together with the resources that have been used to finance it.

The statement incorporates details of the movements in the Capital Financing Requirement. This is a measure of the capital expenditure historically incurred by the Authority that has yet to be financed. This will be discharged by future charges to the revenue account.

	2013/14 £'000	2014/15 £'000
Opening Capital Financing Requirement	8,472	32,866
Capital investment		
Property, Plant and Equipment (Note 12)	24,991	2,685
Heritage Assets (Note 13)	0	39
Revenue Expenditure Funded from Capital under Statute (Note 7)	624	930
Sources of finance		
Capital Receipts (Note 22b)	0	(163)
Government Grants and Other Contributions (Note 22b)	(799)	(1,789)
Sums set aside from revenue		
Revenue Financing (Note 22b)	(152)	(907)
Minimum Revenue provision – statutory (Note 22b)	(270)	(461)
Closing Capital Financing Requirement	**32,866**	**33,200**
Explanation of movements in year		
Increase in prudential borrowing	24,664	795
Provision made for debt repayment	(270)	(461)
Increase/(Decrease) in Capital Financing Requirement	**24,394**	**334**

35 LEASES

35a Authority as lessee

Finance leases

The Council has no finance leases

Operating leases

The Authority operates plant, vehicles and office equipment under operating leases. There are also lease arrangements embedded in the refuse contract. The future minimum payments, and sub-lease minimum receipts, are as follows:

	31 March 2014		31 March 2015	
	Payments £'000	Receipts £'000	Payments £'000	Receipts £'000
Not later than 1 year	712	(43)	619	(43)
Later than 1 year, not later than 5	1,494	(170)	1,284	(170)
Later than 5 years	403	(383)	374	(340)
Minimum lease payments	**2,609**	**(596)**	**2,277**	**(553)**

The operating lease rentals charged in the Comprehensive Income and Expenditure Statement during the year were as follows:

	2013/14 £'000	2014/15 £'000
Minimum lease payments	752	788
Sub-lease payments receivable	(43)	(43)
Total payable rentals	**709**	**745**

35b Authority as lessor

Finance leases

The Council has leased two properties, each for periods of 125 years.

In the following table the gross investment in the leases is reconciled to the present value of the minimum lease payments:

	31 March 2014 £'000	31 March 2015 £'000
Finance lease debtor (present value of minimum lease payments)	289	289
Unearned finance income	2,259	2,235
Gross investment in the lease	**2,548**	**2,524**

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 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2014 £'000
Not later than 1 year	24	24	24	24
Later than 1 yr. not later than 5	95	95	95	95
Later than 5 years	2,429	2,405	2,429	2,405
Total	**2,548**	**2,524**	**2,548**	**2,524**

No allowance for uncollectible amounts is deemed necessary. No contingent rents were received by the authority.

Operating leases

The Council lets 27 offices, industrial units and sites, and 34 units in the Market Walk Shopping Centre. The future minimum lease payments receivable are:

	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	2,095	2,145
Later than one year and not later than five years	6,476	6,668
Later than five years	14,382	14,001
Total receivable rentals	**22,953**	**22,814**

No contingent rents were received by the authority.

36 IMPAIRMENT LOSSES

The impairment losses recognised during the years are as follows. All losses were within the "Other Land & Building" class of asset. These losses appear also in the analysis of movements in Property plant and equipment (Note 12).

	2013/14 £'000	2014/15 £'000
Impairment losses taken to the Revaluation Reserve	(197)	0
Total impairment losses	**(197)**	**0**

37 TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2014/15 incurring liabilities of £0.071m (£0.279m in 2013/14). See note 30 for the number of exit packages and total cost.

38 DEFINED BENEFIT PENSION SCHEME

38a Governance

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through the Local Government Pension Scheme. This scheme is administered by Lancashire County Council who have appointed a Pension Fund Committee (comprising a mix of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises on investment strategy and risk management. The scheme is funded and pays defined benefits based on how long employees are active members, and their salary when they leave (a "final salary" scheme) for service up to 31 March 2014 and on revalued average salary (a "career average" scheme) for service from 1 April 2014 onwards.

38b Funding the liabilities

Regulations require actuarial fund valuations to be carried out every 3 years. Contributions for each employer are set having regard to their individual circumstances. Contributions must be set with a view to targeting the Funds solvency (the detailed provisions are set out in the Fund's Funding Strategy Statement). The latest valuation, carried out as at 31 March 2013, showed a shortfall for all employers of £1.38bn or 22%. Employers are paying additional contributions over 19 years to meet the shortfall, commencing in 2014/15.

In 2015/16 the Council will pay a contribution of 11.1% of pensionable pay, estimated to cost £0.868m, plus a deficit recovery contribution of £0.832m.

38c Risks
The primary risk is that the Fund's assets will, in the long-term, fall short of its liabilities to pay benefits to members.

Investment risk management seeks to balance the maximisation of the opportunity for gain and minimise the risk of loss, on the fund's investments. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk), by ensuring counterparties meet credit criteria, and that investments are within the limits set by the investment strategy.

Other risks - The fund managers have to ensure that the fund has adequate liquidity to meet its obligations as they arise. They must also be sensitive to any actions of government or changes in European legislation which might affect funding requirements.

Sensitivity to these risks is estimated in note 38i.

38d Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the revenue account in the Cost of Services, when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable to the fund during the year. An adjustment is therefore made to the General Fund via the Movement in Reserves Statement. The following table shows the transactions made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2013/14 £'000	2014/15 £'000
Comprehensive Income & Expenditure Statement		
Cost of Services		
Administration	27	29
current service cost	1,654	1,312
Past service cost	0	25
Settlement and curtailment	168	0
Net interest on the net defined benefit liability		
Interest costs	4,509	4,463
Expected return on scheme assets	(2,822)	(3,031)
Total post-employment benefit charged to the (Surplus)/Deficit on the Provision of Service	**3,536**	**2,798**
Other post-employment benefit charged to the Comprehensive Income & Expenditure Statement		
Re-measurement of the net defined benefit liability		
Return on plan assets, excluding amount included in interest expense	(1,096)	(5,479)
Actuarial gains & losses from changes in demographic assumptions	446	0
Actuarial gains & losses from changes in financial assumptions	(9,477)	16,399
Re-measurement of net defined benefit liability (CI&ES)	(10,127)	10,920
Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement	**(6,591)**	**13,718**
Movement in Reserves Statement		
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services	(3,536)	(2,798)
Actual employer contributions to the scheme	1,766	1,796

38e Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows

	Scheme Liabilities Local Government Pension Scheme	
	2013/14 £'000	2014/15 £'000
Present value of the defined benefit obligation	(100,591)	(119,917)
Fair value of plan assets	67,899	75,272
Net liability arising from defined benefit obligation	**(32,692)**	**(44,645)**

38f Reconciliation of fair value of the scheme (plan) assets

	Scheme Assets Local Government Pension Scheme	
	2013/14 £'000	**2014/15 £'000**
1 April	**67,776**	**67,899**
Interest income	2,822	3,031
Re-measurement gain/(loss)		
Return on plan assets, excluding amount included in interest expense	(1,514)	5,479
Employer contributions	1,754	1,765
Employee contributions	454	489
Benefits paid	(3,366)	(3,362)
Other	(27)	(29)
31 March	**67,899**	**75,272**

38g Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	Scheme Liabilities Local Government Pension Scheme	
	2013/14 £'000	**2014/15 £'000**
1 April	**(108,813)**	**(100,591)**
Current service cost	(1,654)	(1,312)
Interest cost	(4,509)	(4,463)
Contributions by scheme participants	(454)	(489)
Re-measurement gains and (losses)		
Changes in demographic assumptions	(446)	0
Changes in financial assumptions	9,477	(16,399)
Other	2,610	0
Benefits paid	3,366	3,362
Curtailment	(168)	0
Past service costs	0	(25)
31 March	**(100,591)**	**(119,917)**

38h Local Government Pension Scheme assets comprised

	Fair value of scheme assets	
	2013/14 £'000	2014/15 £'000
Cash and cash equivalents	1,179	3,647
Equity investments (by industry type)		
Consumer	8,733	8,322
Energy	1,381	598
Financial institutions	5,006	4,460
Health and care	3,061	2,558
Information technology	4,505	4,255
Industrials	4,136	3,612
Other	2,823	2,104
Sub total equity	29,645	25,909
Bonds		
UK corporate	2,659	725
Overseas corporate	3,594	320
Government	2,081	2,362
Sub total bonds	8,334	3,407
Property		
Retail	2,553	3,061
Commercial	2,999	4,027
Sub total property	5,552	7,088
Private equity		
UK	1,726	1,889
Overseas	7,791	9,200
Sub total private equity	9,517	11,089
Other		
Infrastructure	3,694	4,189
Property	341	551
Credit funds	9,637	19,392
Sub total alternatives	13,672	24,132
	67,899	**75,273**

38i Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercers, an independent firm of actuaries. Estimates for the County Council Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The main assumptions used in their calculations have been as follows:

	Local Government Pension Scheme	
	2013/14	2014/15
Long-term expected rate of return on assets in the scheme		
Equity investments	7.0%	6.5%
Government bonds	3.4%	2.2%
Other bonds	4.3%	2.9%
Property	6.2%	5.9%
Cash/liquidity	0.5%	0.5%
Other	0.0%	0.0%
Mortality assumptions		
Longevity at 65 for current pensioners		
Men	22.8 yrs.	22.9yrs
Women	25.3 yrs.	25.4yrs
Longevity at 65 for future pensioners		
Men	25.0 yrs.	25.1yrs
Women	27.7 yrs.	27.8yrs
Rate of inflation (CPI)	2.4%	2.0%
Rate of increase in salaries	3.9%	3.5%
Rate of increase in pensions	2.4%	2.0%
Rate for discounting scheme liabilities	4.5%	3.3%
Take up option to convert pension into lump sum	0.0%	0.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes in the assumptions occurring at the end of the reporting period, and for each assumption assumes that other factors remain unchanged.

	Impact on the defined benefit obligation in the scheme £'000
Longevity (increase 1 year)	2,382
Rate of inflation (increase of 0.1% p.a.)	2,209
Salary inflation (increase of 0.1% p.a.)	436
Rate for discounting scheme liabilities (change of 0.1%)	+/- 2,169

39 CONTINGENT LIABILITIES

The Council gave warranties to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years. It has paid a single premium to insure against claims of up to £15m for a period of 10 years, and is covering the remaining 8 years by payment of an additional annual premium. At 31 March 2015 there are 10 years of the liability period outstanding.

40 CONTINGENT ASSETS

The Council submitted a claim to HM Revenue and Customs regarding VAT overpaid over many years, mainly at its leisure centres. This has been settled save for outstanding claims for compound interest, which could total £0.400m.

The Council is entitled to a share of the proceeds from the sale of dwellings transferred to Chorley Community Housing. This agreement has a further seven years to run. The amount receivable will depend on the numbers sold and cannot be predicted.

41 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key risks

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

- Credit risk – that other parties might fail to pay amounts due to the Council.
- Liquidity risk – that the Authority might not have liquid funds available to make payments when due.
- Market risk – the possibility of financial loss arising from movements in interest rates.

Overall procedures for managing risk

In managing investment risk the Council works within the legal framework set out in the Local Government Act 2003 and associated regulations. This requires compliance with the CIPFA Code of Practice, the Prudential Code, and investment guidance issued through the Act. A key requirement is that the council should consider its Treasury Management Strategy annually. The Strategy incorporates the following:

Prudential indicators specifying

- Maximum and minimum exposure to fixed and variable rates;
- Limits on the maturity structure of the debt portfolio;
- Limits on total borrowing.

An Investment Strategy specifying

- The use that should be made of credit ratings and other indicators to determine the financial standing of counterparties;
- The use of sovereign ratings to limit investments to specific countries;
- The maximum amounts that might be deposited with any institution;
- The lengths of time for which deposits can be made.

Credit risk

This exists in relation to debtors, and investments made as a result of the Council's treasury operations. The following table analyses relevant investments and debtors as at the date of account.

Bank Loans

The Council's Investment Strategy restricts investments to a narrow range of counterparties. There is no evidence of an impairment risk. Investments by category of counterparty are shown in the following table.

	31 March 2014 £'000	31 March 2015 £'000
Term deposits - UK Banks	2,008	0
Total Short-Term Investments	**2,008**	**0**

Sundry Debtors

The sundry debtors (note 16a) are analysed by age and risk in the following table.

	Gross £'000	Default risk £'000	Net £'000
Not yet past due date	2,285	116	2,169
Up to three months past due date	474	16	458
Three to six months past due date	284	162	122
Six months to one year past due date	2,591	890	1,701
Beyond one year	993	656	337
Total	**6,627**	**1,840**	**4,787**

The default risk has fully been provided for. No collateral is held as security.

Liquidity risk

The authority has ready access to borrowing from the Public Works Loan Board and the money markets. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council manages its liquidity position through the risk management procedures outlined above as well as through cash flow management procedures required by the Council. Interest rates on its borrowings vary between 1.55% and 4.34%, and the maturity analysis of its borrowing is as follows:

	31 March 2014 £'000	31 March 2015 £'000
Less than 1 year	1,457	6,431
Between 1 and 2 years	6,263	1,263
Between 2 and 5 years	3,587	3,071
More than 5 years	9,151	8,467
Total	**20,458**	**19,232**

Market risk

Interest rate risk – The Council has limited exposure to interest rate movements on its borrowings and investments. Borrowings and short-term investments are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings and investments do not impact on the Comprehensive Income and Expenditure Statement. To mitigate risk the Council's annual Treasury Strategy reviews interest rate forecasts and fixes prudential indicators for fixed and variable interest rate exposure.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would have been as shown in the following table:

	£'000
Loss - Increase in interest payable on variable rate borrowings	0
Gain - Increase in interest receivable on variable rate investments	(58)
Gain - Impact on Comprehensive Income and Expenditure Statement	(58)
Gain - Decrease in fair value of fixed rate borrowing (no impact on Comprehensive Income & Expenditure Statement)	(1,500)

Price risk – The Council has no exposure to this risk, having no available for sale assets.

Foreign Exchange Risk – The Council has no material exposure to the risk of currency movements.

42 HERITAGE ASSETS – FIVE YEAR SUMMARY OF TRANSACTIONS

There were no disposals or acquisitions during the five years 2010/11 to 2014/15.

43 HERITAGE ASSETS – FURTHER INFORMATION

The assets included within Heritage assets are as follows:

Civic Regalia

This mainly consists of mayoral badges, chains of office, and other regalia used in civic activities. It was last re-valued in 2009.

Astley Hall

The house was built in the mid-seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11, its value was reduced to a nominal £1 to reflect the substantial repair liability.

Astley Hall furniture and art collection

A large part of the collection was gifted to the Council with the house, but it has been added to by gifts and purchases in the following years. The collection consists of numerous minor works of art and furniture. It is included in the statement of accounts at the 2010/11 insurance value of £1.582m.

Preservation and management

The Council has a ten year plan for the use and maintenance of the hall and contents. Periodic structural surveys are undertaken, the last during 2013/14. Additions and disposal of the collection is managed in accordance with The Acquisitions and Disposal Policy.

44 TRUST FUNDS

The Authority acts as sole trustee for a small number of funds. In some cases the asset (cash) is held on the Council's balance sheet and shown as a sundry creditor. In other cases the fund has investments not recorded in the Council's accounts. The Avondale Library Trust is also a registered charity (Proceeds of Sale of the Former Free Library).

2014/15	Income £'000	Expenditure £'000	On Balance Sheet Assets £'000	On Balance Sheet Liabilities £'000	Off Balance Sheet Assets £'000	Off Balance Sheet Liabilities £'000
McKnight Memorial Fund	0	0	5	5	0	0
William Cocker Charity	0	0	0	0	3	3
W B Parkes Charity	0	0	2	2	0	0
Avondale Library Trust	3	(24)	12	12	98	98
H T Parkes Baths Fund	0	0	0	0	3	3
Total	**3**	**(24)**	**19**	**19**	**104**	**104**

2013/14	Income £'000	Expenditure £'000	On Balance Sheet Assets £'000	On Balance Sheet Liabilities £'000	Off Balance Sheet Assets £'000	Off Balance Sheet Liabilities £'000
McKnight Memorial Fund	0	0	5	5	0	0
William Cocker Charity	0	0	0	0	3	3
W B Parkes Charity	0	0	2	2	0	0
Avondale Library Trust	3	0	32	32	93	93
H T Parkes Baths Fund	(1)	0	0	0	2	2
Total	**2**	**0**	**39**	**39**	**98**	**98**

Collection Fund

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers, and distribution to local authorities and the Government, of Council Tax and Non-Domestic Rates (Business Rates).

2013/14 Business Rates £'000	2013/14 Council Tax £'000	Collection Fund	2014/15 Business Rates £'000	2014/15 Council Tax £'000
		INCOME		
	50,161	Council Tax Receivable		52,050
26,496		Business Rates Receivable	27,943	
26,496	50,161		27,943	52,050
		EXPENDITURE		
		Apportionment of Previous Year Surplus/(Deficit)		
		Central Government	(82)	
	77	Chorley Council (Note 11)	(66)	102
	441	Lancashire County Council	(15)	572
	25	Lancashire Combined Fire Authority	(2)	34
	60	Police & Crime Commissioner for Lancashire		80
0	603		(165)	788
		Precepts, Demands and Shares		
13,014		Central Government	13,496	
10,411	6,340	Chorley Council (Note 11)	10,797	6,463
2,342	35,571	Lancashire County Council	2,429	36,826
260	2,085	Lancashire Combined Fire Authority	270	2,116
	5,008	Police & Crime Commissioner for Lancashire		5,185
26,027	49,004		26,992	50,590
		Charges to Collection Fund		
	94	Write offs of uncollectable amounts		89
355	388	Increase/(Decrease) in Bad Debt Provision	169	312
1,250		Increase/(Decrease) in Provision for Appeals	150	
134		Cost of Collection	133	
1,739	482		452	401
(1,270)	**72**	**Surplus/(Deficit) arising during the year**	**664**	**271**

2013/14 Business Rates £'000	2013/14 Council Tax £'000	Collection Fund	2014/15 Business Rates £'000	2014/15 Council Tax £'000
		Collection Fund Balance		
	716	Balance brought forward at 1 April	(1,270)	788
(1,270)	72	Surplus/(Deficit) for the year	664	271
(1,270)	**788**	**Balance carried forward at 31 March**	**(606)**	**1,059**
		Allocated to		
(508)	102	Chorley Council - Collection Fund Adjustment Account (Notes 11 and 23f)	(242)	135
(635)		Central Government	(303)	
(114)	572	Lancashire County Council	(55)	771
(13)	33	Lancashire Combined Fire Authority	(6)	44
	81	Police & Crime Commissioner for Lancashire		109
(1,270)	**788**	**Surplus/(Deficit) at 31 March**	**(606)**	**1,059**

ACCOUNTING FOR COUNCIL TAX

The amount of Council Tax to be credited to the Comprehensive Income and Expenditure Statement for both billing authorities and major preceptors is their share of the accrued income. However, statute requires that the amount to be credited to the General Fund should be the authority's precept or demand for the year plus its share of the previous year's Collection Fund surplus or deficit. The difference between this regulatory charge and the accrued income is taken to the Collection Fund Adjustment Account, as revealed in the Movement in Reserves Statement. See also Note 7.

Since the collection of Council tax is an agency arrangement, debtor and creditor balances belong proportionately to the billing authority and the major preceptors. This results in a debtor or creditor position between the billing authority and each major preceptor.

COUNCIL TAX DETAILS OF CHARGE

For the purpose of calculating Council Tax, residential properties are classified into eight valuation bands. Each valuation band is proportionate to the central Band D property. This enables calculation of the total tax base. The Council Tax Base for 2014/15 was calculated as follows:

Band	Dwellings	Dwellings adj. for discounts & exemptions	Proportion of Band D Charge	Band D Equivalent
A (disabled)	0	13	5/9	4.31
A	14,278	11,982	6/9	7,988.29
B	10,553	9,380	7/9	7,295.40
C	8,965	8,128	8/9	7,224.71
D	6,231	5,785	9/9	5,785.30
E	4,401	4,123	11/9	5,039.28
F	1,867	1,768	13/9	2,553.27
G	819	774	15/9	1,290.33
H	64	44	18/9	88.00
Total	**47,178**	**41,997**		**37,268.89**
Less adjustments for anticipated changes to the base and losses on collection				**(506.27)**
Add adjustment for new properties/technical changes to discounts				**578.66**
Less local Council Tax Support Scheme discounts				**(4,096.50)**
Band D Equivalent Number of Properties				**33,244.78**

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year and dividing this by the council tax base. This results in an average Band D charge (excluding Parish Precepts) of £1,504.76 for 2014/15 (£1,480.11 for 2013/14). The other valuation bands are proportionate to this.

ACCOUNTING FOR BUSINESS RATES (NNDR)

From 2013/14, NNDR income, debtor and creditor balances, provisions, arrears and prepayments have been apportioned between the Council, Government, Lancashire County Council, and Lancashire Combined Fire Authority, as a result of the implementation of Business Rates Retention. As 2013/14 was the first year of the new Business Rates Retention system, there was not a surplus or deficit from the previous year to apportion in 2014/15.

The deficit apportioned in 2014/15 was £0.165m, whereas the actual deficit in the previous year was £1.270m. Regulations require the deficit or surplus estimated in the annual National Non Domestic Rates (NNDR) 1 Return to be apportioned. The sum apportioned was therefore the estimate included in NNDR1 2014/15.

Note 11 Taxation and Non-Specific Grant Income and Expenditure shows net Non-Domestic Rates Income and Expenditure for 2014/15 to be £2.688m (2013/14 £2.263m). This can be reconciled to Chorley Council's share of Business rates income in the Collection Fund statement in the following table:

2013/14 £'000		2014/15 £'000
10,411	Chorley Council share of Business Rates	10,797
(7,499)	Tariff payable to Central Government	(7,646)
(141)	Levy Payable to Central Government	(663)
(508)	Chorley Council share of (surplus) or deficit for year (transferred to Collection Fund Adjustment Account - Note 22f)	266
	Chorley Council share of previous year's surplus or (deficit)	(66)
2,263	**NNDR net income per Note 11**	**2,688**

NNDR DETAILS OF CHARGE

Business Rates are organised on a national basis. In 2005/06 the Government introduced a Small Business Rate Relief Scheme. This results in there being two multipliers – one for small businesses at 47.1p in 2014/15 and one for larger businesses at 48.2p.

The Business Rates income, after reliefs and provisions, was £27.96m for 2014/15 (£24.9 million for 2013/14).

The rateable value for the Council's area at the end of the financial year 2014/15 was £70.69m (£68.75m in 2013/14).

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Chorley Council

Report of	Meeting	Date
Chief Executive	Governance Committee	23 September 2015

TREASURY STRATEGY AND PRUDENTIAL INDICATORS 2015/16 - MID TERM REVIEW

PURPOSE OF REPORT

1. To report on performance and compliance with Prudential Indicators in financial year 2015/16 to the end of August.

RECOMMENDATION(S)

2. That the report be noted.

3. That Governance Committee requests that Council should approve changes to Prudential Indicators 1 and 2, as presented in Tables 1 and 2 of this report.

EXECUTIVE SUMMARY OF REPORT

4. The report takes into account changes to revenue and capital budgets reported to Executive Cabinet and Council during 2015/16. Prudential Indicators have been updated to reflect rephasing of capital expenditure and changes to financing.

5. The Capital Financing Requirement (CFR) has been recalculated to reflect rephasing of capital expenditure to be financed by borrowing from 2014/15. Net borrowing – gross borrowing and other long-term liabilities less surplus cash invested – is expected to be much lower than the CFR in 2015/16 because of use of internal cash balances where possible.

6. Average interest earned is 0.52% to the end of August. As in 2014/15, cash balances have been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

8. Special Council of 3 March 2015 approved the Prudential Indicators for 2015/16 to 2017/18; the Treasury Management Strategy and Treasury Indicators for 2015/16; the Annual Investment Strategy 2015/16; and the Annual Minimum Revenue Provision (MRP) Policy for 2015/16.

9. The Treasury Management Annual Report for 2014/15 was presented to Governance Committee of 24 June 2015. Changes to total capital expenditure in 2014/15, and the financing of it by borrowing (external and internal), have an impact on Prudential Indicators in 2015/16. See Table 1 and Table 2 below.

10. This report reflects rephasing of capital expenditure, and other changes to the capital programme and revenue budgets, reported to Executive Cabinet and Council during 2015/16.

11. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

PRUDENTIAL INDICATORS

Capital Expenditure 2015/16

12. The Prudential Indicator reported on 3 March 2015 took account of estimated capital expenditure and sources of financing from 2014/15 to 2017/18. The Capital Expenditure prudential indicator for 2015/16 has been updated to include expenditure rephased from 2014/15 to 2015/16, and other changes to expenditure and financing budgets, as shown in the table below.

Table 1 - Capital Expenditure	**2015/16 Estimate £'000**	**Net Changes £'000**	**2015/16 Revised £'000**
Capital expenditure incurred directly by the Council	9,214	996	10,210
Less Capital resources			
Capital receipts	649	27	676
Grants & contributions	1,869	822	2,691
Revenue and reserves	2,617	(108)	2,509
Unfinanced amount (affects the CFR)	**4,079**	**255**	**4,334**

13. The unfinanced total represents the expenditure that would be financed by Prudential Borrowing, whether external or use of internal balances.

14. Should additional capital projects be added to the Capital Programme during the remainder of 2015/16, in particular any that would require further prudential borrowing, then further revisions to Prudential Indicators would be required. This would be the case even if the intention is that the financing costs of new assets should be met from rental income receivable on completion.

Capital Financing Requirement (CFR) 2015/16

15. The CFR measures the indebtedness resulting from the Council's Capital Programme. It increases when the Council incurs unfinanced capital expenditure or leasing liabilities. The CFR is used to calculate the charge to the revenue account for debt repayment known as the Minimum Revenue Provision or MRP.

16. The CFR for the current year has been recalculated to take account of the rephasing of capital expenditure from 2014/15 to 2015/16, and other changes reflected in Table 1 above. Of the £33.200m CFR as at 1 April 2015, £23,206m is in respect of Market Walk.

Table 2 - Capital Financing Requirement (CFR)	2015/16 Estimate £'000	Net Changes £'000	2015/16 Revised £'000
Estimated CFR at year-end	36,819	177	36,996
Reasons for the annual change in the CFR			
Reduction in CFR as at 31/3/15	0	(39)	(39)
Unfinanced capital expenditure (see Table 1)	4,079	255	4,334
Voluntary Set Aside (re leasing of vehicles)	0	(48)	(48)
Annual revenue charge (MRP)	(499)	9	(490)

The CFR and Borrowing 2015/16

17. The Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. This is in order to ensure that Councils borrow only for capital investment purposes. As at 31 March 2015, net borrowing as reported in the Treasury Management Annual Report 2014/15 was £17.574m and therefore was well below the CFR at the same date. Net borrowing will not exceed the CFR in 2015/16, and the actual year-end figure will be confirmed in the Treasury Management Annual Report for the financial year. However, as explained above, the CFR Prudential Indicator may need to be updated should any additional schemes to be funded by prudential borrowing be added to the Capital Programme during 2015/16.

18. As there is a large margin between net borrowing and the CFR, the Council could take additional external borrowing should it need to top-up cash balances. However, there would be a "carrying cost" of additional borrowing, because the interest rates payable would exceed the interest rates receivable on the cash balances. As indicated in Table 3 below, the average rate of interest earned this year to November is 0.52%, whereas interest payable on new PWLB loans would be 2.3% to 3.4% (see Appendix B). Even though there would be a "carrying cost" of taking additional PWLB loans, this may prove necessary to achieve savings in the longer run if significant increases in interest rates became imminent.

Operational Boundary for External Debt 2015/16

19. The Operational Boundary for external debt should reflect the most likely, but not worst case, scenario consistent with the Council's approved budgets. Gross borrowing and other long-term liabilities should not exceed the Operational Boundary. The figure approved on 3 March 2015 was £32.674m, being the forecast gross borrowing and other long-term

liabilities as at 31 March 2016. Actual borrowing at that date is expected to be lower, because as much as possible of the CFR is matched by internal rather than external borrowing. Use for internal borrowing is the most effective use of the Council's cash balances while available. The Operational Boundary was set at a value based on the CFR to allow additional external borrowing should cash balances be depleted, without breaching the Prudential Indicator.

Authorised Limit 2015/16

20. The Authorised Limit should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The figure approved for 2015/16 was £34.674m, and there is no reason to amend this at present.

Ratio of Financing Costs to the Revenue Stream 2014/15

21. The Ratio of Financing Costs to the Revenue Stream shows the percentage of the Council's income from Government grants and council tax that has been used to meet interest costs and debt repayment. The actual figure for 2015/16 will be presented in the Treasury Management Annual Report 2015/16 in June 2016.

Incremental Impact of Capital Investment Decisions 2015/16

22. The Incremental Impact of Capital Investment Decisions measures the cumulative impact of capital expenditure on the revenue budget. It is not possible to make a meaningful comparison against this indicator other than when it is restated in the annual Treasury Strategy, which will be presented to Council in February 2016.

TREASURY ACTIVITY

23. Investment activity up to the end of August 2015 is summarised in the following table.

Table 3 - Investment Activity	**Average Daily Investment £'000**	**Earnings to 31/8/15 £**	**Average Rate %**
Fixed Term Deposits	2,000	5,868	0.70
Call Accounts	2,549	4,265	0.40
Money Market Funds	284	474	0.40
Total	**4,833**	**10,607**	**0.52**

Compared to 2014/15, the main change is the reduction in the average rate offered on term deposits. However, because of the lower balance available to invest, it has not been possible to invest for longer periods in order to achieve higher interest rates.

A full list of current investments is shown below.

Table 4 - Investments as at 31/8/15					
Counterparty	**Type**	**Amount £**	**Rate %**	**Invested**	**Maturity**
Bank of Scotland Corporate	Term deposit	2,000,000	0.70	01/04/2015	01/10/2015
Barclays	Call account	1,839,627	0.40	On call	

A separate report on this agenda reviews the current list of Financial Institutions and Investment Criteria, and proposes changes that would tend to improve yield without increasing risk.

24. The average interest earned of 0.52% exceeds the benchmark of 0.35% (being the average LIBID 7 day rate). A key performance indicator for Shared Financial Services is that the rate achieved should exceed the 7 day LIBID plus 10%, which was 0.385%. Therefore the target was achieved.

25. The Council's treasury advisors, Capita Asset Services, have provided a detailed commentary on interest rate forecasts, which is presented as Appendix B. Bank rate and PWLB borrowing rate forecasts are given from September quarter 2015 through to June quarter 2018. Compared to the rates forecast presented to Council in March 2015, PWLB rates are currently a little lower than expected, and are not considered likely to increase by as much as previously suggested by March quarter of 2018. An increase in Bank rate was expected in the March quarter of 2016, whereas now it is considered that the first increase could be in June quarter of 2016.

TREASURY CONSULTANTS' ADVICE

26. Appendix A presents the advice of Capita Asset Services in respect of economic matters in the first quarter of 2015/16. In addition, a detailed commentary on interest rate forecasts is presented as Appendix B.

IMPLICATIONS OF REPORT

27. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

28. This report complies with statutory requirements. Statistical content is consistent with the assumptions in the approved capital and revenue budgets for 2015/16, including changes approved during the year.

COMMENTS OF THE MONITORING OFFICER

29. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	13 September 2015	Treasury Strategy & Prudential Indicators 2015-16.docx

Appendix A

Detailed economic commentary on developments during quarter ended 30th June 2015

Capita Asset Services have provided us with the following comments:

- During the quarter ended 30th June 2015:
  - The economic recovery slowed in the first quarter;
  - Survey measures pointed to renewed vigour in Q2;
  - Wage growth picked up as the labour market tightens;
  - Deflation lasted only one month, but the outlook remains subdued;
  - Another split vote on the MPC drew nearer, but a rate hike this year remained unlikely;
  - The general election confirmed that the fiscal squeeze will re-intensify next year;
  - The possibility of a “Grexit” became greater.
- The latest economic data showed that the recovery slowed in the first quarter. However, the latest National Accounts painted the recovery in a better light than previously thought. Indeed, Q1’s quarterly GDP growth estimate was nudged up from 0.3% to 0.4% on the back of some stronger construction data. What’s more, given the strength of the business surveys, we wouldn’t be surprised if Q1’s growth figure was revised even higher in time.
- In any case, the surveys suggest that the recovery got swiftly back on track in Q2. On the basis of past form, the average level of the Markit/CIPS composite PMI is consistent with quarterly GDP growth of around 0.8%. And the Bank of England’s Agents’ scores point to a similarly-strong pick-up. Granted, only limited official data has been published so far for Q2, but April’s industrial production and trade figures paint an encouraging picture for the economic recovery at the start of the quarter.
- Early indicators suggest that the recovery in household spending has maintained plenty of momentum in Q2. Although retail sales volumes rose by just 0.2% on the previous month in May, this followed a 0.9% rise in April. Accordingly, even if sales volumes were unchanged in June, they would still have risen by 0.9% over Q2 as a whole, matching Q1’s rise. What’s more, spending off the high street looks to have remained robust as well. The Bank of England’s Agents’ Score of turnover in the services sector points to a further acceleration in nominal spending on services in the near term. In addition, the latest consumer confidence figures suggest that households still think now is a good time to undertake major purchases.
- Household spending should continue to be supported by developments in the labour market. The ILO unemployment rate has now fallen to 5.5%, not far above pre-crisis levels. And the employment rate is the highest since records began. The significant tightening in the labour market over the past eighteen months or so has begun to feed through into pay, with annual growth in headline average weekly earnings (excluding bonuses) picking up to 2.7% in April, its strongest since February 2009. We expect

nominal wage growth to strengthen a bit further over the coming months as the unemployment rate continues to nudge down. The subdued outlook for inflation should underpin real wage growth.

- The latest consumer prices figures showed that deflation lasted just one month. CPI inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices. We had stressed for a long while that deflation was likely to be fleeting, as it primarily reflected temporary external factors such as the fall in energy prices and food prices, as well as an appreciation in sterling, rather than weakness in domestic demand. Meanwhile, there have not been any signs that very low inflation has had any adverse second round effects on inflation expectations or spending decisions. Nonetheless, inflation looks set to hover just above zero for the next six months, and it wouldn't take much during that period, perhaps a renewed 10% fall in the oil price, for the UK to be tipped back into deflation.

- Unsurprisingly, then, the Monetary Policy Committee do not appear to be in any rush to raise interest rates. Granted, the minutes of June's MPC meeting showed that for two members, the decision to leave rates on hold was "finely balanced". And a recent interview with the Financial Times, resident MPC hawk Martin Weale suggested that he is not too far off restoring his vote to raise rates again. But with inflation close to zero, the first budget of the next parliament due to be published in July, and the situation in Greece becoming increasingly troubling, it looks that they will wait at least another few months before turning against the grain again. And with the rest of the committee likely to stand pat for even longer, it looks unlikely that there will be an increase in interest rates this year. Indeed, we still think that the first hike in Bank Rate will occur in Q2 next year, broadly in line with market expectations.

- Meanwhile, with the Conservatives winning an outright majority in May's general election, the fiscal squeeze is set to re-intensify next year. We will know more detail about the Chancellor's plans at the Budget on the 8th July, but we already know that in order to meet their manifesto pledge, the Conservatives will have to implement a fiscal consolidation worth around 5% of GDP over the next four years. And given that they have pledged to not increase VAT, income tax or national insurance in the next parliament, more of the planned squeeze will have to come through cuts to spending than in the last parliament. Admittedly, these plans may be watered down, but it is clear that fiscal policy will be a hindrance, not a help, to the economic recovery over the next few years, and underlines that monetary policy will have to remain extremely accommodative. Meanwhile, the general election brought with it another cloud to the economic recovery – namely a referendum on the UK's membership of the European Union which could happen during 2016, though a May date now appears unlikely.

- Internationally, the major development over the past quarter has been the deterioration of the situation in Greece. At the time of writing, the country is still a member of the euro-zone, but its future as part of the single currency has become increasingly uncertain. Greece urgently needs financial assistance in order to meet its debt repayments, but is unwilling to accept the reforms which creditors demand in exchange for funds. The situation is so severe that emergency capital controls have been imposed in order to stop the Greek banking system from collapsing. It is still possible that Greece and its creditors are able to strike a last-minute deal, but it is clear that this is likely to only offer a short-term solution, and Greece will need to undertake substantial debt restructuring or outright default if it is to return its public finances to a sustainable position in the long run. Whilst the UK's direct economic and financial exposures to Greece are small, there could be an adverse impact on the UK's economy from a wider fallout and period of general financial market instability that would be likely to prevail if a "Grexit" were to occur.

- Finally, UK equity prices have significantly underperformed their US counterparts since the beginning of Q2, with the FTSE 100 falling by 2.3%, whilst the S&P 500 has fallen by only 0.5%. That said, UK equity prices have performed better than those in Europe, which have been hit by renewed fears of a Grexit. Meanwhile, sterling has remained strong against the euro, due to these fears as well as the ECB's ongoing programme of Quantitative Easing. UK 10-year government bond yields have also increased by about 50 basis points since the beginning of Q2. This probably reflects a confluence of factors, such as easing fears of a prolonged bout of deflation, and growing concerns about the impact of a deterioration in the situation in the euro-zone. In any case, gilt yields had looked too low early this year given the fundamental strength of the economic recovery.

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Detailed commentary on interest rate forecasts

Our treasury management advisers, Capita Asset Services have provided us with the following update to their interest rate forecasts.

Change in market sentiment and outlook

- There has been very little change in our forecasts since our previous forecast in February. We have moved back the start of the increases in Bank Rate by one quarter, to quarter 2 of 2016, to reflect a lowering of forecasts for growth, and in line with comments from the Bank of England.
- In its May Inflation Report, the Bank of England reduced its forecasts for annual growth from 2.9% to 2.5% in 2015 and 2.7% in 2016. 2017 growth was forecast at 2.4% from 2.7%. There were a number of contributing factors to these downward revisions.
- UK quarterly growth in quarter 1 2015 was disappointing and slowed to 0.4% (2.9% y/y), from 0.8% (3.4% y/y), in the previous quarter.
- The Bank also took a more pessimistic view on the rate of, and timing of, the keenly hoped for recovery of growth in labour productivity and of increases in wages; it cut its forecast for wages growth in 2015 from 3.5% to 2.5%. This is despite strong growth in employment and continuing reductions in the rate of unemployment; employment increased by 202,000 in the three months January to March and by 1.25m over the last two years. Unemployment has dropped by 386,000 over the last year and the unemployment rate has fallen to 5.5%. On the other hand, job vacancies stood at 736,000 in the last quarter, close to their highest level since records began in 2001. Despite all this positive news, annual wage increases (excluding bonuses) in the last three months were only 1.9%. For this recovery to become sustainable over the longer term, there must be a recovery in the growth of productivity and real wages in excess of the rate of inflation.
- The election of a majority Conservative Government which is going to implement significant cuts in government expenditure, in order to reduce the size of the annual budget deficit, will slow GDP growth marginally.
- CPI inflation dipped into deflation territory, falling to -0.1%. This dip into deflation will only last for a short period until the fall in the prices of oil and food drop out of the twelve month calculation of CPI, especially during Q4 2015, when inflation is expected to tick up markedly. The latest Inflation Report clearly shows an anticipated rise in inflation to being slightly above the 2% target in the two to three year time horizon.
- Greece: the Greek government led by the anti EU and anti-austerity party Syriza, is making a strong push to renegotiate the austerity programme and debt repayments. This has been met with a robust rejection by the ECB, EU and IMF. There is, therefore, a risk that this could end with Greece leaving the Euro. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the EZ and the Euro. The Spanish local elections this quarter surprised analysts due to a strong showing by the anti-austerity party. However, there is considerable debate as to whether this level of support will transfer from a protest vote at local level into the general election at a national level which is coming up soon.

- We remain concerned at the level of potential risk surrounding the government and corporate debt of several of the major emerging economies, from the perspective of both the potential for default in some countries and also a sharp swing in investor sentiment: investors have previously sought out higher yields in these economies during an extended period when yields in western countries have been heavily suppressed.

- Clients should expect a high level of volatility in PWLB rates over 2015, depending on how long it takes to decide what will happen in Greece and as other factors impinge on market and investor sentiment. We would not be surprised to see PWLB rates swinging by 50 bps in a quarter, which makes any forecasts in the shorter term subject to a much higher level of volatility than has been usual.

The American economy experienced disappointing growth in quarter 1 2015, contracting by 0.2% on an annualised basis, due to bad weather hitting construction and consumer spending, a ports strike and the near 20% appreciation in the value of the dollar. However, it is expected to recover strongly in quarter 2 and resume its trend of making a full recovery from the financial crash. GDP growth for 2014 as a whole of 2.4% holds great promise for strong growth going forward and for further falls in unemployment. It is therefore expected that the Fed will start on the first increase in the Fed rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

As for the Eurozone, the ECB fired its big bazooka in announcing a massive €1.1 trillion programme of Quantitative Easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme started in March and will run to September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment. There has also been a continuing trend of marginal increases in the GDP growth rate which hit 0.4% in quarter 1 2015 (1.0% y/y). Deflation has also ended with a return into positive territory with an increase from 0.0% in April to +0.3% in May. In May, ten year bond yields shot up by around 50 bps after having dipped to near zero for a brief period.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

We would, however, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows;
- UK strong economic growth being weaker than we currently anticipate;
- Weak growth or recession in the UK's main trading partners - the EU, US and China;
- A resurgence of the Eurozone sovereign debt crisis;
- Recapitalisation of European banks requiring more government financial support;
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU;
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ;
- The commencement by the US Federal Reserve of increases in the Fed. funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities;
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

UK Interest Rate Forecast	Sep 2015 %	Dec 2015 %	Mar 2016 %	Jun 2016 %	Sep 2016 %	Dec 2016 %	Mar 2017 %	Jun 2017 %	Sep 2017 %	Dec 2017 %	Mar 2018 %	Jun 2018 %
Bank rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75
5 yr PWLB	2.30	2.40	2.50	2.60	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50
10 yr PWLB	2.90	3.00	3.20	3.30	3.40	3.50	3.70	3.80	3.90	4.00	4.10	4.20
25 yr PWLB	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
50 yr PWLB	3.40	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60

Source: Capita Asset Services
The forecast PWLB interest rates shown above take into account the 20 basis point (0.20%) certainty rate reduction effective as of 1 November 2012

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