Webcast Meeting

Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE
Thursday, 25th September, 2014

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

Council Chamber, Civic Offices, High Street, Epping
on **Thursday, 25th September, 2014**
at **7.00 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer Gary Woodhall
The Directorate of Governance
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), P Keska, and S Weston

Independent R Thompson (Vice-Chairman) and A Jarvis

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1. WEBCASTING INTRODUCTION

"I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

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Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit."

2. APOLOGIES FOR ABSENCE

(Director of Governance) To be announced at the meeting.

3. DECLARATIONS OF INTEREST

(Director of Governance) To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 30 June 2014 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT & GOVERNANCE WORK PROGRAMME 2014/15 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2014/15.

7. RECRUITMENT AND SELECTION AUDIT (Pages 7 - 10)

(Director of Resources) To consider the attached report (AGC-006-2014/15).

8. INTERNAL AUDIT CHARTER (Pages 11 - 24)

(Chief Internal Auditor) To consider the attached report (AGC-007-2014/15).

9. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 14 (Pages 25 - 38)

(Chief Internal Auditor) To consider the attached report (AGC-008-2014/15).

10. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2013/14 (Pages 39 - 62)

(External Auditor) International Standard on Auditing 260 required the External Auditor to report to those charged with governance certain matters before they gave an opinion on the Statutory Statement of Accounts. The External Auditor had indicated that their audit of the Council's Statutory Statement of Accounts for 2013/14 was nearly complete and that they wished to present their ISA260 report to this meeting (AGC-009-2014/15).

11. STATUTORY STATEMENT OF ACCOUNTS 2013/14 (Pages 63 - 158)

(Director of Resources) To consider the attached report (AGC-010-2014/15).

12. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2013/14 (Pages 159 - 182)

(Director of Resources) To consider the attached report (AGC-011-2014/15).

13. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

14. EXCLUSION OF PUBLIC AND PRESS

Exclusion:
To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:
Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:
Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

Audit & Governance Committee Report Schedule

2014/15

30 June 2014
- ➢ Internal Audit Annual Report.
- ➢ Review of the Effectiveness of Internal Audit.
- ➢ Audit & Governance Committee Annual Report.
- ➢ Annual Governance Statement.
- ➢ Q4 Internal Audit Monitoring Report.

25 September 2014
- ➢ Treasury Management Annual Outturn Report.
- ➢ Statutory Statement of Accounts.
- ➢ Q1 Internal Audit Monitoring Report.
- ➢ Appointment of Co-Opted Member – Report on Recruitment.

- ❖ Annual Governance Report 2013/14.

24 November 2014
- ➢ Treasury Management Mid-Year Report.
- ➢ Q2 Internal Audit Monitoring Report.
- ➢ Review of Business Continuity Plan for Internal Audit.

- ❖ Annual Audit Letter 2013/14.

5 February 2015
- ➢ Treasury Management Investment & Strategy Statements.
- ➢ Q3 Internal Audit Monitoring Report.

- ❖ Grant Claims Audit Report 2013/14.

30 March 2015
- ➢ Effectiveness of Risk Management.
- ➢ Internal Audit Business Plan.

- ❖ Planning Letter 2015/16.
- ❖ Audit Plan 2014/15.

Key
- ➢ EFDC Officer Report.
- ❖ External Auditor Report.

N.B…In addition, the Committee's annual private meetings with the External and Internal Auditors are scheduled to take place prior to the 30 March 2015 meeting.

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Report to the Audit and Governance Committee

Report reference: AGC-006-2014/15
Date of meeting: 25 September 2014

Epping Forest District Council

Portfolio: **Technology and Support Services**

Subject: **Recruitment and Selection Audit**

Responsible Officer: **Paula Maginnis** **(01992564536)**

Democratic Services: **Gary Woodhall** **(01992 564470)**

Recommendations/Decisions Required:

(1) To note the actions undertaken following the Recruitment and Selection Audit undertaken in January 2014.

Reasons for Proposed Decision:

To update the Audit and Governance Committee on actions taken regarding the Recruitment and Selection Audit finalised in January 2014.

Other Options for Action:

There are no other options at this time as this report sets out actions already taken. However the Committee may wish to comment further.

Report:

1. An internal audit (number 687) was carried out regarding the Council's Recruitment and Selection cess. The audit included a review of recruitment to ensure there are adequate processes in place to identify and advertise vacancies, also that the processes of employing and inducting a new employee into the authority are followed.

2. The audit was given a substantial assurance; however, recommendations were made which are set out in the table below along with comments on progress against each of the items.

Recommendation	Priority	Comment
The review of the Recruitment and Selection Policy to be completed and published.	2	Completed
Management and HR to review the necessity to advertise through TMP and fully evaluate the options for future vacancies to include the use of free advertising options such as lgjobs.	2	The lgjobs website is used on a regular basis, along with the Council's website and the JobCentrePlus website, all of which are free. Managers liaise directly with TMP to discuss the most appropriate site/publication for their vacancy. HR has recently

Recommendation	Priority	Comment
		started to collate advertising information which will be circulated to managers to help inform their decisions on the best place for their advert. TMP have been sourced through a national framework agreement.
Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.	1	Reminder sent January 2014 In addition the Committee may wish to note that the Council's Induction Process has recently been reviewed and a report presented to Management Board on 6 August 2014. It was agreed that; ▪ a Corporate e-learning module is launched ▪ quarterly 'meet and greet' sessions with Management Board are arranged for new starters ▪ launch the updated Induction paperwork ▪ 'Community' to be set up on the *'I-Train'* platform ▪ HR to record the completed paperwork and completion of e-learning ▪ A reminder will be sent to managers who have not returned completed paperwork or their employees not completed the e-learning Management Board requested a number of additions to the e-learning module, therefore it is proposed to launch the new process wef 1 October 2014.
New employee files to be maintained and up-to-date showing all key documentation has been completed and signed by the employee and relevant manager. Files have key documentation checklist at the front to ensure all required documentation is completed fully and timely. The basic requirements to be documented in the Recruitment and Selection Policy.	2	See above. A corporate apprentice was placed with HR to review the checklists, chase for documents and update as required. The apprentice has left the Council and it has now been possible for the HR Assistant to pick up this work as part of their substantive role. Additionally, in Sept/October it is likely HR will arrange a work experience placement through Employ-ability to make further progress in this area.

Resource Implications:

Appropriate resource has now been allocated to implement the recommendations. No additional resources are required.

Legal and Governance Implications:

The revised recording processes will ensure that managers and employees are following Council Policy.

Safer, Cleaner and Greener Implications:

N/A.

Consultation Undertaken:

Management Board were consulted on the updating of the induction process.

Background Papers:

None.

Impact Assessments:

Risk Management
The implementation of the internal audit recommendations has reduced the risk of problems arising from the recruitment and selection process.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties; reveal any potentially adverse equality implications?	N/A
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

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Report to the Audit and Governance Committee

Epping Forest District Council

Report reference:	***AGC-007-2014/15***	
Date of meeting:	***25 September 2014***	

Portfolio: **Governance and Development Management**

Subject: **Internal Audit Charter**

Responsible Officer: **Brian Bassington (01992 564446)**

Democratic Services Officer: **Gary Woodhall (01992 564470)**

Recommendations/Decisions Required:

(1) The Committee is asked to comment on and agree the adoption of the Internal Audit Charter and Quality Assurance and Improvement Programme attached at appendix 1.

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) adopted throughout the UK Public Sector from 1 April 2013 requires that the purpose, authority and responsibility of internal audit activity must be formally defined in an internal audit charter, which the Chief Internal Auditor must periodically review and present to senior management and the Audit and Governance Committee for approval.

Reasons for Proposed Decision:

Internal Audit Charter as required by the Public Sector Internal Audit Standards.

Other Options for Action:

No other options.

Report:

1. The Relevant Internal Audit Standard Setters (RIASS) have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) with additional requirements and interpretations for the UK public sector.

2. These standards are applicable to all UK Local Authorities, the Office of the Police & Crime Commissioner, Constabularies, Fire authorities, National Park authorities, joint committees and joint boards, Government departments and their executive agencies and non-departmental public bodies, Clinical Commissioning Groups and NHS Trusts.

3. "*The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements and*

defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board."

4. The Audit and Governance Committee fulfils the role of the Board as determined by the Public Sector Internal Audit Standards.

5. In addition, there are further Public sector requirements in which the internal audit charter must also:

   (a) define the terms 'board' and 'senior management' for the purposes of internal audit activity;

   (b) cover the arrangements for appropriate resourcing;

   (c) define the role of internal audit in any fraud-related work; and

   (d) include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

6. The Public Sector Internal Audit Standards require that the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This is detailed in appendix 1.

Resource Implications:

No specific implications.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Public Sector Internal Audit Standards (PSIAS).

Impact Assessments:

<u>Risk Management</u>
Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The Internal Audit Charter confirms the authority, reporting lines and methodologies applicable to internal audit as required by the Public Sector Internal Audit Standards.

<u>Equality and Diversity:</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

INTERNAL AUDIT CHARTER

Epping Forest District Council

Author: Brian Bassington

Title: Chief Internal Auditor

Date: 25th September 2014

1. Purpose, Authority and Responsibility

The Internal Audit Unit has been established by the Council as a key component of its governance framework as stated in the Council's Constitution. This Charter provides a framework for the conduct of Internal Audit at Epping Forest District Council and has been approved by the Council's Corporate Governance Group and Audit and Governance Committee.

2. The key provisions of this Charter are set out below.

2.1 Internal Audit Unit

The Council's Internal Audit Unit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 Independence & Objectivity

The Internal Audit Unit will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement). The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

2.3 Authority

Internal auditors are authorised to have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Chief Internal Auditor considers necessary to enable the Internal Audit Unit to meet its responsibilities. All employees are required to assist the Internal Audit Unit in fulfilling its roles and responsibilities (Constitution, Part 4, K40 – K41).

2.4 Confidentiality

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Chief Internal Auditor and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentially of the information they receive during the course of their work.

2.5 Reporting

The Chief Internal Auditor shall submit to the Audit and Governance Committee, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

2.6 Professionalism

The Internal Audit Unit will govern itself by adhering to the Public Sector Internal Audit Standards. Supplementary guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures and the Internal Audit Charter. Non-conformance with the Public Sector Internal Audit Standards shall be reported to the Corporate Governance Group and the Audit and Governance Committee.

3. **Relationship with Members & Senior Management**

3.1 Audit and Governance Committee

The Accounts & Audit (England) Regulations 2011 require the Council to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices".

The Council has established an Audit and Governance Committee (Constitution, Article 11) and specifically delegated to it responsibility to "provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process." The Internal Audit Unit shall report functionally to the Committee.

The Audit and Governance Committee fulfils the role of the Board as determined by the Public Sector Internal Audit Standards.

The Chief Internal Auditor shall have free and unrestricted access to the Committee and attend all of its meetings and have the right to meet with the Chairman of the Audit and Governance Committee and/or the relevant Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

The Public Sector Internal Audit Standards are based upon The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

3.2 Senior Management

The Chief Executive and Management Board fulfil the role of senior management, as defined by the Public Sector Internal Audit Standards.

Audit and Governance matters are managed by the Corporate Governance Group, which consists of the Chief Executive, the Monitoring Officer (Director of Governance), the Section 151 Officer (Director of Resources), the Director of Neighbourhoods, the Director of Communities, the Deputy Monitoring Officer and the Chief Internal Auditor.

The Director of Governance shall support the Audit and Governance Committee by ensuring that there are effective arrangements for the internal audit of the control environment.

The Chief Internal Auditor has direct access to the Head of Paid Service, all levels of management and directly to elected members and shall report administratively to the Director of Governance (Constitution, Part 4, K40 – K41)

4. **Independence & Objectivity**

Independence is essential to the effectiveness of the Internal Audit Unit; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. The Chief Internal Auditor will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit Unit.

The Chief Internal Auditor is responsible for the delivery of the Internal Audit and Corporate Fraud Investigation services. Both areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by Management Board and the Audit and Governance Committee.

Internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

5. Authority & Confidentiality

Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Chief Internal Auditor considers necessary to enable the Internal Audit Unit to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Chief Internal Auditor and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentially of the information they receive during the course of their work.

6. Internal Audit Management

The Council shall appoint a Chief Internal Auditor who shall determine the priorities of, effectively manage and deliver the internal audit service in accordance with this Charter.

The Chief Internal Auditor shall ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual risk based audit plans that are closely aligned to the need to provide assurance against the Council's business objectives as contained within its themes and aims, principal risks and framework of assurance.

Review and adjust the plans as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.

Report annually the impact and consequence of any resource limitations across the strategic plan period to the Audit and Governance Committee, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in Internal Audit's resources.

Ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the Public Sector Internal Audit Standards.

Undertake an annual review of the development and training needs of internal audit staff as part of the Council's Performance and Development review and arrange for appropriate training to be provided.

Put in place arrangements that ensure Internal Audit is notified of all suspected or detected instances of fraud, corruption or impropriety and in conjunction with the appropriate management, promote a counter-fraud culture within the Authority and determine the most appropriate method of investigating allegations.

7. Role and responsibilities

Internal audit reviews shall examine and evaluate the adequacy and effectiveness of the Council's governance, risk management, and internal control processes.

This shall be achieved via:

7.1 Communication: establish effective relationships with managers at all levels.

7.2 Assurance activities: results of which will influence the opinion on the adequacy and effectiveness of the control environment.

7.2.1 Risk based system audit reviews: the documentation, evaluation and testing of financial, operational and management information systems.

7.2.2 Information technology reviews: specialist evaluation of hardware, software and the IT environment.

7.2.3 Fundamental financial systems: Reviews focusing on agreed key controls.

7.2.4 Performance improvement: the economy, efficiency and effectiveness of business systems and processes.

7.3 Advisory activities: results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.

7.3.1 Systems & processes: control advice on new and developing systems.

7.3.2 Consulting services: reviews at the request of management that add value and improve governance, risk management and control processes and support management in their work.

8. Reporting and Monitoring Internal Audit Reports

At the conclusion of a review, a written report will be issued to the appropriate manager, that will include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes. See Appendix 2.

Identify inadequately addressed risks and non-effective control processes and recommend corrective action based upon priority levels 1 (high) to 3 (low). See Appendix 2

Detail management's response and timescale for corrective action.

Identify issues of good practice.

When corrective action has not been agreed, reporting will be escalated to a level consistent with the Chief Internal Auditor's assessment of the risk.

The Chief Internal Auditor shall regularly review and report to Corporate Governance Group on the progress made by managers in introducing the agreed priority 1 recommendations. Senior Management shall ensure that agreed priority 1 recommendations are introduced.

9. Reporting to the Audit and Governance Committee

The Chief Internal Auditor shall present quarterly and annual reports to the Audit and Governance Committee that meets the requirements of the Public Sector Internal Audit Standards. The annual report shall be timed to support the Council's Annual Governance Statement and include an opinion on the overall adequacy and effectiveness of the control environment.

10. Quality and assurance programme

An annual review of Internal Audit, sufficient to meet the requirements of the Account & Audit (England) Regulations 2011 shall be completed. The results shall be reported to Corporate Governance Group and the Audit and Governance Committee.

The Chief Internal Auditor will arrange for an independent review of the efficiency and effectiveness of the internal audit unit to be undertaken at least every five years. The results of the review will be reported to Corporate Governance Group and the Audit and Governance Committee.

Improvement plans arising from any review of internal audit shall be prepared as appropriate, and reported to Corporate Governance Group and the Audit and Governance Committee annually.

11. Relationships with external audit and other assurance activities

Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance provider. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort.

External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

12. Review of the Charter

The Chief Internal Auditor will review annually the Internal Audit Charter and report the outcome of that review to Corporate Governance Group. Approval of the Charter shall be the responsibility of the Audit and Governance Committee. This version was approved on the 25th September 2014.

Appendix 1

Extract from Public Sector Internal Audit Standards

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics.* The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

Ongoing monitoring of the performance of the internal audit activity; and

Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing,* the *Code of Ethics* and the *Standards.*

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards.*

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

The form of external assessments;

The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, e.g. the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

Existing Quality Assurance and Improvement Programme

Draft report review

File (working papers) review

Final report review / authorisation to issue final report

Customer survey form

Annual staff Performance Development Review

External Audit annual review of audit files

Annual review of the Effectiveness of the System of Internal Audit undertaken by the Corporate Governance Group in the context of the Council's Governance Statement

Internal Audit Annual Report

Constant review of developments within the profession (e.g. Lean audit, Computer Assisted Audit Techniques (CAATS), emerging risks)

Hosting regular meetings of the West Essex Audit Partnership* and attendance at the Essex Audit Group and London Audit Group to discuss best practice, identify any trends and share findings and risk assessments.

*Note: West Essex Audit Partnership consists of EFDC, Uttlesford DC, Harlow DC and Broxbourne BC

Proposed Addition to Existing Quality Assurance and Improvement Programme

To ensure conformance with the Public Sector Internal Audit Standards external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation which can be in the form of a full external assessment, or a self-assessment with independent external validation.

This is currently under discussion between the members of the Essex Audit Group where it has been suggested that group members would provide the external validation for a self-assessment. The group members consider that neighbouring authorities would not provide sufficient independence for the validation, so for example, the members of the West Essex Audit Partnership would not validate each other.

Appendix 2

EFDC - Definition of Levels of Assurance

Assurance levels:
The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings
Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: AGC-008-2014/15
Date of meeting: 25 September 2014

Portfolio: Governance and Development Management

Subject: Internal Audit Monitoring Report April - June 2014

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. To note the following issues arising from the Internal Audit Team's first quarter monitoring report for 2014/15:

(a) the reports issued between April and June 2014 and significant findings (Appendix 1);

(b) the Outstanding Priority 1 Actions Status Report (Appendix 2):

(c) the Limited Assurance Audits follow up status report (Appendix 3); and

(d) the 2014/15 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between April and June 2014, and details the overall performance to date against the Audit Plan for 2014/15. The report also contains a status report on previous priority 1 audit recommendations which continues to be monitored by the Corporate Governance Group.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

Work Carried Out in the Period

1. The audit reports issued in the first quarter are listed in paragraph 3 below.

2. Audits completed in the first quarter have included audits in progress at the end of the last financial year, the detailed findings of which are at Appendix 1. At the end of the quarter, a further five audits were in progress or at the draft report stage.

Reports Issued

3. The following audit reports were issued in the quarter:

(a) Full Assurance:
- None;

(b)) Substantial Assurance:
- Creditors;
- Housing Benefits;
- Overtime and Committee Allowances;
- Travelling and Subsistence Claims;
- Fleet Operations Income;
- Management of Sickness Absence;
- Norway House; and
- Right to Buy;

(c)) Limited Assurance:
- Housing Rent Collection and Arrears;

(d)) No Assurance:
- None; and

(e)) At Draft Report Stage:
- Business Plans;
- Commercial Property Management;
- Facilities Management;
- Reprographics; and
- Planning Fees.

Limited Assurance Audit Reports

4. During the quarter a report on Housing Rent Collection and Arrears was issued with a Limited assurance rating. This was due to the rental income reconciliation and council stock reconciliation having not been completed for 2013/14. Staff from the Communities and Resources Directorates have worked together to resolve this weakness which should result in a higher level of assurance at the time of the follow up audit. It should be noted that the council stock reconciliation had been completed by the time the final report was issued. Further work has been carried out on the rental income reconciliation, which was completed and up to date by 7 August 2014. This will now be carried out on a monthly basis.

Follow Up of Previous Priority 1 Recommendations

5. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Follow Up of Previous Limited Assurance Audits

6. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2014/15 (Appendix 4)

7. The status of the 2014/15 Audit Plan is set out at Appendix 4.

Performance Management

8. The Internal Audit Team has local performance indicator targets to meet in 2014/15, as set out below:

	Actual 2011/12 For year	Actual 2012/13 For year	Actual 2013/14 For year	Target 2013/14 For year	Actual 2013/14 Quarter 1	Actual 2014/15 Quarter 1
% Planned audits completed	82%	85%	88%	90%	11%	17%
% chargeable "fee" staff time	71%	69%	74%	75%	75%	74%
Average cost per audit day	£213	£243	£225	£245	£219	£237
% User satisfaction	89%	N/A	N/A	90%	87%	Please see below

9… The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan. This indicator shows improvement over previous years due to the rescheduling of the fundamental financial systems during last year. This resulted in the need for top up testing being considerably reduced at the end of the year.

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system.

(c) Average cost per audit day - the calculation is based on the costs for each quarter taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d) % User Satisfaction – Due to poor responses from management the user satisfaction process was discussed at the Audit and Governance Committee on 30 June 2014 and a new way forward agreed. As of 1 July 2014, the customer survey will be given to the relevant Assistant Director or Manager at the audit exit meeting for completion at the meeting. This should ensure both completion and an immediate response while the audit is fresh in the Manager's mind.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management
Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

EFDC - Definition of Levels of Assurance

Assurance levels:
The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings
Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 1
April - June 2014

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Creditors	Resources Directorate	**Substantial Assurance** The systems and controls surrounding the ordering, receipting and payment of goods and services are operating effectively.	Officers should be reminded that orders are to be raised in advance and that goods/services should be receipted on Marketplace.
Housing Benefits	Resources Directorate	**Substantial Assurance** Audit review of Housing Benefit showed the systems and controls currently in place are adequate in ensuring the process runs well and data quality and accuracy is maintained.	The accuracy checks process has been identified as an area that has shown significant improvement. Yet with additional development of the process in regards the management control, there would be the basis for further assurance to be given.
Overtime and Committee Allowances	Resources Directorate	**Substantial Assurance** Overtime and committee allowances are claimed in accordance with the Staff Handbook.	Overtime and committee allowances claims are submitted in a timely manner and certified by an authorised signatory. The reason for overtime was included on all claim forms and attendance at Council meetings verified to the signing-in sheets for committee allowances. All claim forms are signed by the employee and checked by the Pay Section prior to processing.
Travelling and Subsistence Claims	Resources Directorate	**Substantial Assurance** Travel and subsistence payments are claimed in accordance with the Staff Handbook and subsistence payments policy.	Consideration should be given as to whether it would be more cost effective to provide relevant employees with a Council mobile phone rather than reimbursing the cost of the telephone line rental.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Fleet Operations Income	Neighbourhoods Directorate	**Substantial Assurance** The systems and controls surrounding the recording, reconciliation and monitoring of fleet operations income are operating satisfactorily.	The debit card income should be reconciled on a daily basis to the booking-in sheets.
Management of Sickness Absence	Resources Directorate	**Substantial Assurance** The systems in place for managing sickness absence are operating effectively.	Sickness absence should be a standing item on the agenda of the meetings between Directors and their Assistant Directors. Human Resources should resume the monitoring of sickness absence as soon as possible to ensure appropriate action is being taken by the Directorates.
Norway House	Communities Directorate	**Substantial Assurance** The controls for the management of Norway House are in place and ensure financial control and abidance to the Financial Regulations.	Areas of financial management have been discussed to ensure best practice is attained and controls are strengthened. The implementation of the card payment system is an area audit will revisit to ensure robust controls surround the process.
Right to Buy	Communities Directorate	**Substantial Assurance** The systems and controls surrounding the Right to Buy process are operating effectively.	With applications on the increase and the risk of fraud and loss of public money regarded as high, the recommended improvements agreed with management will strengthen the controls surrounding the process.
Housing Rents	Communities Directorate	**Limited Assurance** The majority of controls surrounding the system for housing rent collection and arrears management are operating effectively. Unfortunately since the loss of a key member	Reconciliation is a key control in the income collection process which should be completed monthly to ensure records are correct and anomalies are identified. Communities Support (Incomes) and Accountancy have agreed to work

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		of Communities Support staff, rental income reconciliations have not been completed. It is noted that efforts have been made to complete reconciliations.	together to put in place a new system of reconciliation that will give the correct level of assurance.

INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT 27th August 2014

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Recruitment and Selection	Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.	Assistant Director HR	30/4/14	The induction process has been reviewed and a new approach which includes an e-learning module has been presented to Management Board on the 6th August for approval. The induction paperwork has been revised and the monitoring process reported as follows. "To ensure the induction process is carried out for all new staff HR will record returns of the paperwork and completion of e Learning. A reminder will be sent to managers who have not completed and a report will be sent to Directors monthly of outstanding items."	Actioned	
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to the new IT system.	Assistant Director (Asset Management & Economic Development)	31/3/14	Agreed. The data will be cleansed before being loaded onto the new system. Following the failure of the replacement system to meet the required specification, the market is being researched prior to a re-tendering exercise. The license for the original	Awaiting system acquisition process.	

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				system has been extended for one year to maintain continuity of the database during the acquisition process.		
Housing Rents	Income reconciliations between Housing (OHMs) and the general ledger should be completed monthly. Advice will be provided by Accountancy as required.	Communities Support Manager Assistant Director (Accountancy)	1/9/2014	Accountancy will provide assistance for approximately 3 months to enable Communities Support to complete the reconciliation.	Actioned	7/8/2014 The reconciliation is now in place and up to date and will be carried out on a monthly basis.
Housing Rents	Due to the increase in movements of Housing stock, (right to buy sales), stock reconciliations should be completed more regularly.	Communities Support Manager	1/9/2014	Communities Support and Accountancy will reconcile property information on a monthly basis.	Actioned	31/3/2014

INTERNAL AUDIT

FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT July 2014 Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Car Parking Income	Environment and Street Scene	March 2014	P1. 0 P2. 1 P3. 0	P1. 0 P2. 1 P3. 0	Q3 2014/15	The pay and display off street car parking income is adequately monitored. However, the introduction of new parking meters will enable the pay and display income to be more effectively monitored. As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. This is in the process of being addressed by management. In the meantime however, the volume of PCNs is being monitored to ensure there are no significant fluctuations and the any issues identified are raised with NEPP. Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section.
Housing Rents	Communities Directorate		P1. 2 P2. 2 P3. 0	P1. 1 P2. 2 P3. 0	Q3 2014/15	This audit provides limited assurance due to the rental income reconciliation and council stock reconciliation having not been completed for 2013/14. Staff from the Communities and Resources Directorates are working together to resolve this weakness which should result in a higher level of assurance at the time of the follow up audit. It should be noted that the council stock reconciliation had been completed by the time the final report was issued.

AUDIT PLAN 2014/15

Key	Risk Identifier
AC	Audit Commission
FFS	Fundamental Finance System
R no.	Risk No. in Corporate Register
R	Reputation of Council

Audit area	Audit type	Days allocated	Completed	Risk Identifier
Resources				
Accountancy				
Bank Reconciliation	system/follow up	15		FFS
Sundry Debtors	system/follow up	15		FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	10		FFS/R4
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	10		FFS
Main Accounting and Financial Ledger	system/follow up	15		FFS
Provision for ‘top up’ testing	systems	30		FFS
Benefits				
Housing Benefits	system/follow up	15		FFS
Council Tax Reduction	system/follow up	15		FFS
Revenues				
Council Tax	system/follow up	20		FFS/R4/AC
Business Rates	system/follow up	20		FFS/R4
Cash receipting and Income control	system/follow up	15		FFS
Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	verification	10		R
Management of Sickness absence	verification	10	Completed	R
Overtime and Committee Allowances	verification	10		R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10		R
Reprographics	System	10	Completed	
ICT and Facilities Management				
ICT Procurement	ICT	10		AC/R6
Access controls	ICT	10		R6
Facilities Management Contracts	system	10	Completed	AC
TOTAL		**315**		
Governance				
Governance and Performance Mgmt.				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Legal				

Debt recovery	Follow up	10		R4
Development Management				
Planning Fees	System	20	Completed	R4
TOTAL		**75**		
Neighbourhoods				
Neighbourhood Services				
North Weald airfield	establishment	15	In Progress	R4
Technical Services				
Waste Management and Recycling	system	20		R
Car Parking Contract	system	10	In Progress	R4
Fleet Operations income	system	5	Completed	R4
Forward Planning & Economic Devel.				
Commercial Property portfolio	Follow up	10	Completed	R2
TOTAL		**60**		
Communities				
Housing Property				
Housing Repairs Service	system	20		R
Council Housebuilding Programme	system	15		AC
Housing Contracts	follow up	5		AC
Housing Operations				
Housing Rent Collection and Arrears	system/follow up	20		FFS/R4
Norway House/Rental Assistance Loans	Estab/system	10	Completed	R4
Private Sector Housing & Comm. Support				
Right to Buy	system	10	Completed	AC
Private Sector Housing - Grants	system	15		AC
TOTAL		**95**		
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC
Procurement	fraud	15		AC
Council Tax Discounts	fraud	15		AC
National Fraud Initiative (NFI)	fraud	20		AC
Data matching and analysis (IDEA software)	fraud	25		AC
TOTAL		90		
CORPORATE				
Corporate Procurement	system/follow up	15		AC
Corporate Asset Register	system	5		FFS
Priority 1 Audit recommendations	follow up	10		R
Governance Statement	management review	5	Completed	R
TOTAL		**35**		

TOTAL DAYS ALLOCATED		**670**		
Contingency/Minor investigations		**40**		
Corporate/Service Advice		**65**		
TOTAL		**775**		

EPPING FOREST DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE - 25 SEPTEMBER 2014

Audit for the year ended 31 March 2014

15 September 2014

CONTENTS

OVERVIEW
Significant audit findings

This Overview covers the significant findings from our audit of Epping Forest District Council ('the Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider to be important.

AREA OF AUDIT	SUMMARY
Financial statements	We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page. Our final audit materiality is £1,920,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £40,000. No material misstatements were identified as a result of our audit work. There is one unadjusted audit difference identified by our audit work which would decrease the draft surplus on the provision of services in the Consolidated Income and Expenditure Statement (CIES) by £115,000 to £27.55 million (from £27.66 million). Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.
Control environment	We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. No such deficiencies were identified.
Governance reporting	Subject to any issues that might arise in completion of our review of the Annual Governance Statement, we are satisfied that it is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA) Data Collection Tool	The Council's WGA is below the threshold that would require a full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW
Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit and Governance Committee.

- Completion of our review of the Annual Governance Statement
- Clearance of outstanding issues raised with management regarding:
  - Collection rates to support calculation of bad debt provision
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Receipt of Essex Pension Fund assurance letter
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Review of WGA data collection tool

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Governance Committee meeting	25 September 2014
Signing of financial statements	25 September 2014
Submission of WGA assurance report	By 3 October 2014

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services in respect of 2013/14 is set out below:

	£
Audit fees	85,329
Certification fees	[1] 28,100
TOTAL FEES	**£113,429**

[1] work remains on going on the housing benefit subsidy return and the fees shown above is current scale fee.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission's Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.

Key audit staff	Years involved
David Eagles - Audit engagement partner	2
Clare Reed - Audit Manager	3
Barry Pryke – Audit Manager	1

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.

2 The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

3 The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

4 The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

5 The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.

6 The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.

7 The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in April 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ **Significant risk/issue** ■ **Significant accounting estimates and management judgements** ■ **Other relevant audit and accounting**

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. In our Audit Plan, we reported that we considered this risk to be applicable to income from fees and charges only.	This matter has been revisited as part of our more detailed assessment of risk and taking account of the draft accounts. We have determined that the nature of the income associated with fees and charges is such that we are able to conclude that fraudulent recognition of fees and charges income is no longer a significant risk.	Fraudulent recognition of fees and charges income is no longer a significant risk. We have, however, performed audit procedures to provide us with sufficient assurance that income recognised in the statement of accounts is materially correct.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
AREA	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY	Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council re-values HRA properties on an annual basis and other land and buildings over a five year rolling programme. There is no adjustment for price indices between formal valuations unless there is indication of material change. Management make valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector. We have considered the independence, objectivity and competence of the valuer engaged by management to undertake valuations of property. We have reviewed the accuracy of the information provided to the valuer by management and have confirmed that the valuations provided by the valuer are correctly reflected in the Council's financial statements. We have utilised price index information to determine the reasonableness of the valuations provided by the valuer.	We are satisfied that the external valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.
ESTIMATED PENSION LIABILITY	The net pension liability of the Council comprises its share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.	We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.
PROVISION FOR BAD AND DOUBTFUL DEBTS	We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts across all categories of debtor. There has been no change to the method applied when compared to the prior year	Subject to completion of our outstanding work, we are satisfied that the methods employed by the Council to calculate the provision for bad and doubtful debts is not unreasonable.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

RISK	WORK PERFORMED	CONCLUSION
NEW NDR ACCOUNTING	We have reviewed the treatment of business rates following the introduction of new accounting requirements for 2013/14. We have verified that amounts reported on the face of the collection fund and amounts recognised in the Council's comprehensive income and expenditure statement (CIES) have been correctly accounted for in accordance with the Code.	No issues were identified.
REVISIONS TO IAS 19, "EMPLOYEE BENEFITS", AFFECTING PENSIONS	For 2013/14, the Code incorporates changes to IAS 19, the accounting standard which governs the treatment of pensions in the Council's accounts. This represents a change in accounting policy and, where material, the Code requires that a prior period adjustment should be recognised to restate the 2012/13 comparative balances. The Council have not completed a prior period adjustment following the revisions to IAS 19 as the impact on 2012/13 balances is not material.	We have reviewed the requirements of the Code and the actuary's report in light of the changes to IAS 19. We are satisfied that full restatement of prior period balances is not required, as the impact of any prior period restatement would be immaterial to the Council's statement of accounts.
PENSION LIABILITY AND ASSOCIATED DISCLOSURES	**Revised actuarial valuation** Following approval of the draft statement of accounts and their submission for audit, the Council were notified by Essex Pension Fund that, during the preparation of the pension disclosures for 2013/14 the value used for the investment return had been understated. The Pension Fund requested that the actuary prepare a further report using the correct figures, with an updated report to be provided to the Council.	Following receipt of the updated actuary's report, management have amended the financial statements for the revised values, which has resulted in a reduction of £496,000 in the pension liability recognised in the balance sheet. We are satisfied that the financial statements are materially correct in respect of the amounts included.
	Actuarial Engagement Letter There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.	A recommendation has been included within Appendix IV in relation to this matter.

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

CONTROL ENVIRONMENT
Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. No such deficiencies have been identified.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies.

We did not identify any significant deficiencies in internal control.

Key: ■ **Significant deficiency in internal control** ■ **Other deficiency in internal control** ■ **Other observations**

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
MONTHLY RECONCILIATION OF HOUSING RENTS SYSTEM TO GENERAL LEDGER	Our work identified that the monthly reconciliations between the housing rents system and the general ledger had not happened during the year.	Failure to complete the monthly reconciliations could result in discrepancies between the two systems which are neither identified nor investigated in a timely manner.	Complete reconciliations between the housing rents system and general ledger on a monthly basis.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2014. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit.	We have no significant matters to report.

ANNUAL GOVERNANCE STATEMENT	CONCLUSIONS AND AUDIT ISSUES
We are required to review the draft Annual Governance Statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	Subject to completion of our outstanding work, we are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS	CONCLUSIONS AND AUDIT ISSUES
We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements 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.	We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS
Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA data collection tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

CONCLUSION AND AUDIT ISSUES

The Council's WGA DCT is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA DCT with those recognised in the statement of accounts. This work is currently in progress.

ASSURANCE STATEMENT

The Council's WGA DCT is below the threshold for a full assurance review.

USE OF RESOURCES
Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

AUDIT COMMISSION SPECIFIED CRITERIA

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.

  The focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

  The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We draw sources of assurance relating to their value for money responsibilities from:

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

We have not identified any significant risks from our audit planning.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

USE OF RESOURCES
Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL RESILIENCE	AUDIT ISSUES AND IMPACT ON CONCLUSION
The draft 2013/14 financial statements report that the Council has achieved an underspend of £543,000 against the revised budget for 2013/14 and has recognised an increase of £7,621,000 in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account, capital receipts reserve, major repairs reserve and capital grants unapplied) when compared to the closing balances in 2012/13. The Council has set a balanced budget for 2014/15 and had identified required savings prior to the start of the year. From our review of current documentation, the Council is on track to deliver its 2014/15 budget. The Council also has a good track record of achieving budgets and successful financial management arrangements have put the Council in a relatively strong position of having built up notable levels of funds and reserves to provide support during the continuing period of financial pressures. The medium term financial plan forecasts that it will be necessary to utilise reserves until 2017/18. However, at the end of this period it is estimated that revenue reserves will still be approximately £7.5m, which is more than the minimum level of reserves necessary to comply with its own financial management policies. The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements. This includes a retendering exercise in relation to the waste contract, where annual savings of over £400,000 have been realised.	No areas of concern.

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS	AUDIT ISSUES AND IMPACT ON CONCLUSION
The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2013/14. The arrangements operated during the year remain adequate. Business plans continue to outline annual value for money considerations and implications for each service and include benchmarking comparisons where appropriate. Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators. The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services.	No areas of concern.

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Epping Forest District Council
Management	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	The person(s) with responsibility for assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Governance Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of a safety net payment which was accrued for but to which the Council was not entitled and the reversal of an incorrect journal relating to housing rent accruals and prepayments. These adjustments have increased the surplus for the year by £14,000.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would decrease the draft surplus on the provision of services in the CIES by £115,000 to £27.55 million (from £27.66 million). A schedule of uncorrected audit differences is set out below, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	**£'000**	Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	**(27,662)**				
Dr Income	**115**	115			
Cr Deferred income					(115)
The extrapolated error occurring as a result of an amount of £5,000 being recognised as income when it should have been included within deferred income (projected misstatement).					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**115**	115			(115)
CIES (surplus) or deficit on the provision of services after adjustments	**(27,547)**				

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY	
Planning materiality	£2,035,000
Final materiality	£1,920,000
Clearly trivial threshold	**£40,000**

Planning materiality of £2,035,000 was based on 2% of gross expenditure, using prior year values as per 2012/13 audited statement of accounts.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
Actuarial Engagement Letter There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.	Liaise with the Pension Fund and the actuary to agree formal terms of engagement recognising the extent to which management place reliance on the information provided by the actuary.	The contractual relationship is between ECC and BW so we will not be able to insist on formal terms of engagement. However, we will liaise with both parties to see what is possible.	**Director of Resources**	**End of October 2014**
CONTROL ENVIRONMENT				
Monthly reconciliations between housing rents system and general ledger Our work identified that the monthly reconciliations between the housing rents system and the general ledger had not happened during the year.	Complete reconciliations between the housing rents system and general ledger on a monthly basis.	A reconciliation was performed at the year end and monthly reconciliations are now taking place.	**Director of Communities**	**Completed**

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)		**Financial statements section of this report**	
Significant difficulties encountered during the audit (ISA 260)		**No issues**	
Significant matters discussed or subject to correspondence with management (ISA 260)		**No issues**	
The final draft of the representation letter (ISA 260)		**Appendix VI**	
Independence (ISA 260)		**Independence section of this report**	
Fraud and illegal acts (ISA 240)		**No issues**	
Non-compliance with laws and regulations (ISA 250)		**No issues**	
Significant deficiencies in internal control (ISA 265)		**No issues**	
Misstatements, whether or not corrected by the entity (ISA 450)		**Appendix II**	
Significant matters in connection with related parties (ISA 550)		**No issues**	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		**No issues**	
Matters relating to the audit of the group (ISA 600)		**No issues**	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		**No issues**	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		**No issues**	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		**No issues**	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

25 September 2014

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

Yours faithfully

Bob Palmer

Director of Resources
25 September 2014

Councillor A Watts

Chair of Audit and Governance Committee
Signed on behalf of the Audit and Governance Committee

25 September 2014

www.bdo.co.uk

Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: AGC-010-2014/15
Date of meeting: 25 September 2014

Portfolio: **Finance.**

Subject: **Statutory Statement of Accounts 2013/14.**

Responsible Officer: **Bob Palmer** **(01992 564279)**

Democratic Services: **Gary Woodhall** **(01992 564470)**

Recommendations/Decisions Required:

(1) That the Statutory Statement of Accounts for 2013/14 be recommended to the Council for adoption.

Executive Summary:

One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed shortly and that the Statutory Statement of Accounts will be presented to Council on 30 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

The most substantial changes to the annual Statutory Statement of Accounts for 2013/14 arise from the implementation at the start of the year of the local retention of non-domestic rates. This was a significant change to the way local authorities are financed as the Government wanted to provide an incentive for economic development.

To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:

It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 30 September.

Other Options for Action:

The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee

to adopt the Council's Statement of Accounts before the end of September. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member scrutiny. This Committee has scrutinised the Statement of Accounts for several years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

> *"(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit.*
>
> *(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:*
>
> > *(i) critical accounting policies and practices, and any changes to them;*
> >
> > *(ii) decisions requiring a major element of judgement;*
> >
> > *(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;*
> >
> > *(iv) significant adjustments resulting from the audit; and*
> >
> > *(v) any material weakness in internal control reported by the Internal or External Auditor."*

<u>Changes to the Contents of the Statutory Statement for 2013/14</u>

3. Before 2013/14 local authorities acted as the billing and collection agents for non-domestic rates and paid the amount collected in to the National Pool. Part of the funding for local authorities was deemed to come from the National Pool but this amount could not be increased by additional bills being raised or improved collection rates. There was no direct financial incentive to local authorities to engage in economic development to try and grow the rating list. This concerned central government as if a piece of land could be used for either domestic or business purposes it was felt that a local authority would favour a domestic use to benefit from income due under the New Homes Bonus.

4. From 2013/14 local retention of business rates was introduced and this meant local authorities could now increase their financing through keeping a share of any growth in the rating list. The potential downside to this is where the rating list shrinks, for example due to the closure of a major employer, although the new system does have a safety net mechanism to assist authorities suffering large reductions.

5. In theory the non-domestic rates arising in an area are shared with 50% going to central government, 40% the billing authority, 9% the county council and 1% the fire authority. However, the overall funding formulas contain an amount for the billing authority that comes from non-domestic rates and this limits the amount that can initially be retained. If an authority has less non-domestic rate income than is included in the funding formula it receives top-up payments and if an authority has more non-domestic rate income than is included in the formula it has to pay the excess as a tariff to central government. As the non-domestic rates income for the district is far higher than the amount in the funding formula we pay a tariff of nearly £10 million and retain an amount which is much closer to 10% than 40%.

6. The amounts in the formulas are fixed until 2020 and only meant to be changed annually to match movements in the Retail Prices Index. This fixing creates the opportunity to increase funding through growing the non-domestic rates list.

7. Other issues around local retention of non-domestic rates will be covered later in the report but for this section it is sufficient to note the changes to the Collection Fund and its associated notes.

8. Last year it was noted here that an additional note had been included for Assets Held for Sale. The note related to a Housing Revenue Account property known as Leader Lodge.

9. When compiling the accounts for 2012/13 it had been anticipated that the property would be sold for £515,000. However, the sale then fell through before the accounts were signed off. Subsequently, an unconditional offer has now been received of £652,000.

10. For 2013/14, Assets Held for Sale also includes the former car park site at Church Hill Loughton. This site was sold in May 2014 for £858,000.

Critical Accounting Policies and Practices, and Any Changes to Them

11. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 9 to 18 of the Accounts.

Decisions requiring a Major Element of Judgement

12. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

13. Two of the additional notes introduced by International Financial Reporting Standards are relevant here, note 3 "Critical judgements in applying accounting policies" and note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

14. Three areas are covered by note 4, these are firstly property, plant and equipment, secondly pensions liability and finally arrears. The assumption made on property, plant and equipment is that assets will continue to be maintained so as to maximize their useful lives. If this were not to be the case additional depreciation would need to be charged. In reviewing arrears an estimate has to be made to allow for bad debts and, whilst a prudent view is taken in making this calculation, if the economic climate were to worsen significantly the charge to the Comprehensive Income and Expenditure Statement would increase.

15. The substantial annual fluctuations in the pension's liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has decreased in the year from £75.4 million to £57.8 million. This reduction in the deficit is due to a £6.7 million increase in the value of the scheme assets and a reduction of £10.9 million in the projected liabilities.

16. Given the size of the reduction in the deficit, the administering authority (Essex County Council) was asked to obtain additional explanations from the scheme actuaries. The actuary has responded that the £18 million improvement can broadly be split between three factors:

(a) £4 million financial – due to a small increase in the real discount rate;

(b) £11 million demographics – the assumptions about rates of withdrawal, death in service and ill health retirement have been aligned with those used by the Government Actuary. Slightly later retirement ages have also been assumed, as many workers are now continuing their employment beyond 65; and

(c) £3 million experience – since the 2010 valuation actual ill health retirements, withdrawals and mortality have been more favourable than had been assumed.

17. The figures shown in the table below have been amended from those that the accounts were initially based on. During the course of the audit it emerged that the investment return had been understated and that the deficit was £0.5 million lower than we were originally advised. The table is included to illustrate how the overall deficit has changed over time. Further fluctuations are likely in subsequent years as it becomes clear how members of the pension scheme are responding to the change from a final salary scheme to a career average based scheme.

	2013/14 £'m	2012/13 £'m	2011/12 £'m	2010/11 £'m	2009/10 £'m
Liabilities	(159.5)	(170.4)	(150.8)	(130.1)	(139.2)
Assets	101.7	95.0	85.2	83.8	82.7
Deficit	(57.8)	(75.4)	(65.6)	(46.3)	(56.5)

18. The inclusion of this amount in the Balance Sheet shows the extent of the authority's liability if the pension fund was to close on 31 March 2014. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

19. There is one other area in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. Historically the values for non-domestic property have been updated every five years. If an occupier is unhappy with the valuation set by the Valuation Office Agency (VOA) they can appeal. Throughout the recession the number of appeals increased and the VOA was unable to keep up with the workload and process the appeals on a timely basis. This meant that when local retention came in there were a very large number of appeals outstanding, most of which related to the 2010 list but some went back to the 2005 list. Even though the appeals arose before the start of the new system, and central government had received the income from the bills being challenged, the liability for settling the outstanding appeals was given to local authorities.

20. The Collection Fund shows the inclusion for the first time of a Provision for Appeals of £1,486,000. This provision was calculated with the help of an external firm of rating experts who analysed each outstanding appeal and gave a projected value for settlement. These values have been closely monitored as cases have been settled and to date they have been proved prudent. Although it is important to include a note of caution here as there are still appeals outstanding on some of the largest non-domestic premises in the District.

21. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

The Extent to which the Financial Statements are Affected by any Unusual Transactions in the Year and how they are Disclosed

22. There are no transactions in 2013/14 that require separate disclosure as Exceptional Items. In 2012/13 the Council received a compensation payment of £100,000 and interest on that payment of £237,000. The size of the interest relative to the compensation illustrates the length of time this issue has been running for.

23. The amounts relate to a compulsory purchase order that took some land owned by the Council to construct the M25 in 1992. The case has been quite complex and has required the Council to prove good title to the land.

24. As the compensation relates to the disposal of a piece of land that amount has to be treated as a capital receipt. The interest has been treated as revenue income and as a one-off has been credited to the District Development Fund.

Significant Adjustments Resulting from the Audit

25. The first significant adjustment has been mentioned above, as the information originally provided by the actuary was incorrect. This resulted in the pension deficit initially being overstated by £0.5 million.

26. A significant adjustment has also arisen from an error in the accounting for income due as part of the local retention of business rates. As stated above, there is a "Safety Net" mechanism in the new system that protects authorities suffering a large shortfall in their non-domestic rate income. The draft accounts had assumed that the size of the appeals provision meant the authority would be due £170,000 of funding from the safety net. This was an error as we had only included non-domestic rate income in our calculation and there is a separate grant paid by the Government that also needs to be included. This grant is to compensate for late changes made to the overall system after it had been introduced. The inclusion of the grant means the authority will not receive any funding from the safety net.

27. Both of the adjustments detailed above have been corrected in the Statement of Accounts. The audit is still to be concluded and any further significant adjustments will be reported to this Committee.

Any Material Weakness in Internal Control Reported by the Internal or External Auditor

28. Neither the Internal nor External Auditor have reported any material weakness in internal controls. If any arise before the conclusion of the audit they will be reported to this Committee.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2013/14. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

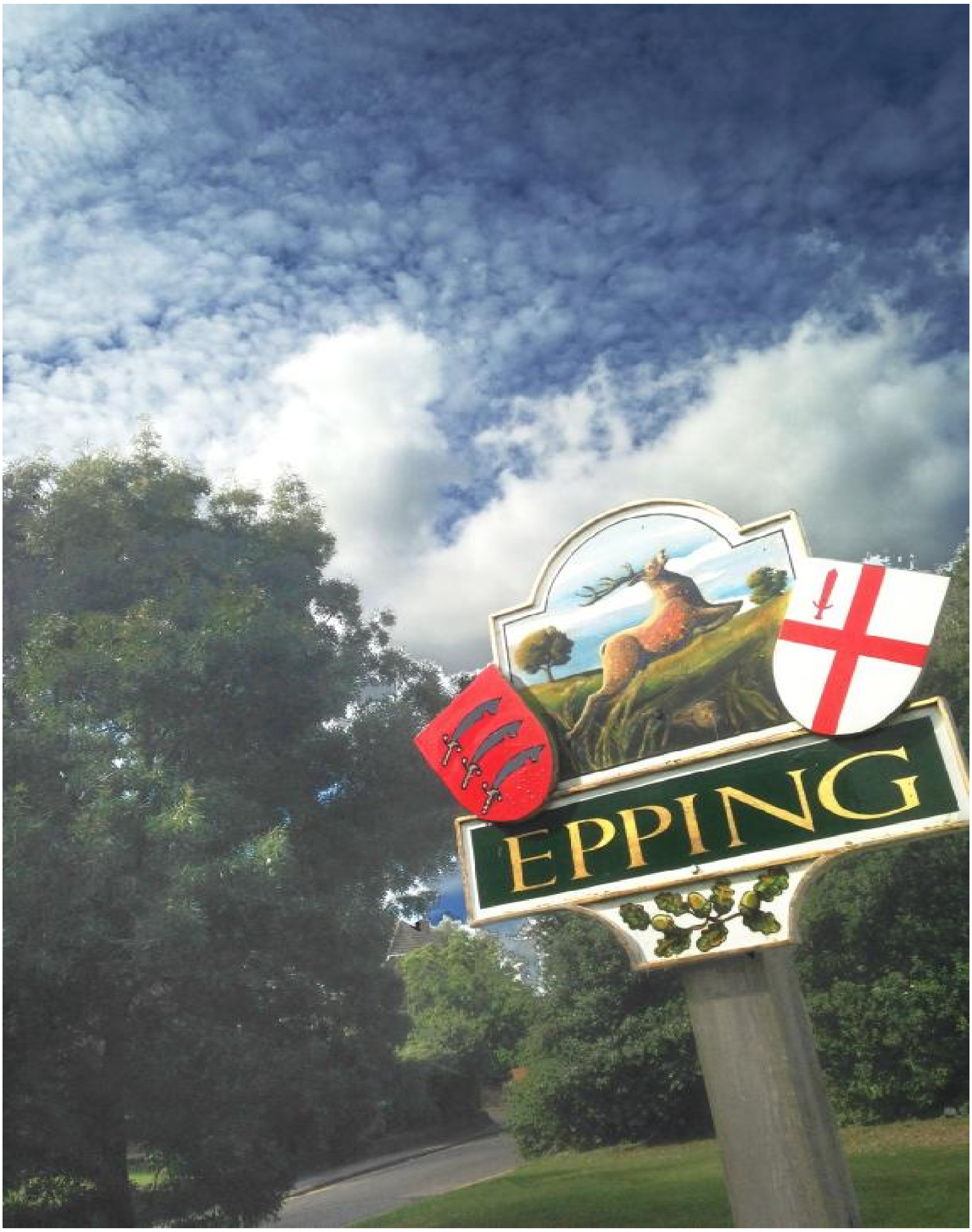
None.

Background Papers:

Reports on the revenue and capital outturns to the Finance & Performance management Cabinet Committee on 26 June 2014.

Impact Assessments:

There are no equalities or risk management impacts.



Epping Forest District Council
www.eppingforestdc.gov.uk

STATEMENT OF ACCOUNTS 2013/14

STATUTORY STATEMENT OF ACCOUNTS 2013/14

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Further copies of this report are available from the Director of Finance & ICT at the Civic Offices, High Street, Epping, Essex, CM16 4BZ

INTRODUCTION AND EXPLANATORY FOREWORD

INTRODUCTION

This is the fourth set of annual accounts to be prepared under the requirements of International Financial Reporting Standards (IFRS) and hopefully stakeholders are now familiar with this format. The accounts are a complex document and readers have not been helped by the previous changes to content and presentation. Thankfully there have been no significant changes for this year and it is hoped that we may now see a reduction in the significance and number of changes. The process we are required to follow and the key financial statements are outlined below.

The Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) publishes a Code of Practice on Local Authority Accounting (the Code) every year that local authorities are required to follow in producing their financial statements. In recent years the Accounting Standards Board (ASB) has insisted that the Code moves closer to Generally Accepted Accounting Principles (GAAP), so that public sector financial statements more closely resemble those prepared in the private sector and hence the switch to IFRS.

- Comprehensive Income and Expenditure Statement - this brings together all gains and losses during the year to report them in one statement. This statement replaces the previous Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

- Movement in Reserves Statement - this shows the movements on all reserves in the bottom half of the Balance Sheet and reconciles the surplus or deficit on the Comprehensive Income and Expenditure Statement to the movement in the General Fund Balance. This replaces the Statement of Movement on General Fund Balance and the note which had previously been used to disclose movements on reserves.

- Balance Sheet - this is the statement of the Council's net worth at the end of the financial year.

- Cashflow Statement - this reports the movement on cash and cash equivalents in a more summarised form than used previously. Under IFRS some items are now included within cash that would previously have been excluded.

The above are described as core financial statements as all local authorities are required to produce them. Both the Balance Sheet and the Cashflow Statement are long established documents that have not been radically amended over time by the successive accounting standards. The Balance Sheet lists what the Council owns, what is owed to the Council and what the Council owes to others. The Cashflow Statement summarises the movements in cash broken down into operating, investing and financing activities that have taken place during the year and their overall effect on the Council's holdings of cash at the end of the year.

2013/14 was a year of significant change for several aspects of local authority finance. The move from Council Tax Benefit to Local Council Tax Support and the introduction of local retention of Non-Domestic Rates were significant developments for residents and businesses as well as local authorities. Replacing an existing benefit with a new one with 10% less money on a short timescale was a considerable challenge. Authorities were not given full discretion in devising schemes as there was a requirement to protect residents of pensionable age. As this group represented approximately half the Council Tax Benefit caseload, it meant the other half had to bear the brunt of the change. So instead of the entire caseload facing a bill for 10% of the full Council Tax charge it meant those of working age were faced with a bill for 20% of the full charge.

Through an agreement with Essex County Council and the Police and Fire Authorities it was possible to employ additional staff to deal with these challenging cases where people were being asked to pay the Council Tax for the first time. The use of this dedicated resource meant efforts on collecting the majority of non-benefit cases were not compromised. This resulted in the overall collection rate being better than estimated and the costs of local support being contained within the budget. It can be concluded that the challenge of Local Council Tax Support was successfully dealt with in 2013/14. However, further reductions in funding mean the challenge increases over time and I will return to this in the later section on future prospects.

As an incentive to promote economic growth authorities were able to retain a share of any growth in income from non-domestic rates. The outcomes from this have been something of a mixed bag. In recognition of the need for a more proactive approach to debt recovery. Members agreed additional funding and this has been repaid many times over with an increase in the collection rate. The outcomes that have been less positive arise from design flaws in the system that are beyond the Council's control. When the system started it was not with a clean slate as authorities were required to take on the liabilities for all of the outstanding appeals, instead of this problem remaining with central government. The settling of appeals in 2013/14 and the need to provide against those still outstanding at the year end has caused a funding shortfall in the year and placed the Council in the system's "Safety Net".

The other key design flaw in the system is that the General Fund and the Collection Fund account for items in different years. This means the loss on the Collection Fund that put the Council in the "Safety Net" will not be accounted for until 2014/15. However, the "Safety Net" funding comes in to the General Fund and so is accounted for in 2013/14. This rather odd situation means it appears that we have more income in 2013/14 than planned but the reality is we have less, we just leave it a year before we account for it. This is why in the table below it appears that the income from Government Grants and Local Taxation is higher than had been estimated.

In the accounts for last year, and part way through 2013/14, concern was expressed about the Council's significant income streams that are property related and were providing lower returns than has historically been the case. However, the full year position was far more positive and there is now evidence of a recovery in the figures. A ring-fenced account is maintained for Building Control which is required to break even over a three year rolling period. Last year saw a deficit of £73,000 but 2013/14 has seen the account break even for the year. Significant improvement were also seen in Local Land Charges where income was up from £186,000 in 2012/13 to £209,000 and Development Control where income was up to £656,000 from £562,000 in 2012/13. The extent of any recovery is less evident with the MOT service provided by Fleet Operations, which saw a further reduction from £235,000 to £231,000 for the year. This is a substantial fall from the £311,000 achieved in 2010/11 or the £289,000 in 2011/12.

The Continuing Services Budget (CSB) position was made worse by a reduction in income from £936,000 to £588,000 for the market at North Weald, a reduction of £348,000 and a reduction in administration subsidy from the Department for Work and Pensions for providing the housing benefits service by £104,000 to £646,000. Savings for the 2014/15 budget were delivered through the organisational restructuring and increases in rental income through additional investments in property. It was also another good year for New Homes Bonus and an additional £535,000 of income was included for this in the 2014/15 estimates.

In 2013/14 the Council's Balance Sheet value has increased by £52.11 million to £410.96 million. This increase has been driven by a revaluation of Council Dwellings and Garages which totalled £34.03 million. The increase was partially offset by depreciation and so the overall increase in Operational Assets was £25.85 million.

The growth in the Council's Balance Sheet was helped by a decrease in Long Term Liabilities, particularly in respect of the pension fund. This has reduced significantly in the year from £75.36 million to £57.82 million. The assets of the scheme have increased in value by £6.14 million but the major change is on the liabilities which have decreased by £10.90 million. A change in the demographics assumptions on pre-retirement decrements (rates of withdrawal, death in service and ill health retirement) produced a reduction in liabilities of more than 5% for scheme members and this is by far the biggest reason for the overall fall in the liability. The inclusion of this amount in the Balance Sheet shows the extent of the Council's liability if the pension fund was to close on 31 March 2014. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

The year-end position is better than was anticipated when the revised estimates were set. A predicted General Fund deficit of £160,000 has been eliminated and a surplus of £383,000 was achieved. The Housing Revenue Account has a deficit of £593,000, some £700,000 worse than the revised estimate of a surplus of £107,000. The next section provides more detail on both the revenue and capital outturn for the year.

SUMMARY OF OUTTURN

The following tables provide a summary review of net expenditure and financing for 2013/14

General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances for 2013/14.

General Fund	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Net Expenditure after Adjustments	14,368	14,484	14,227	(141)	(257)
Government Grants and Local Taxation	(14,324)	(14,324)	(14,440)	(116)	(116)
(Contribution to)/from Balances	44	160	(213)	(257)	(373)
Opening Balances - 1/04/2013	(9,671)	(9,671)	(9,671)	-	-
(Contribution to)/from Balances	44	160	(213)	(257)	(373)
Closing Balances - 31/3/14	(9,627)	(9,511)	(9,884)	(257)	(373)

Net expenditure for 2013/14 totalled £14.23 million, which was £141,000 (1.0%) below the original estimate agreed in February 2013 and £257,000 (0.9%) below the revised estimate compled in December 2013. When compared to a gross expenditure budget of approximately £75 million, the variances can be restated as 0.2% and 0.35% respectively.

An analysis of the changes between Continuing Services Budget (on-going expenditure (CSB)) and District Development Fund (One-off Expenditure (DDF)) expenditure illustrates where the main variances in revenue expenditure have occurred.

General Fund	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening CSB	15,171	15,191	14,824	(347)	(367)
In Year Growth	436	902	940	504	38
In Year Savings	(1,239)	(1,609)	(1,537)	(298)	72
Total Continuing Services Budget	14,368	14,484	14,227	(141)	(257)
DDF - Expenditure	1,626	2,592	1,904	278	(688)
DDF - One Off Savings	(642)	(1,921)	(2,106)	(1,464)	(185)
Total DDF	984	671	(202)	(1,186)	(873)
Appropriations	(984)	(671)	202	1,186	873
Net Expenditure	14,368	14,484	14,227	(141)	(257)

Continuing Services Budget

CSB expenditure was £141,000 below the original estimate and £257,000 lower than the revised. The variances have arisen on both the opening CSB which was £367,000 lower than the revised estimate, and the in year figures which were £110,000 higher than the revised estimate.

In contrast to recent years, when measured against the Original Budget, salaries were overspent by £60,000. Actual salary spending for the authority in total, including agency costs, was some £19.94 million compared against an original estimate of £19.88 million. Whilst the General Fund was overspent by around £160,000, the HRA was underspent by around £100,000. The General Fund overspend was due in part to additional staffing in the Deputy Chief Executive directorate but this was paid for by external funding secured too late to be included in the budget. However, generally vacancy levels fell below the 2.5% allowed for in the budget. The underspend on the HRA fell mostly on the Housing Repairs Fund as it related to vacancies in the Housing Works Unit. When comparing to the Revised Estimate there was a General Fund underspend of around £180,000 as budgets had been adjusted for known variations and some recruitment took longer than expected.

There were a number of other underspent CSB budgets, with the largest underspend of £213,000 being on Housing Benefits. This was partly due to adjustments relating to previous years and the identification of a higher level of overpayments than in previous years. Overpayments are recoverable from the recipients and are therefore shown as income and reduce overall net expenditure.

The original in-year CSB net saving figure of £803,000 reduced at revised estimate to a net saving of £707,000. The main reason for this being the reduction in the income from the market at North Weald. This was offset to a degree by a reduction in the non-domestic rate bill for the Civic Offices. This reduction was backdated and a credit of £209,000 has been made to the DDF for that element. The actual net savings were £110,000 below the revised figure at £597,000. This was primarily due to gate fees on the waste management contract which were £65,000 more than estimated.

District Development Fund

Net DDF expenditure was £1,186,000 below the original estimate and £873,000 below the revised estimate. There are requests for carry forwards totalling £682,000 and therefore the variation actually equates to a £191,000 net under spend on the DDF items undertaken. These one-off projects are akin to capital, in that there is regular slippage and carry forward of budgetary provision. Therefore the only reasonable variance analysis that can be done is against the revised position.

The DDF reduced between the Original and Revised position by some £313,000. This was mainly due to new items identified during 2013/14, the three main items being £400,000 for section 31 grant relating to Small Business Rate Relief granted. It had been known that the Government would pay some Section 31 Grant but the actual announcement came very late in the year. A £209,000 one-off saving for Non Domestic rates on the Civic Offices backdated to 2010 and offsetting expenditure for severance costs arising from the implementation of the new Directorate structure of £211,000.

The rephasing of the Local Plan budget again proved overly optimistic as £103,000 remained unspent and has been carried forward to 2014/15. There were a number of other projects still in progress in Neighbourhoods and the total DDF carry forward for this directorate is £288,000. The directorate with the second highest carry forward is Resources, with a total of £132,000. The majority of the carry forward from this area relates to Building Maintenance (£77,000). Less significant carry forwards were also seen in the Governance Directorate (£62,000) and the Office of the Chief Executive (£39,000).

Several items contributed to the net underspend of £191,000, the largest being unanticipated income of £138,000 that arose from claw backs of Council Tax Benefit. With the introduction of Local Council Tax Support, Council Tax Benefit ceased and any changes in entitlement calculated in 2013/14 for earlier years were retained by the Council. There was also additional income of £62,000 in Development Control and a saving of £44,000 on external audit fees.

The effect of this is that there is a balance of £3.85 million on the DDF as at 31 March 2014 whereas it was expected that the balance would be £2.91 million. The carry forward provision of £682,000 has been added to the programme for 2014/15 meaning that at the end of that year there is £258,000 more available to spend. The MTFS set in February 2014 had anticipated that the unallocated DDF balance would still be £0.87 million at the end 2017/18 and this has increased to £1.18 million.

Housing Revenue Account

The table below summarises the revenue outturn for the HRA.

Housing Revenue Account	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Revenue Expenditure	14,114	13,982	13,929	(185)	(53)
Depreciation	18,418	12,851	13,110	(5,308)	259
Total Expenditure	32,532	26,833	27,039	(5,493)	206
Gross Dwelling Rents	(31,080)	(30,966)	(30,884)	(196)	(82)
Other Rents and Charges	(2,896)	(2,911)	(2,853)	(43)	(58)
Total Income	(33,976)	(33,877)	(33,737)	(239)	(140)
Net Cost of Service	(1,444)	(7,044)	(6,698)	(5,254)	346
Interest and Other Transfers	(453)	(460)	(489)	(36)	(29)
Interest Payable	5,571	5,532	5,526	(45)	(6)
Transfer from Major Repairs Reserve	(11,496)	(5,929)	(5,349)	6,147	580
Net Operating Income	(7,822)	(7,901)	(7,010)	812	891
Appropriations					
Capital Expenditure					
Charged to Revenue	4,200	4,200	4,200	0	0
Transfer to Self Financing Reserve	3,180	3,180	3,180	0	0
Transfer to Service Enhancement Fund	0	272	(58)	(58)	(330)
Other	314	142	98	(216)	(44)
Deficit for Year	(128)	(107)	410	538	517
Opening Balance 1/4/13	(3,375)	(3,375)	(3,375)	0	0
Deficit for year	(128)	(107)	410	538	517
Closing Balance - 31/3/14	(3,503)	(3,482)	(2,965)	538	517

A surplus within the HRA of £128,000 and £107,000 was expected within its original and probable outturn revenue budgets respectively; the actual outturn was a deficit of £410,000. The difference of £517,000 between the revised estimate and the actual is largely due to the transfer from the Major Repairs Reserve (MRR). This transfer was £580,000 less than had been budgeted due to a correction arising from the 2012/13 audit. Whilst this has reduced the HRA balance it has increased the MRR balance and these can be brought back into line with projections in 2014/15 when deciding the financing of the capital programme.

Income from Dwelling Rents was down on expectations as there was a surge in sales in the second half of the year. There were savings on Revenue Expenditure of £53,000 when compared to the revised position. It was expected that the introduction of the universal credit would push up rent arrears. However, this has been delayed and rent arrears have actually fallen, meaning a significantly lower contribution to the Bad and Doubtful debts provision was necessary.

The revenue balance on the HRA of £2.97 million is below the target balance of between £3 million and £4 million previously agreed by Cabinet. However, as stated above, this is countered by the balance on the MRR of £11.36 million, being £1.36 million higher than estimated.

Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2013/14.

Capital Expenditure and Financing	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
General Fund	2,794	4,580	2,323	(471)	(2,257)
Housing Revenue Account	15,417	11,030	10,683	(4,734)	(347)
Total Expenditure	18,211	15,610	13,006	(5,205)	(2,604)
Grants	987	1,254	995	8	(259)
Capital Receipts	4,315	3,327	1,644	(2,671)	(1,683)
Revenue Contributions	12,909	11,029	10,367	(2,542)	(662)
Total Financing	18,211	15,610	13,006	(5,205)	(2,604)

The table identifies a net underspend against the revised estimate of £2.60 million. This includes some schemes showing genuine savings. However, there are also schemes where expenditure was ahead of schedule and these overspends in 2013/14 have been financed by bringing forward £471,000 of funding from 2014/15.

As always with the capital programme, there has been some slippage and £3.20 million of funding has been carried forward to 2014/15. The two largest areas of slippage on non-housing items were the purchase of Bridgeman House (£654,000) and the purchase of a property to expand the museum (£650,000). Whilst there is a £2.26 million underspend on the General Fund programme the net carry forward is £2.39 million, this is due to a net overspend of £129,000 on the projects undertaken. On the housing programme the greatest slippage was on the roofing programme (£406,000) due to a delay in letting new contracts. There was an underspend of £347,000 on the HRA programme and this matches the net carry forward as there was a net nil overspend on projects undertaken.

The generation of capital receipts proved to be higher in 2013/14 than had been anticipated. This was largely due to the increased number of council house sales since the rise in the maximum allowable right to buy discount from £34,000 to £75,000. Although an increase was expected, a total of 53 properties were sold compared to an estimated 32. In addition to this the Council benefited from further capital receipts from the release of a covenant as well as sales of vehicles and bins. On the other hand, the use of capital receipts to finance expenditure was £1.68 million lower than estimated reflecting the overall underspend on the General Fund in particular. The impact of the increased receipts and reduced usage is that the year end balance is £4.64 million higher than projected, standing at £17.46 million as at 31 March 2014. The movements in capital resources are set out in the tables below:

Usable Capital Receipt Balances	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening Balance - 1/04/13	13,715	13,900	13,900	185	-
Usable Receipts Arising	753	2,243	5,211	4,458	2,968
Use of Other Capital Receipts	(4,315)	(3,327)	(1,644)	2,671	1,683
Closing Balance - 31/3/14	10,153	12,816	17,467	7,314	4,651

Major Repairs Reserve	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening Balance - 1/04/13	9,955	9,755	9,755	(200)	-
Major Repairs Allowance	6,922	6,922	7,750	828	828
Use of MRR	(8,709)	(6,679)	(6,145)	2,564	534
Closing Balance - 31/3/14	8,168	9,998	11,360	3,192	1,362

CARBON REDUCTION

The Council remains committed to reducing its carbon footprint and in addition to signing the Nottingham Declaration has developed a Carbon Change Strategy. The objectives of the Carbon Change Strategy are:

- Reduce our carbon footprint
  Substantially reduce the amount of CO_2 and the other greenhouse gases we as a Council emit through all our services and operations.
- Be a community leader
  To reduce our impact and to lead by example, taking forward our knowledge, partnerships and resources to encourage and help the wider community and stakeholders to become more sustainable.
- Use our powers
  Influence and use our powers in procurement, private housing, commercial sector and planning. Minimise the environmental impact of new development and ensure any future developments are able to withstand the challenge of the changing climate.
- Prepare the Council and the District for the impacts of climate change
  Make preparations to ensure the Council's assets and operations are resilient to the predicted climate change impacts and assist in the work to prepare the District for the new climate.

The Council is working on a number of initiatives to reduce its carbon footprint. Last year I highlighted work on the housing stock with an initiative involving new builds, where a trial scheme was undertaken to construct houses from straw bales, which provide excellent insulation and greatly reduce heating requirements. These properties were successfully completed during 2013/14 and are now occupied. During 2013/14 finance was approved for a project to put solar panels on the roof of the Civic Offices and this project should be completed during 2014/15. This demonstrates that the Council will continue to pursue initiatives to substantially reduce power consumption.

THE FUTURE

In looking ahead it is worth considering the international situation as our economy does not exist in isolation and is not immune from events in Europe, the Middle East or America. Europe has been slower to emerge from recession than the United Kingdom and the International Monetary Fund has recommended the adoption of more expansionary monetary policies to provide a stimulus. However, the difficulty will remain in Europe that one size of policy rarely fits all of the members. The middle east continues as a concern with several on-going conflicts and this instability causing fluctuations in oil prices. Iraq, Syria and Egypt head the list of concerns at the moment but the whole region is in a volatile state. America used to provide a degree of comfort and stability but the economy there retracted sharply in the last quarter. Some commentators are claiming this was weather related and an unrepresentative blip, we have to hope they are correct. There are other flashpoints worthy of a brief mention as well, such as Ukraine and North Korea. Overall there is little on the world stage that encourages enthusiasm and creates optimism about the world economy.

Looking ahead domestically, there are just a couple of months before the Scottish referendum and less than a year before a General Election. The outcome of both votes is far from certain. In Scotland an early lead for the "No" campaign has narrowed and it will be interesting to see what effect the approach of the Commonwealth Games has. The recent successes of UKIP have added an extra dimension to domestic politics and as well as effecting outcomes in some seats it has been predicted that they may even win a seat in Parliament.

Having mentioned the relatively strong growth in the domestic economy, it is certainly not the case that everything is going well. Despite the reductions in unemployment there has been little extra money coming in to the Treasury by way of either personal or corporate tax and consequently Government borrowing remains above target. The expenditure side of the public finance equation is also causing concern. In particular, Employment Support Allowance and associated initiatives have been less effective than predicted and the resultant welfare payments mean the Government is in danger of breaching the Benefit Cap it set itself. It is clear that whichever party wins the General Election will have little money to play with and that austerity will be a ongoing theme in the public sector, so the challenge of doing more with less will continue and is likely to accelerate.

In the Introduction I mentioned the key changes that have taken place in local authority finances during 2013/14 and now it is necessary to consider the impacts of these changes for 2014/15 and beyond. The introduction of Local Support for Council Tax was successfully managed in 2013/14 and keeping a similar scheme in place for 2014/15 should prevent any significant difficulties arising. However, the further reductions in Government funding will necessitate some changes to the scheme for 2015/16. The percentage of a full bill paid by those receiving support will need to increase from 20% but the amount of the increase has to be carefully considered. In many of these cases if the individuals were presented with a full bill they would be unable to pay it and so would pay nothing. There is a tipping point somewhere between 20% and 100% at which these cases will not make an attempt to pay and we need to be mindful of this in designing the 2015/16 scheme. Equally, there is a limit to the extent that Members will be prepared to subsidise this benefit from General Fund resources.

The local retention of non-domestic rates provides an opportunity in the long term but is something of a headache in the short term. As mentioned above, the Council found itself in the Safety Net for 2013/14 due to the outstanding appeals against the old system. This Council's share of the deficit on the Collection Fund is approximately £400,000 and this will be accounted for in 2014/15. This had in part been anticipated and £250,000 had been allowed for in the District Development Fund. Looking further to the future, developments at St John's Road, Langston Road and North Weald Airfield should boost the non-domestic rating list and provide additional funding. It is difficult to predict when these developments will take place and their precise impact on the rating list but they do provide a balance against the other largely negative prospects on the horizon.

The final key area in need of mention is New Homes Bonus (NHB), which has helped limit the overall impact of Government funding reductions. During 2013/14 there was concern when the Government consulted on top slicing NHB to fund the Local Economic Partnerships. Even these bodies themselves were opposed to this and the idea was dropped, although the Government did say there would be a review of NHB. When the scheme was implemented it was designed to cover a rolling six year period. The first four years of the scheme have seen growth in the amount of housing in the district and the Council will receive approximately £1.82 million in NHB in 2014/15. If any revision of the scheme significantly reduced the size of the payments a large hole could appear in the budget. However, it must be remembered that the NHB is paid for with money top sliced from the overall funding for local government so the Council would be likely to receive some income from whatever replaced NHB and it seems unlikely that the Government would want to introduce another major financial reform for local authorities before the General Election.

Whilst the General Fund revenue balances are higher than anticipated, they still need to be managed and safeguarded. The current reserves policy stipulates that the balances should not go below 25% of net budget requirement. This would allow a reduction from the current level of £10.1 million to £3.2 million by the end of 2017/18. It is very difficult to imagine £1.7 million being used from reserves each year for all of the next four years and so there seems little chance of this limit being breached in the medium term.

The Housing Revenue Account is also in a strong financial position, although the number of right to buy sales generated by the increased level of discount is causing some concern. The first concern is in terms of lost rental income as this is much greater than had been allowed for in the modelling of the HRA for self-financing. Secondly, there is concern about the ability of the Council to spend the much larger amount of receipts on new housing within the time allowed. A review of the house building programme and its financing will be conducted in 2014/15 to ensure the Council is not required to pay over receipts and interest to the Government.

The four-year programme of non housing revenue account capital investment totals £14.9 million, inclusive of amounts carried forward from 2013/14. Neighbourhoods has the largest programme, with £5.9 million being spent. Within Neighbourhoods, £4.1 million is for the purchase of investment properties and £345,000 is available for parking schemes. The Communities Directorate has the next largest programme with £2.9 million, of which £1.75 million will be spent on the museum. As it is still unclear which of the many development opportunities will be taken forward and on what timescale no provision has been included at this time.

The Council's financial strength has meant its response to the austerity programme could be more measured than some other authorities who have rushed to cut jobs and services. The service restructure that took place in 2013/14 will be finalised in 2014/15 and provides an opportunity to enhance efficiency and effectiveness whilst realising savings in a sustainable way. Reductions in grant support will continue and financial pressures will arise from service areas, such as Local Support for Council Tax. The MTFS is regularly revisited and updated and the net savings targets may need to be increased, to achieve these savings over the medium term there will need to be a hard look at priorities. The Council will have to consider reductions in the level at which many services are provided and whether some continue to be provided at all, particularly where there is either private sector provision or no statutory duty on the Council to provide a service.

The Council's accounts were completed and approved for issue on 30 June 2014.

Robert Palmer BA ACA
Director of Finance & ICT

Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

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

COUNCILLOR TONY BOYCE
CHAIRMAN OF THE COUNCIL

THE DIRECTOR OF FINANCE AND ICT'S RESPONSIBILITIES

The Director of Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code')

In preparing this Statement of Accounts, the Director of Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgments and estimates that were reasonable and prudent;
- Complied with the Local Authority Code.

The Director of Resources has also:

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

I certify that the accounts set out on pages 4 to 67 give a true and fair view of the financial position of the Council as at 31 March 2014 and the income and expenditure for the year then ended.

ROBERT PALMER BA ACA
DIRECTOR OF FINANCE & ICT

September 30, 2014

Independent auditor's report to the Members of Epping Forest District Council

Opinion on the Council's financial statements

We have audited the financial statements of Epping Forest District Council for the year ended 31 March 2014 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 and Collection Fund Statement 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 2013/14.

This report is made solely to the members of Epping Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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 Epping Forest District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and

• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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 have nothing to report in respect of the following other matters which the Code of Audit Practice for local government bodies (March 2010) requires us to report to you if:

• we have been unable to satisfy ourselves that the Annual Governance Statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with other information that is forthcoming from the audit;

• we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

• we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council 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.

Independent auditor's report to the Members of Epping Forest District Council

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

Respective responsibilities of the Council and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the accounts of Epping Forest District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.We certify that we have completed the audit of the accounts of Epping Forest District Council in accordance with the

David Eagles
For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

25-Sep-14

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
Movements in 2012/13		*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Balance as at 31 March 2012		*9,201*	*4,638*	*4,493*	*4,577*	*15,842*	*8,241*	*190*	*47,182*	*304,451*	*351,633*
Surplus/(Deficit) on Provision of Services		*(5,356)*	-	*19,518*	-	-	-	-	*14,162*	-	*14,162*
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	-	-	*(7,943)*	*(7,943)*
Total Comprehensive Income and Expenditure		*(5,356)*	-	*19,518*	-	-	-	-	*14,162*	*(7,943)*	*6,219*
Adjustment between accounting and funding bases under regulations	*6*	*5,870*	-	*(17,710)*	-	*(1,942)*	*1,514*	*32*	*(12,236)*	*12,236*	-
Net Increase/(Decrease) before transfer to Earmarked Reserves		*514*	-	*1,808*	-	*(1,942)*	*1,514*	*32*	*1,926*	*4,293*	*6,219*
Transfers to Earmarked Reserves		*(45)*	*45*	*(2,926)*	*2,926*	-	-	-	-	-	-
Increase\(Decrease) in Year		*469*	*45*	*(1,118)*	*2,926*	*(1,942)*	*1,514*	*32*	*1,926*	*4,293*	*6,219*
Balance as at 31 March 2013		*9,670*	*4,683*	*3,375*	*7,503*	*13,900*	*9,755*	*222*	*49,108*	*308,744*	*357,852*
Movements in 2013/14		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2013		9,670	4,683	3,375	7,503	13,900	9,755	222	49,108	308,744	357,852
Surplus/(Deficit) on Provision of Services		(4,682)	-	32,344	-	-	-	-	27,662	-	27,662
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	-	-	*24,945*	24,945
Total Comprehensive Income and Expenditure		(4,682)	-	32,344	-	-	-	-	27,662	24,945	52,607
Adjustment between accounting and funding bases under regulations	6	5,278	-	(30,468)	-	3,567	1,604	(38)	(20,057)	*20,057*	-
Net Increase/(Decrease) before transfer to Earmarked Reserves		596	-	1,876	-	3,567	1,604	(38)	7,605	45,002	52,607
Transfers to Earmarked Reserves		(382)	382	(2,285)	2,285	-	-	-	-	-	-
Increase\(Decrease) in Year		214	382	(409)	2,285	3,567	1,604	(38)	7,605	45,002	52,607
Balance as at 31 March 2014		9,884	5,065	2,966	9,788	17,467	11,359	184	56,713	353,746	410,459

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2014

	Note	2013/14 Gross Expend £000	2013/14 Income £000	2013/14 *Net Expend £000*	2012/13 Gross Expend £000	2012/13 Income £000	2012/13 *Net Expend £000*
CONTINUING OPERATIONS							
Central Services to the Public		4,306	(1,191)	3,115	12,879	(9,995)	*2,884*
Corporate and Democratic Core		2,600		2,600	2,557	-	*2,557*
Cultural & Related Services		4,945	(837)	4,108	4,544	(468)	*4,076*
Environmental & Regulatory Services		10,738	(3,180)	7,558	10,404	(2,970)	*7,434*
Highways and Transport Services		1,180	(1,141)	39	1,509	(1,415)	*94*
Concessionary Fares		20	(9)	11	15	(33)	*(18)*
Non Local Authority Housing		40,667	(39,524)	1,143	39,962	(38,844)	*1,118*
Planning Services		4,274	(1,124)	3,150	4,310	(987)	*3,323*
Housing Revenue Account		27,743	(64,454)	(36,711)	25,590	(51,038)	*(25,448)*
EXCEPTIONAL ITEMS							
General Fund							
Interest on Compulsory Purchase Compensation	11	-	-	-	-	(237)	*(237)*
NET COST OF SERVICES		96,473	(111,460)	(14,987)	101,770	(105,987)	*(4,217)*
OTHER OPERATING EXPENDITURE	8			1,948			*3,320*
FINANCING AND INVESTMENT INCOME AND EXPENDITURE	9			4,714			*5,761*
TAXATION AND NON-SPECIFIC GRANT INCOME	10			(19,337)			*(19,026)*
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES				(27,662)			*(14,162)*
(Surplus) on Revaluation of Property Plant and Equipment	12 & 16			(4,416)			*(298)*
Actuarial (gains)/losses on Pension Assets/Liabilities	39			(20,425)			*8,676*
Other (Gains)/Losses				(104)			*(435)*
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(52,607)			*(6,219)*

BALANCE SHEET

	Note	31 March 2014 £000	31 March 2014 £000	*31 March 2013 £000*	*31 March 2013 £000*
LONG TERM ASSETS					
Property, Plant & Equipment	12		554,477		*528,641*
Heritage Assets	13		542		*542*
Investment Properties	14		39,754		*39,242*
Intangible Assets	15		543		*616*
Long Term Investments	18		10,004		*10,074*
Long Term Debtors	17		2,453		*1,977*
TOTAL LONG TERM ASSETS			607,773		*581,092*
Current Assets					
Assets held for sale	16	1,510		*515*	
Inventories	19	274		*213*	
Debtors and Prepayments	20	5,653		*5,993*	
Short Term Temporary Investments	18	33,910		*30,259*	
Cash & Cash Equivalents	21	15,338		*9,906*	
			56,685		*46,886*
Current Liabilities					
Creditors	22	(8,943)		(8,131)	
Provisions	23	(794)			
			(9,737)		*(8,131)*
LONG TERM LIABILITIES					
Long Term Loans	18	(185,456)		*(185,456)*	
Pensions Liability	39	(57,820)		*(75,357)*	
Capital Grant Receipts in Advance	35	(986)		*(1,182)*	
			(244,262)		*(261,995)*
TOTAL ASSETS LESS LIABILITIES			410,459		*357,852*
Usable Reserves			56,713		*49,108*
Unusable Reserves	24		353,746		*308,744*
			410,459		*357,852*

THE CASH FLOW STATEMENT

	Note	2013/14 £000	*2012/13 £000*
Net Surplus or (Deficit) on Provision of Services		27,662	*14,162*
Adjustments to net surplus or deficit on the provision of services for non-cash movements	25	(5,564)	*660*
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(6,870)	*(1,891)*
Net cash flows from Operating Activities	25	15,228	*12,931*
Investing Activities	26	(10,187)	*(17,791)*
Financing Activities	27	391	*949*
Net Increase or (Decrease) in cash and cash equivalents		5,432	*(3,911)*
Cash and Cash Equivalents at the beginning of the reporting period		9,906	*13,817*
Cash and Cash equivalents at the end of the reporting period	21	15,338	*9,906*

Index of Notes to the Statement of Accounts

1.

1.1 GENERAL PRINCIPLES & RESTATEMENT OF PRIOR YEAR FIGURES

General Principles

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2014. The Code has been developed by the CIPFA/LASAAC Joint Committee under the oversight of the Financial Reporting Advisory Board as opposed to the Accounting Standards Board as previously.

The Code is based on International Financial Reporting Standards (IFRS) which comprises of International Accounting Standards (IAS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and interpretations of the Standing Interpretations Committee (SIC). The Code notes that it interprets and adapts IFRS but such instances are identified within the Code.

1.2. ACCOUNTING CONCEPTS

The accounting policies referred to are consistent with the persuasive accounting concepts of:

Going Concern - the accounts have been drawn up on the basis that the Council is going to continue in its operational existence for the foreseeable future.

Accruals - Income and expenditure is recognised in the period to which they relate rather than when the related cash is received or paid.

The Primacy of Legislation - Where there is conflict between legislative requirements and accounting principle, legislative requirements will prevail.

1.3. ESTIMATION

Where actual amounts to be included within the accounts are uncertain estimates are used. The estimate is based on the best assessment of information available at the time of closing the accounts. When the actual figures are determined any difference arising is accounted for in the year when the actual figure is determined.

1.4 CASHFLOW PREPARATION

The Code allows the preparation of the cashflow to be either the direct or indirect method. The Council has prepared the statement using the indirect method.

1.5 GROUP ACCOUNTS

Accounting practice requires that where the Council has a material financial interest and a significant level of control over another entity, it should prepare group accounts. The Council has reviewed its relationships with other entities and has concluded that no material financial interest or significant control exists and group accounts are therefore not required.

1.6 COLLECTION FUND

This records all transactions in relation to Council Tax and Non Domestic rates. The Council transfers its share of Council Tax income to the General Fund to finance expenditure and the remainder is passed to precepting authorities. From 1 April 2013 the regime governing Non Domestic Rate income has changed. From that date 50% is passed to Central Government, 40% to the General fund with 9% and 1% being passed to the County Council and Fire Authority respectively, after passing a collection allowance to the General Fund.

The General Fund receives 40% of the Business Rates form the Collection Fund. However, because this amount exceeds the Business Rates Baseline funding a further amount (£9.84 million) is paid to Central Government as a tariff.

1.7 PROPERTY PLANT AND EQUIPMENT

All expenditure on the acquisition, creation or enhancement of property plant and equipment (PPE) is capitalised on an accruals basis in the accounts. Expenditure is capitalised, provided that the asset yields benefits to the Council and the services it provides for more than one year. This excludes expenditure on routine repairs and maintenance of assets, which is charged directly to service accounts.

Property Plant and Equipment were originally valued and recorded in the accounts as at 1 April 1994. These valuations were based upon certificates issued by the Council's Chief Valuer and Estates Surveyor. Additions since that date are included in the accounts at cost. Council dwellings and garages are revalued every year using the Beacon Properties approach as the basis for valuation. The valuation takes the form of a full revaluation followed by four years of desk top revaluations, with the last full revaluation occurring as at 1 April 2010. Other assets are revalued as part of the Council's rolling programme under which assets are revalued over a five year period. The Council dwellings and garages valuation has been carried out by District Valuer A Wilcock, MRICS, and other assets by the Council's Principal Valuer and Estates Surveyor.

The introduction of IFRS via the 2010/11 code required the Council to value component parts of PPE for the first time. This applies when an asset is either revalued or a component replaced or created and is subject to a significance test. The purpose of this is to ensure that the depreciation charge accurately reflects the differing useful lives of components particularly where the asset within which the component is situated has a rather longer life. Within the 2010/11 accounts, Council dwellings and associated land were valued on the basis of Existing Use for Social Housing (EUV-SH) being 39% of the Vacant Possession value. The components within the dwelling have been valued based on the proportion of the total dwelling to which their value relates.

The policy was introduced for PPE revalued during 2010/11 and as part of that process the necessity to recognise significant components was also considered. A series of significance tests were applied to identify which assets it was appropriate to componentise. The first stage was applied to Council housing and leisure centres as the largest asset categories; Council dwellings and leisure centres which had a value greater than 20% of the total value of the asset categories were considered significant. As a result of these tests all Council dwellings and two leisure centres were identified and a second test was applied; any component which exceeded 20% of the total value of the asset as a whole was deemed significant. The value of plant and equipment within council dwellings and one of the leisure centres, namely Loughton Leisure Centre, was thereby identified as significant and componentisation has been applied to these assets. The Civic Offices were revalued during 2013/14 and as a result componentisation was applied to this as part of that process. Componentisation has not been applied to any other assets.

The useful lives of both dwellings and the components within have been reviewed during 2013/14. The useful life of the buildings has been reassessed at 60 years with the average life of components at 26 years.

An impairment is defined as a loss in value due to the consumption of economic benefits. Where a valuation reduction occurs due to a fall in prices generally this is known as a downward revaluation. In both cases the loss is taken to the revaluation reserve to the extent that revaluation gains relating to that particular asset exists within the revaluation reserve in the first place.

If the value of the impairment or downward revaluation exceeds the revaluation amount relating to that asset already residing in the revaluation reserve then the difference is recognised in the CIES in the year in which it occurs. The valuations are based upon the facts and evidence prevailing at the date of valuation. The valuation date is 31 March of the year to which the accounts relate, in the case of 2013/14, 31 March 2014. As part of this years revaluation the valuer has assessed that the proportion of value in the Land element is 35%, which is an increase from 30% in 2012/13.

Revaluations of individual assets are also undertaken when a material change happens. Infrastructure and community assets do not have a value attributed to them and therefore their value is based on the historic cost of providing the asset. Surplus assets, which are identified for sale on the open market, are revalued at market value which reflects any changes in planning permission granted.

Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use. Investment properties are included in the balance sheet at the lower of net current replacement cost and net realisable value (open market value). Community assets are included in the balance sheet at historical cost and Infrastructure assets at depreciated historic cost.

Long term assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes, issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets (excluding land) are classified as follows:

Type of Asset	Valuation Method	Estimated Useful Life (Years)
Council Dwellings and Garages	Existing use value for social housing Existing use value	15 to 60
Other land and buildings	Existing use value	20 to 50
Infrastructure assets	Depreciated Historic Cost	15 to 40
Community assets	Historic Cost	Indeterminable
Vehicles, plant, furniture and equipment	Depreciated historic cost	5 to 20
Non-operational assets	Existing use value Market value Historic Cost (where market value for existing use cannot be ascertained)	

Where assets are acquired under operating leases, the leasing rentals payable are charged to revenue. The cost of assets and the related liability for future rentals payable are not shown in the balance sheet but are disclosed in the notes. (See Note 38).

Where an asset has been disposed of, the profit or loss on disposal is applied to the CIES with corresponding entries to fixed assets and cash/debtors. Subsequently, the income derived is credited to the Usable Capital Receipts Reserve, and accounted for on an accruals basis. The profit or loss on disposal is then reversed within the Movement in Reserves Statement to neutralise the effect on the General Fund of the entry in the CIES. Upon disposal, any valuation gains since 1 April 2007 relating to those assets are written off against the Revaluation Reserve with the remainder being written off against the Capital Adjustment Account.

1.8 DEPRECIATION

In accordance with the provisions of IAS 16, assets are depreciated on a straight-line basis over their useful economic life. Where a unique asset is purchased or constructed the useful life is assessed based on information available concerning that asset. The only general exceptions to this are freehold land, community assets and non-operational investment properties which are not depreciated. Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to charge depreciation.

1.9 HERITAGE ASSETS

The 2011/12 Code introduced the concept of heritage assets. The accounting standard (FRS 30) was introduced during 2010/11 but only applicable from 2011/12. A heritage asset is defined as an asset that is maintained principally for the contribution it makes to knowledge and culture. In the case of the Council the museums service hold a number of artefacts that fall within this definition. The Code also states that such assets should be recognised where the authority has information on the cost or value of the assets, but where this is not available, a note to that effect should be included. The amount relating to artefacts that the Council holds information on is not material to the accounts themselves and therefore not all the disclosures required by the Code have been made.

The Council has an acquisitions and disposals policy in place for these assets. The intention on acquisition is to keep the items in perpetuity and an acquisition would only be made once the long term value and the ability of the museum to provide adequate care and public accessibility to it has been assessed. This would include the ability to acquire the asset with valid title. If an item is to be disposed of it would be necessary to confirm that the museums service could legally do so and would be after due consideration but would not be based on the principle of generating funds. The museum keeps records of its collection on a database allocating a unique reference number to each artefact and is cared for by the collections manager. The Council's Museum is open to the public to view some of the artefacts but a significant number are not generally on display. There is a temporary exhibitions programme whereby certain items are shown for a limited period and some items are being stored in digital format for presentation on the museums part of the web-site.

1.10 INTANGIBLE ASSETS

Intangible assets are payments of a capital nature where no tangible fixed asset is created but which are expected to yield future economic benefits to the Council. Software, including licences, is considered an intangible asset as it fulfils the two tests above. Council policy is to capitalise such expenditure but amortise it to revenue over the useful life of the asset, in this case five years.

1.11 CAPITAL EXPENDITURE CHARGED TO REVENUE

The Local Government and Housing Act 2003 allows local authorities to finance an unlimited amount of capital expenditure through its revenue accounts. The Council's policy has been to finance a significant amount of Housing Revenue Account (HRA) capital expenditure in this way.

1.12 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute relates to expenditure of a capital nature that does not result in the creation of a fixed asset either tangible or intangible. This expenditure was previously known as Deferred Charges and such expenditure was initially classified as capital expenditure but then written off in full to the relevant service heading within the CIES. Proper practice now is that the expenditure is classed as revenue. However, because the financing of this expenditure is from a capital source, a credit is applied within the Movement in Reserves Statement from Capital Receipts so that there is no overall effect on the Council Tax or the General Fund.

1.13 REVALUATION RESERVE/CAPITAL ADJUSTMENT ACCOUNT

The Revaluation Reserve contains upward revaluations occurring to Fixed Assets since 1 April 2007. Revaluations prior to that date would have been within the now defunct Fixed Asset Restatement Account, the balance of which was transferred to the Capital Adjustment Account on the same date. Where a subsequent downward valuation occurs, relating to a fall in market values generally, then previous upward revaluations relating to that particular asset are reversed. Any excess write down is charged to the Capital Adjustment Account after being passed through the CIES and the Adjustments between Accounting Basis and Funding Basis Under Regulation.

1.14 INVESTMENTS

Investments are accounted for in accordance with IAS 32, 39 and IFRS 7. These reporting standards prescribe the recognition, measurement and disclosure requirements in relation to financial instruments. All the Council's financial assets are in the form of loans and receivables. Investments are therefore shown in the Balance Sheet at amortised cost. The Council held investments with the Heritable Bank, a UK regulated subsidiary of an Icelandic Bank, that went into administration. As a result, the value of the investments held have been impaired in line with CIPFA's LAAP Bulletin 82 which was issued to provide guidance relating specifically to this situation.

1.15 ASSETS HELD FOR SALE

Assets are classed as being held for sale where, at the balance sheet date, they were being actively marketed and the sale itself is highly probable in its current condition.

1.16 INVENTORIES

Separate stores are maintained in the Fleet Operations and Building Maintenance services. Stores are valued in the accounts at the lower of cost and net realisable value.

1.17 DEBTORS AND CREDITORS

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice and IAS 8. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. An exception to this principle relates to electricity and similar periodic receipts and payments, which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

The recoverability of the Council's General Fund debts is considered each year through an analysis by age and type of debt outstanding at 31 March. An appropriate provision is made for any bad debts/losses that are anticipated. An analysis of size and type of debt outstanding at 31 March on the HRA has also been undertaken in accordance with the Housing Revenue Accounts (Arrears of Rent and Charges) Directions 1990.

1.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be capable of being converted into cash within 24 hours.

1.19 FINANCIAL LIABILITIES

Financial liabilities are carried at amortised cost. The Council had no borrowings until 28 March 2012 when a payment had to be made to the Department of Communities and Local Government of £185.456 million and an equivalent amount had to be borrowed from the Public Works Loan Board. This occurred on the cessation of the HRA subsidy regime.

1.20 CAPITAL RECEIPTS

Capital Receipts from the sale of assets are treated in the accounts as laid down by regulations made under the Local Government Act 2003. Under the act 75% of the value of council house sales and 50% of the value of other HRA asset sales must be paid over to a central government pool for re-distribution. If however, non right to buy receipts are used to finance further capital expenditure on affordable housing then pooling can be avoided. From 2012/13 there is also the ability for authorities to retain additional monies on the basis that the receipts will be used to finance a one-for-one replacement program where some proceeds from a sale is used for the provision of a replacement affordable home. The amount that remains with the Council is credited to the Usable Capital Receipts Reserve and is therefore available to fund capital expenditure.

1.21 GOVERNMENT CAPITAL GRANTS AND OTHER CAPITAL CONTRIBUTIONS

Where a grant or contribution has been received the first consideration is whether there is a condition attached to the receipt of that grant. Where there is no condition, or the condition is met, then the income is recognised in the CIES. This income must then be reversed out within the Movement in Reserves Statement. If the related expenditure has been incurred the reversal is to the Capital Adjustment Account, if the expenditure has not been incurred the reversal is to the Capital Grants Unapplied Account.

Where a condition is not met the income must be recognised in the Capital Grants Received in Advance Account. If in a future accounting period the condition is met, at that point the grant income is recognised in the CIES and reversed out in the Movement in Reserves Statement as before. If there is no prospect of the conditions being met the grant monies are held as a Creditor until such time as repayment can be made. Where the only condition attached to a grant is that it must be spent on a particular asset or used for a particular purpose then the condition is assumed to be met only when expenditure actually occurs.

1.22 REVENUE GRANTS

Grants are credited to the operational heading to which they relate, or, if they are not specific, to the Taxation and Non-Specific Grant Income section of the CIES, in the year of receipt unless there are conditions attached to the grant that have not yet been met. The Grant is then recognised in the Financial year when the conditions are eventually met.

1.23 COST OF SUPPORT SERVICES AND SERVICE ADMINISTRATION

Administrative expenses are allocated over all services and to all users including services to the public, trading undertakings, capital accounts and services provided for other bodies and other support services, on a consistent basis applicable to the service provided, i.e. actual time spent by staff, area occupied, per capita, actual use etc.

1.24 RESERVES

The Council has set aside certain revenue and capital amounts as earmarked reserves. They include reserves for the District Development Fund, pensions deficit, insurance, housing repairs, on-street parking, building control and future museum acquisitions. All other fund balances represent working balances for the purpose of the specific fund and are made up of accumulated surpluses and deficits derived over a period of time. All earmarked fund balances and reserves are reviewed periodically as to their size and appropriateness.

1.25 PENSIONS

The accounting treatment for pensions is to recognise the assets, liabilities and long term commitments, rather than merely the contributions to the scheme. The assets of the scheme are measured at realisable value (Bid Values), the liabilities are measured on an actuarial basis which examines the benefits for pensioners and accrued benefits for current scheme members.

1.26 INTERNAL INTEREST

Interest is credited to the HRA based on the level of its fund balances. The amounts are calculated using the average rate of interest on approved investments, as prescribed in the HRA Item 8 Credit and Item 8 Debit (general) Determinations 2013/14.

1.27 CONTINGENT ASSETS

A contingent asset arises when it is possible that an asset will materialise from past events and will only be confirmed by the occurrence of one or more future events which are not wholly within the control of the Council.

1.28 CONTINGENT LIABILITIES

A contingent liability arises when it is possible that an obligation will materialise from past events and will only be confirmed by the occurrence of one or more future events which are not wholly within the control of the Council, or a present obligation arising from past events is not recognised because it either is unlikely that a transfer of economic benefits will occur or the amount of such a transfer cannot be measured with sufficient reliability.

1.29 VALUE ADDED TAX (VAT)

VAT is included in the accounts only to the extent that it is irrecoverable from HM Revenue and Customs. VAT can only be recovered on partially exempt activities where all such activities account for less than 5% of total VAT on all the Council's activities.

1.30 LEASES

Finance Leases: A finance lease is defined as a lease that transfers substantially the risks and rewards of ownership without necessarily transferring the title. The Council has no agreements that meet the definition of a finance lease.

Operating Leases: An operating lease is defined as any lease that is not a finance lease. The Council has a variety of assets under operating leases, including vehicles, vending machines and mowers. The leases transfer benefits of ownership without actually transferring title to the assets, and therefore in accordance with accounting practice the leased assets are not stated in the Balance Sheet. Hire purchase contracts similar to operating leases are accounted for on the same basis where applicable.

Rentals are charged to service revenue accounts on a straight line basis over the period of the lease. No provision is made for outstanding lease commitments.

Various Council assets, such as Commercial Properties, industrial estate units and areas of land, are let to tenants under the heading operating leases. Rental income (net of cash incentives for a lessee to sign a lease) is credited to the CIES.

1.31 PRINCIPAL AND AGENT RELATIONSHIPS

Most transactions of the Council are undertaken on its own behalf and thereby the risk and rewards of those transactions belongs to the Council. In these situations the Council is acting as a Principal

There are, however, some situations where this is not the case and the Council acts as an intermediary or agent. The two main instances relate to the collection of Council Tax and Business Rates where the Council is collecting income on behalf of itself and preceptors. With regard to Council Tax the major preceptors are Essex County Council, Essex Police and Crime Commissioner and Essex Fire Authority and with regard to Business Rates, the Department of Communities and Local Government (DCLG), Essex County Council and Essex Fire Authority.

The Balance Sheet transactions at the year end in relation to these agent relationships are split between the parties with the balances contained in the balance sheet relating to the Council's own portion of the debt and associated balances The proportion of the transactions relating to the other parties are therefore shown as debtors or creditors due to or from those parties.

1.32 EXCEPTIONAL ITEMS

An items is treated as exceptional when it arises from an event outside normal Council activity and is felt to be significant when viewed in conjunction with the income and expenditure of the operational heading to which it relates.

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

The Council is required to disclose information on the impact of a change in accounting policy that will be required by an accounting standard that has been issued but not yet adopted. This applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. 1 January 2014 for the 2013/14 financial year). The applicable standards are as follows:

IFRS 10, consolidated financial Statements has now been issued. This outlines the requirements for the preparation of consolidated financial statements. It requires an entity to consolidate if it controls another entity.

IFRS 11 Joint Arrangements has also been issued. This outlines the accounting by entities that jointly control an arrangement. Joint control is where there is a contractually agreed sharing of control and arrangements and are classified as a joint venture or joint operation.

IFRS 12 - Disclosure of interests in other entities. This is a consolidated disclosure standard requiring a wide range of disclosures about an entities interests in Subsidiaries, Joint Arrangements, Associates and other unconsolidated structured entities.

IAS 27 Consolidated and Separate Financial Statements has been amended and outlines when consolidation is required and how to deal with change in ownership, prepare Separate Statements and related disclosures.

IAS 28 Investments in Associates and Joint Ventures has been amended. This standard outlines the accounting arrangements for investments in associates. An associate is defined as an entity that an investor has significant influence over in terms of operation and financial control.

None of these amendments to the accounting standards currently affect the Council.

Amendments have been made to IAS 1 The presentation of Financial Statements which are to be adopted for 2014/15. The standard sets out the overall requirements for Financial statements including overriding concepts such as Going Concern, Accruals and the distinction between Current and Non Current Assets. It also changes the groupings currently reported under other comprehensive Income between those that could become part of the provision of service costs and those that will not. The Financial Statements need to contain a Statement of Financial Position, A statement of Profit or Loss and other Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows. This comes into effect for the financial year starting on 1 April 2014 and is purely a presentational issue.

There have been some amendments to the reporting requirements of IAS32 Financial Instruments - Presentation in relation to the offsetting of Financial Assets and Liabilities. Currently an entity can offset certain Financial Assets and Liabilities but there is not a consistent offsetting model used which can lead to a lack of consistency particularly where an entity has a large volume of derivatives. A common offsetting model is proposed. However, this Council does not offset, nor is it likely to offset, Financial Assets and Liabilities so this should not affect the Financial Statements. This is effective from the financial year beginning on 1 April 2014.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The major uncertainty is around future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

The Accounts contain a number of figures that are estimated based on historical experience, current trends or other factors that are relevant. As these figures cannot be ascertained with certainty it is possible that actual results could be materially different from those estimated. The items in the Balance Sheet where there is a risk of material adjustment are as follows:

Property Plant and Equipment

Assets are depreciated over useful lives that are dependant on assumptions relating to repairs and maintenance to those assets. It is possible that the Council may not be able to expend the resources necessary to maintain the estimated useful life assessed and therefore additional depreciation and a fall in asset values may occur. For example the annual Depreciation charge for a Council Dwelling, being the most significant class of Council assets, would increase by around 4% if the useful economic life of the buildings and significant components were reduced by one year.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consultant actuaries are engaged to provide advice about assumptions to be applied. The actuary has provided some sensitivity analysis around the assumptions and this is contained within the Pensions note 39. The carrying value of the Pensions Liability is (£58.32 million).

Arrears

The Council has a number of sundry debtors relating to arrears and what is felt to be an appropriate provision for bad and doubtful debts has been provided against this. Given the current economic climate it is possible that this level of provision might become inadequate. If collection rates were to deteriorate then the charge to the CIES would increase. The carrying value of the Councils debtors is £5.64million.

5. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements were authorised for issue on 30 June 2014 by Robert Palmer BA ACA. The financial statements reflect all events up to this date.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	2013/14 £000 *Usable Reserves*					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments involving the Capital Adjustment Account: *Exclusions;* Charges for depreciation and impairment of non-current assets	(2,359)	(13,136)	-	-	-	15,495
Reversal of Impairment of non-current assets	(62)	29,930	-	-	-	(29,868)
Movements in the fair value of Investment Properties	470	-	-	-	-	(470)
Amortisation of intangible assets	(221)	(6)	-	-	-	227
Capital Grants and contributions applied	242	237	-	-	-	(479)
Revenue expenditure funded from Capital under statute	(134)	-	-	-	-	134
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(202)	(3,640)	-	-	-	3,842
Capital expenditure charged against the General Fund and HRA balances	23	4,200	-	-	-	(4,223)
Adjustments primarily involving the Capital Grants Unapplied Account	(38)	-	-	-	38	-
Adjustments involving the Capital Receipts Reserve: Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	13	5,945	(5,958)	-	-	-
Transfer from Deferred Capital receipts on receipt of cash	-	-	(7)	-	-	7
Used to finance new capital expenditure	-	-	1,644	-	-	(1,644)
Contribution towards administrative costs of non-current asset disposals	-	(69)	69	-	-	-
Contribution to finance the payments to the Government capital receipts pool	(685)	-	685	-	-	-
Adjustments involving the Deferred Capital Receipts Reserve: Transfer to Deferred Capital Receipts Reserve upon revaluation of rents to mortgages.	-	127	-	-	-	(127)
Adjustments relating to the Major repairs Reserve: Reversal of Major repairs Allowance credited to the HRA	-	7,749	-	(7,749)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-		-	6,145	-	(6,145)
Adjustments involving the Pensions Reserve: Reversal of items relating to retirement benefits debited\credited to the CIES (see Note 39)	(2,023)	(865)	-	-	-	2,888
Adjustments involving the Collection Fund Adjustment Account Amount by which council tax and business rate income credited to the CIES is different from that calculated in accordance with statutory requirements.	(290)	-	-	-	-	290
Adjustments involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(12)	(4)	-	-	-	16
TOTAL ADJUSTMENTS	(5,278)	30,468	(3,567)	(1,604)	38	(20,057)

	2012/13 £000 Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments involving the Capital Adjustment Account: Exclusions;						
Charges for depreciation and impairment of non-current assets	(2,298)	(12,693)	-	-	-	14,991
Upward/(Downward) revaluation of non-current assets		19,228	-	-	-	(19,228)
Movements in the market value of Investment Properties	(2,241)	-	-	-	-	2,241
Amortisation of intangible assets	(271)	(6)	-	-	-	277
Capital Grants and contributions applied	522	208	-	-	-	(730)
Revenue expenditure funded from Capital under statute	(535)	(172)	-	-	-	707
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(120)	(816)	-	-	-	936
Capital expenditure charged against the General Fund and HRA	28	4,200	-	-	-	(4,228)
Application of HRA self financing loan transferred to the Capital Adjustment Account	-	-	-	-	-	-
Adjustments primarily involving the Capital Grants Unapplied Account	32	-	-	-	(32)	-
Adjustments involving the Capital Receipts Reserve: Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	236	1,161	(1,319)	-	-	(78)
Transfer from Deferred Capital receipts on receipt of cash	-	-	(12)	-	-	12
Used to finance new capital expenditure	-	-	2,660	-	-	(2,660)
Contribution towards administrative costs of non-current asset disposals	-	(17)	17	-	-	-
Contribution to finance the payments to the Government capital receipts pool	(596)	-	596	-	-	-
Adjustments involving the Deferred Capital Receipts Reserve: Transfer to Deferred Capital Receipts Reserve upon revaluation of rents to mortgages.	-	20	-	-	-	(20)
Adjustments relating to the Major repairs Reserve: Reversal of Major repairs Allowance credited to the HRA	-	6,932	-	(6,932)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	5,418	-	(5,418)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited\credited to the CIES (see Note 39)	(719)	(337)	-	-	-	1,056
Adjustments involving the Collection Fund Adjustment Account Amount by which council tax income credited to the CIES is different from that calculated in accordance with statutory requirements.	114	-	-	-	-	(114)
Adjustments involving the Accumulated Absences Account Amount by which officer remuneration charged to CIES on an accruals basis is different from that required in accordance with statutory requirements	(22)	2	-	-	-	20
TOTAL ADJUSTMENTS	(5,870)	17,710	1,942	(1,514)	(32)	(12,236)

7. EARMARKED RESERVES

A summary of balances on earmarked reserves is set out below.

	Balance 31 March 2012 £000	Transfers Out £000	Transfers In £000	Balance 31 March 2013 £000	Transfers Out £000	Transfers In £000	Balance 31 March 2014 £000
Housing Repairs Reserve	*3,915*	*(5,607)*	*5,200*	*3,508*	(5,953)	5,200	2,755
District Development Fund	*3,457*	*(1,649)*	*1,773*	*3,581*	(1,904)	2,171	3,848
Self Financing Reserve	-	-	*3,180*	*3,180*	-	3,180	6,360
Pension Deficit Reserve	*66*	-	-	*66*	(66)	-	-
Deferred Revenue Income	*498*	*(19)*	-	*479*	(21)	-	458
Insurance Reserve	*1,143*	*(13)*	-	*1,130*	(81)	-	1,049
Service Enhancement Fund (HRA)	-	-	*170*	*170*	(58)	-	112
Building Control	*94*	*(73)*	-	*21*	-	-	21
On Street Parking	*28*	-	-	*28*	-	-	28
Museum Fund	*9*	-	*9*	*18*	-	8	26
Rental Loans	-	-	-	-	-	191	191
Small Loans Fund	*5*	-	-	*5*	-	-	5
Total Earmarked Reserves	*9,215*	*(7,361)*	*10,332*	*12,186*	(8,083)	10,750	14,853

8. OTHER OPERATING EXPENDITURE

	31 March 2014 £000	*2013 £000*
Parish Council Precepts	2,990	*3,167*
Parish Support Grants	320	*0*
Payments to the Government Housing Receipts Pool	685	*596*
(Gains)/losses on the disposal of non-current assets	(2,047)	*(443)*
Total	1,948	*3,320*

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	31 March 2014 £000	*2013 £000*
Total Net Surplus from Trading Operations (Note 29)	(2,640)	*(3,340)*
Interest payable and similar charges	5,542	*5,516*
Pensions interest cost	3,009	*1,881*
Interest receivable and similar income	(431)	*(517)*
Changes in Fair Values of Investment Properties	(470)	*2,241*
Changes in Value of Deferred Capital Receipts	(127)	*(20)*
Reversal of Investment Impairment	(169)	*0*
Total	4,714	*5,761*

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	31 March 2014 £000	31 March 2013 £000
Council Tax income	(10,567)	*(11,373)*
Non Domestic Rate income and expenditure	(2,519)	*(6,530)*
Non-ring fenced government grants	(6,251)	*(1,063)*
Capital grants and other contributions	0	*(60)*
Total	(19,337)	*(19,026)*

11. EXCEPTIONAL ITEMS

There are no exceptional item reported within the Accounts in 2013/14.

There was one item reported in the prior period. This was:-

A compensation payment of £100,000 and interest of £237,000 has been received in relation to an ongoing compulsory purchase order that dates back to around 1992. The case has been quite complex with the Council needing to prove good title with regard to the land in question. The compensation itself has been treated as a Capital Receipt with the interest being treated as revenue income and credited to the DDF.

12. PROPERTY PLANT AND EQUIPMENT

A thorough review of non current assets was undertaken during 2012/13 as part of the process to implement a new Asset Management System. The review provided a more detailed analysis of the assets owned by the Council and their associated values. It also revealed the need to restate the Council's gross book values and gross depreciation figures in two asset groups: vehicles, plant and equipment; and infrastructure assets. In both cases the gross figures have been restated downwards to account for redundant assets no longer in use. The net book values have not been affected.

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	WIP Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value 31 March 2013	459,848	43,577	15,399	18,289	2,822	794	1,217	541,946
Reclassified	-	(43)	-	(26)	-	43	-	(26)
Restated	(27)	(32)	(365)	-	-	-	-	(424)
Monday, April 1, 2013	459,821	43,502	15,034	18,263	2,822	837	1,217	541,496
Additions	10,310	398	627	221	-	-	216	11,772
Disposals	(3,736)	-	(78)	-	-	-	-	(3,814)
Reclassified in year	(1,437)	355	398	205	-	(858)	513	(824)
Revaluations Credited to the CIES	30,544	(89)	-	-	-	-	(587)	29,868
Revaluation Credited to the Revaluation reserve	2,985	(7)	-	-	-	817	365	4,160
Accumulated Depreciation & Impairment written off on revaluation	(12,693)	(639)	-	-	-	-	(36)	(13,368)
Gross Book Value 31 March 2014	485,794	43,520	15,981	18,689	2,822	796	1,688	569,290
Depreciation 31 March 2013	-	(2,026)	(6,094)	(5,177)	-	(8)	-	(13,305)
Restated	-	74	385	-	-	-	-	459
Monday, April 1, 2013	-	(1,952)	(5,709)	(5,177)	-	(8)	-	(12,846)
Reclassified	37	(55)	53	1	-	-	(36)	-
Depreciation in Year	(12,826)	(745)	(1,424)	(500)	-	-	-	(15,495)
Depreciation on Assets Sold	96	-	64	-	-	-	-	160
Accumulated Depreciation & Impairment written off on revaluation	12,693	639	-	-	-	-	36	13,368
Depreciation 31 March 2014	-	(2,113)	(7,016)	(5,676)	-	(8)	-	(14,813)
Net Book Value 31 March 2014	485,794	41,407	8,965	13,013	2,822	788	1,688	554,477

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	WIP Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value 31 March 2012	454,463	42,823	17,154	17,746	2,822	756	669	536,433
Reclassified	-	-	(282)	282	-	-	-	-
Restated	-	269	(2,500)	(105)	-	-	-	(2,336)
Monday, April 1, 2013	454,463	43,092	14,372	17,923	2,822	756	669	534,097
Additions	9,069	348	1,485	366			905	12,173
Disposals	(841)	-	(592)	-	-	-	-	(1,433)
Reclassified in year	(407)	137	134	-	-	38	(357)	(455)
Revaluations credited to the CIES	19,228	-	-	-	-	-	-	19,228
Revaluation Credited to the Revaluation reserve	459	-	-	-	-	-	-	459
Accumulated Depreciation & Impairment Written off on revaluation	(22,123)	-	-	-	-	-	-	(22,123)
Gross Book Value 31 March 2013	459,848	43,577	15,399	18,289	2,822	794	1,217	541,946
Depreciation 31 March 2012	(9,786)	(1,336)	(7,836)	(4,594)	-	-	-	(23,552)
Restated Depreciation	-	8	196	(196)	-	(8)	-	-
Accumulated Depreciation written off on revaluation	-	6	2,500	105	-	-	-	2,611
Sunday, April 1, 2012	(9,786)	(1,322)	(5,140)	(4,685)	-	(8)	-	(20,941)
Depreciation in Year	(12,377)	(704)	(1,418)	(492)	-	-	-	(14,991)
Depreciation on assets sold	40	-	464	-	-	-	-	504
Accumulated Depreciation & Impairment written off on revaluation	22,123	-	-	-	-	-	-	22,123
Depreciation 31 March 2013	-	(2,026)	(6,094)	(5,177)	-	(8)	-	(13,305)
Net Book Value 31 March 2013	459,848	41,551	9,305	13,112	2,822	786	1,217	528,641

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	WIP Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	940	15,981	18,689	2,822	-	1,688	40,120
Valued at fair value as at:								
31 March 2014	485,794	9,027	-	-	-		-	494,821
31 March 2013	-	275	-	-	-	540	-	815
31 March 2012	-	1,459	-	-	-	216	-	1,675
31 March 2011	-	31,819	-	-	-	40	-	31,859
Total Cost or Valuation	485,794	43,520	15,981	18,689	2,822	796	1,688	569,290

13. HERITAGE ASSETS

	Waltham Abbey Bible	Other Artefacts	Civic Chains	Epping Fountain	Total
	£000	£000	£000	£000	£000
Gross Book Value 31 March 2013	*262*	*147*	*110*	*26*	*545*
Depreciation 31 March 2013	-	-	-	(3)	(3)
Depreciation in Year	-	-	-	-	-
Depreciation 31 March 2014	-	-	-	(3)	(3)
Net Book Value 31 March 2014	262	147	110	23	542

	Waltham Abbey Bible	*Other Artefacts*	*Civic Chains*	*Epping Fountain*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Gross Book Value 31 March 2012	*262*	*147*	*110*	*26*	*545*
Depreciation 31 March 2012	-	-	-	*(3)*	*(3)*
Depreciation in Year	-	-	-	-	-
Depreciation 31 March 2013	-	-	-	*(3)*	*(3)*
Net Book Value 31 March 2013	*262*	*147*	*110*	*23*	*542*

Waltham Abbey Bible and other artefacts

The Bible and other Artefacts are valued based on their valuation on the current insurance schedule. The items included on the Balance Sheet relate only to the top items featuring on the schedule. The total insurance valuation is rather higher than this but cannot be identified to a particular item or items that are in the Council's collection.

There are some quite significant assets within the collection. The most valuable being the Waltham Abbey Bible valued at £262,500, a painting 'view from the garden, Epping' by artist Lucien Pissarro who lived in the district for a while (£63,000), A Purbeck marble bust of a knight valued in 1985 at £36,000, two hoards of coins valued at £21,900 in total and five other items identified separately valued in total at a little over £25,000.

The Council's museums service holds a large collection of Heritage Assets but in many cases no valuation is available.

As well as the assets referred to earlier there are between 25,000 and 30,000 pieces of art work including watercolours and sketches, over 10,000 objects and documents of social historic interest, a large number of photographic and archaeological items and some costumes. Some of this has been catalogued but by no means all. The assets are either held within the museum itself or held in storage. No valuation has been undertaken of these assets as it would have been too onerous to do so in the time scale applicable to the financial statements.

Epping Fountain

The Epping Fountain was previously recognised as an Infrastructure Asset and has been reclassified as a Heritage Asset. The fountain was erected many years ago and, although removed for some years, has now been refurbished and re-erected in its original position.

Civic Chains

The Chains were both passed to the Council by predecessor authorities. They feature a number of symbols related to the history of the district.

The Hunting Horn is the Master Keeper’s symbol of office and Chigwell and Loughton were two of the ten walks in the forest over which the Master Keeper had authority. In the forest region, the Lordship of the Manor developed from the office of Master Keeper.
The wreath of Oak Leaves is also symbolic of the forest.

The Stag is thought to be the single feature unifying the district. The Stag is particularly representative of Buckhurst Hill.
The Axe-heads were introduced because they were the Verderer’s symbol of Office and the Verderer’s Court was held at the King’s Head, Chigwell. They are also symbolic of the great fight to save the forest from enclosure, in which Loughton was so prominent.

14. INVESTMENT PROPERTY

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES. Income and expenditure relating to the General Fund is recorded under trading operations.

	31 March 2014 £000	2013 £000
Rental income from investment property	4,109	*4,570*
Direct operating expenses arising from investment property	(268)	*(204)*
Net gain/(loss)	3,841	*4,366*

The following table summarises the movement in fair value of investment properties over the year. Most property valuations have increased slightly or remained the same. The updated valuations were carried out as at 31 March 2014 .The reduction in the prior year was due to a fall in the value of land at North Weald Airfield used for the Saturday and Bank Holiday markets. The popularity of the market has diminished recently and fewer traders and members of the public attend. A reduced rent was agreed with the operator and as a result the valuation fell.

	31 March 2014 £000	2013 £000
Balance as at 31 March	39,242	*41,541*
Reclassified	26	-
Balance as at 1 April	39,268	*41,541*
Reclassified in year	(34)	(68)
Construction	50	10
Net gains/(losses) from fair value adjustments	470	*(2,241)*
Balance at end of the year	39,754	*39,242*

15. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment, and is amortised over a 5 year period.

The carrying amount of intangible assets is amortised on a straight line basis. All of the amortisation charge of £227,000 to revenue in 2013/14 was charged to the ICT cost centre and then absorbed as an overhead across all the service headings in the Net Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	31 March	
	2014	*2013*
	£000	*£000*
Balance at start of year:-		
Gross carrying amounts	1,519	*1,445*
Accumulated amortisation	(903)	*(626)*
Net carrying amount at start of year	616	*819*
Additions	154	*74*
Amortisation	(227)	*(277)*
Net Carrying Amount at end of year	543	*616*

16. ASSETS HELD FOR SALE

A HRA property, Leader Lodge in North Weald, was originally put up for sale in 2012/13 and, although a sale was agreed, the buyers withdrew their offer. Active marketing of the property resumed in March 2014 and an unconditional offer of £652,000 has now been received and therefore the property has been re-valued to this amount. A former car park in Church Hill Loughton was also put up for sale in 2013/14 and has subsequently been sold in May 2014 for £858,000.

17. LONG TERM DEBTORS

	31 March	
	2014	*2013*
	£000	*£000*
Mortgages	13	*21*
Capital Advances (B3 Living)	493	*189*
Rents to Mortgages	1,493	*1,366*
Other Local Authorities - Transferred Debt	377	*401*
Home Assist Loans	77	-
Net Carrying Amount at end of year	2,453	*1,977*

18. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long term		Current	
	31 March 2014 £000	*31 March 2013 £000*	31 March 2014 £000	*31 March 2013 £000*
Financial liabilities at amortised cost				
Borrowing	185,456	*185,456*	-	
Trade Creditors	-	*-*	5,172	*5,006*
Total financial liabilities	185,456	*185,456*	5,172	*5,006*
Loans and receivables at amortised costs				
Investments	10,004	*10,074*	33,911	*30,259*
Debtors	2,453	*1,977*	5,768	*5,773*
Cash			10,308	*4,905*
	12,457	*12,051*	49,987	*40,937*
Available for Sale	-	*-*	5,030	*5,001*
Total financial assets	12,457	*12,051*	55,017	*45,938*

On 28 March 2012 the Council took on new debt of £185.456m from the Public Works Loan Board (PWLB) to pay the Department of Communities and Local Government on the cessation of the HRA Subsidy System.

The item included under Available for Sale in the financial instruments balances table above is included within the cash & cash equivalents on the balance sheet. The £5m relates to an investment made to a Money Market Fund and interest accrued, which needs to be reported under Available for Sale within the financial instruments balances. The Code of Practice requires an Available for Sale Financial Instruments Reserve Account to record any unrealised gains or losses from holding available for sale investment. However, as this is a Money Market Fund which has a constant net asset value, this means that each £1 invested buys 1 unit, which is re-priced back to £1 at the end of each day. All gains are realised and credited to the CIES.

Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments consists of the following items:

	Financial Liabilities:		Financial Assets:	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
Interest expense	(5,542)	*(5,517)*	-	-
Impairment (losses) / gains	-	-		
Interest payable and similar charges	(5,542)	*(5,517)*	-	-
Interest income		-	431	*517*
Interest and investment income	-	-	431	*517*
Net gain/(loss) for the year	(5,542)	*(5,517)*	431	*517*

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost, i.e. the aggregate of principal and accrued interest. Fair value is the amount for which an asset can be exchanged, or a liability settled. The Council's debt outstanding at 31 March 2014 consists of loans from the Public Works Loan Board (PWLB). The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have to pay to extinguish the loans on these dates.

The fair value for financial assets can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions: a) where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; b) the fair value of trade and other receivables is taken to be the invoiced or billed amount.

	Monday, March 31, 2014		Sunday, March 31, 2013	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial liabilities				
Borrowing	185,501	*187,940*	185,501	*199,342*
Long-term creditors	-	-	-	-
Total Financial Liabilities	185,501	*187,940*	185,501	*199,342*
Financial assets				
Investments	43,914	*43,914*	40,333	*40,333*
Long-term debtors	2,453	*2,453*	1,977	*1,977*
Total Financial Assets	46,367	*46,367*	42,310	*42,310*

The fair value of long term liabilities is higher than the carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The Council had £10,004,000 (£10,074,000 at 31 March 2013) classed as investments in excess of one year. These relates to two investments totalling £10m made to other local authorities and £4,000 other long term investments. It is assumed that the carrying amount shown in the balance sheet is approximate to the fair value.

19. INVENTORIES

	2014				
	Franking Machines £000	Miscellaneous Stocks £000	Works Unit £000	Work In progress £000	TOTAL £000
Balance at the start of the year	18	120	64	11	213
Purchases	25	165	252		442
Recognised as an expense during the year	(25)	(91)	(260)	(5)	(381)
Balance at year end	18	194	56	6	274

	Franking Machines	Miscellaneous Stocks	Works Unit	Work In progress	TOTAL
			2013 Restated		
	£000	£000	£000	£000	£000
Balance at the start of the year	17	74	76	14	181
Purchases	29	308	161	7	505
Recognised as an expense during the year	(28)	(262)	(173)	(10)	(473)
Balance at year end	18	120	64	11	213

20. DEBTORS AND PREPAYMENTS

	31 March 2014 £000	2013 £000
Amounts falling due in one year		
Government Departments	990	1,856
Other Local Authorities	1,067	911
Council Tax arrears	278	246
NDR arrears	243	-
Housing Rent arrears	473	319
Sundry debtors	2,426	2,400
Prepayments	176	260
Others	-	1
Total Debtors	5,653	5,993

Council Tax arrears, and from 1 April 2013, Business Rates arrears shown above and the related bad debt provision relate only to the Council's proportion of the total debt. The remainder is shown as part of an amount due from major preceptors on the basis that the Council has paid over more in precepts than it has received and is net of prepayments. This is the situation with regard to Business Rates.

21. CASH AND CASH EQUIVALENTS

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

	31 March 2014 £000	2013 £000
Cash	147	5
Bank current accounts	2,161	4,900
Short-term deposits with money market funds	13,030	5,001
Total Cash and Cash Equivalents	15,338	9,906

The 'Short-term deposits with money market funds' relates to £13m deposit made to a Money Market Fund and interest accrued (£30,000). This has been included within the cash equivalents as funds can be drawn down and used on the day of request. The fund has a constant net asset value, this means that each £1 you put in buys 1 unit, which is re-priced back to £1 at the end of each day.

22. CREDITORS

	31 March	
	2014	*2013*
	£000	*£000*
Government Departments and Other Local Authorities	1,940	*1,455*
Council Tax	220	*178*
Non Domestic Rates	136	-
Housing rents	309	*241*
Sundry creditors	4,422	*3,564*
Accruals and deferred income	1,916	*2,693*
Total Creditors	8,943	*8,131*

Included within creditors is £3,000 (£3,000 at 31 March 2013) relating to Waltham Abbey Tourist Information Centre. This falls within the definition of a related party. Council Tax prepayments, and from 1 April 2013, Business Rates prepayments shown above relate only to the Council's proportion of the total debt. The remainder is shown as part of an amount due to major preceptors on the basis that the Council has paid over less in precepts than it has received and is net of arrears. This is the situation with regard to Council Tax. With regard to Business Rates there was a net Debtor at the end of 2013/14.

23. PROVISIONS

An outstanding legal case provision of £200,000 has been created on the basis that a settlement has been proposed regarding the ongoing proceedings brought by property search companies for the refund of fees paid by them to the Council. The proposed settlement is on the basis that interest and costs are excluded and have yet to be determined and that the claimants concerned still intend to advance a claim for damages against authorities for anti competitive behaviour. It is the view of the authorities legal advisors that the case for damages for anti competitive behaviour is somewhat weaker than the claim for refunds but nevertheless there are risks attached to having to defend such a claim at trial.

With the retention of Business Rates income the Council has had to take on the liability for settling appeals. It has been necessary to make a provision for those appeals within the Collection Fund. The total amount being £1.49 million of which £594,000 relates to this Council.

24. USABLE AND UNUSABLE RESERVES

Movements in Usable Reserves are shown in detail on the Movement in Reserves Statement.

	31 March	
	2014	*2013*
	£000	*£000*
Revaluation Reserve	12,350	*7,934*
Capital Adjustment Account	398,150	*374,915*
Pensions Reserve	(57,820)	*(75,357)*
Deferred Capital Receipts Reserve	1,504	*1,384*
Collection Fund Adjustment Account	(275)	*15*
Accumulated Absences Account	(163)	*(147)*
Total Unusable Reserves	353,746	*308,744*

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

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

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

	31 March	
	2014	*2013*
	£000	*£000*
Balance as at 1 April	7,934	*8,060*
Revaluations during the year	4,297	*459*
Depreciation adjustment	122	*(585)*
Restatement	(3)	*-*
Balance at 31 March	12,350	*7,934*

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.
The Account contains accumulated gains and losses on Investment Properties and gains recognised as donated assets that have yet to be consumed by the Council.

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

Note 6 details the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31 March		
	2014		2013
	£000	£000	£000
Balance at 1 April		374,915	360,870
Reversal of items relating to capital expenditure debited or credited to the CIES			
Charges for depreciation and impairment of non-current assets	(15,495)		(14,991)
Revaluation gains/(losses) on Property, Plant and Equipment	29,868		19,228
Amortisation of intangible assets	(227)		(277)
Revenue expenditure funded from capital under statute	(134)		(707)
Amounts for non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	(3,842)	10,170	(928)
Adjusting Amounts written out of the Revaluation Reserve		(119)	585
		384,966	363,780
Capital financing applied in the year			
Reversal of previous impairments			
Use of the Capital Receipts Reserve to finance new capital expenditure	1,644		2,660
Use of the Major Repairs Reserve to finance new capital expenditure	6,145		5,418
Capital grants credited to the CIES that have been applied to capital financing	480		730
Application of grants to capital financing from the Capital Grants Unapplied Account			
Capital expenditure charged against the General Fund and HRA balances	4,223	12,492	4,228
Restatement of Assets		222	340
Movement in the market value of Investment Properties debited or credited to the CIES		470	(2,241)
Balance at 31 March		398,150	374,915

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) was established under Financial Reporting Standards 25, 26 and 29 when Financial Instruments were adopted into the then SORP (2007), now superseded by the Code. The FIAA is not currently in use so does not form part of the Balance Sheet.

Pensions Reserve

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

	31 March	
	2014	*2013*
	£000	*£000*
Balance at 1 April	(75,357)	*(65,625)*
Actuarial (gains) or losses on pensions assets and liabilities	20,425	*(8,676)*
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(6,855)	*(4,885)*
Employers pensions contributions and direct payments to pensioners payable in the year	3,967	*3,829*
Balance at 31 March	(57,820)	*(75,357)*

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as useable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement deferred cash eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	31 March	
	2014	*2013*
	£000	*£000*
Balance at 1 April	1,384	*1,372*
Repayment of Mortgages	(7)	*(8)*
Rents to Mortgages	127	*20*
Balance at 31 March	1,504	*1,384*

Collection Fund Adjustment Account

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

	31 March 2014 £000	31 March 2013 £000
Balance at 1 April	15	*(99)*
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	104	*114*
Amount by which non domestic rate income credited to the CIES is different from non domestic rate income calculated for the year in accordance with statutory requirements	(394)	*-*
Balance at 31 March	(275)	*15*

Accumulated Absences Account

The Accumulated Absences Account absorbs the difference that would otherwise arise on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund and HRA is neutralised by transfers to or from the Account.

	31 March 2014 £000		31 March 2013 £000
Balance at 1 April		(147)	*(127)*
Reversal of prior year accrual	147		*127*
Amounts accrued at the end of the current year	(163)		*(147)*
Amount by which the officer remuneration charges to the CIES is different from remuneration chargeable		(16)	*(20)*
Balance at 31 March		(163)	*(147)*

25. CASH FLOW STATEMENT - OPERATING ACTIVITIES

Adjust net surplus or deficit on the provision of services for non cash movements

	31 March 2014 £000	31 March 2013 £000
Depreciation	15,495	*14,991*
Amortisation	227	*277*
Impairment and downward valuations	(30,090)	*(19,228)*
Material Impairment losses on Investment debited to surplus or deficit on the provision of services in year		
Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c		
Increase / (Decrease) in Interest Creditors	-	*(77)*
Increase / (Decrease) in Creditors	2,670	*706*
(Increase) / Decrease in Interest and Dividend Debtors	(111)	*72*
(Increase) / Decrease in Debtors	(748)	*(485)*
(Increase) / Decrease in Inventories	(61)	*(31)*
Pension Liability	2,888	*1,056*
Contributions to / (from) Provisions	794	*202*
Carrying amount of non-current assets sold	3,842	*936*
Movement in Investment Property Values	(470)	*2,241*
Total	(5,564)	*660*

Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities

	31 March	
	2014	*2013*
	£000	*£000*
Capital Grants credited to surplus or deficit on the provision of services	(855)	*(576)*
Net adjustment from the sale of short and long term investments	70	-
Proceeds from the sale of property and equipment, investment property and intangible assets	(6,085)	*(1,315)*
Total	(6,870)	*(1,891)*

Operating activities within the cashflow statement include the following cash flows relating to interest and other operating activities

	31 March	
	2014	*2013*
	£000	*£000*
Interest received	320	*589*
Interest charge for the year	(5,542)	*(5,593)*
Other operating activities	20,450	*17,935*
Total	15,228	*12,931*

26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	31 March	
	2014	*2013*
	£000	*£000*
Purchase of property, plant and equipment, investment property and intangible assets	(12,919)	*(11,941)*
Purchase of short-term and long-term investments	(99,638)	*(125,039)*
Other payments for Investing Activities	(1,228)	*(196)*
Proceeds from sale of property, plant and equipment, investment property and intangible assets	5,948	*1,241*
Proceeds from short-term and long term investments	96,120	*117,239*
Other receipts from investing activities	1,530	*905*
Net cash flows from investing activities	(10,187)	*(17,791)*

27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31 March	
	2014	*2013*
	£000	*£000*
Billing Authorities - Council Tax and NNDR adjustments	391	-
Other receipts/ (payments) from financing activities	-	*949*
Net cash flows from financing activities	391	*949*

28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

2013/14

	Corporate Support Services £000	Deputy Chief Executive £000	Environmental & Street Scene £000	Finance & ICT £000	Housing £000	Office of the Chief Executive £000	Planning & Economic Development £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	(3,863)	(614)	(5,058)	(179)	(880)	(99)	(1,119)	(34,246)	(46,058)
Impairment Charges								(30,544)	(30,544)
Government Grants				(39,243)		(23)	(5)		(39,271)
Total Income	(3,863)	(614)	(5,058)	(39,422)	(880)	(122)	(1,124)	(64,790)	(115,873)
Employee Expenses	637	963	1,600	2,141	614	202	1,644	3,159	10,960
Other Service Expenses	728	730	9,520	804	608	170	574	9,795	22,929
Support Service Recharges	713	689	2,024	1,298	340	2,420	1,595	2,567	11,646
Depreciation	32	62	1,687	57			228	13,174	15,240
Benefit Payments				37,270					37,270
Total Operating Expenditure	2,110	2,444	14,831	41,570	1,562	2,792	4,041	28,695	98,045
Net Cost Of Services	(1,753)	1,830	9,773	2,148	682	2,670	2,917	(36,095)	(17,828)

2012/13

	Corporate Support Services £000	*Deputy Chief Executive £000*	*Environmental & Street Scene £000*	*Finance & ICT £000*	*Housing £000*	*Office of the Chief Executive £000*	*Planning & Economic Development £000*	*Housing Revenue Account £000*	*Total £000*
Fees, charges & other service income	(4,033)	*(394)*	*(5,375)*	*(399)*	*(697)*	*(109)*	*(591)*	*(31,189)*	*(42,787)*
Impairment Charges								*(19,228)*	*(19,228)*
Government Grants		*(65)*	*(94)*	*(47,143)*	*(449)*	-	*(10)*	*(475)*	*(48,236)*
Total Income	*(4,033)*	*(459)*	*(5,469)*	*(47,542)*	*(1,146)*	*(109)*	*(601)*	*(50,892)*	*(110,251)*
Employee Expenses	*604*	*851*	*1,530*	*1,950*	*751*	*195*	*1,402*	*2,778*	*10,061*
Other Service Expenses	*494*	*550*	*9,648*	*351*	*880*	*375*	*671*	*8,219*	*21,188*
Support Service Recharges	*683*	*652*	*2,070*	*1,418*	*463*	*2,313*	*1,313*	*1,944*	*10,856*
Depreciation	*23*	*83*	*1,560*	*57*	-		*232*	*12,717*	*14,672*
Benefit Payments	-	-	-	*45,679*	-	-	-	-	*45,679*
Total Operating Expenditure	*1,804*	*2,136*	*14,808*	*49,455*	*2,094*	*2,883*	*3,618*	*25,658*	*102,456*
Net Cost Of Services	*(2,229)*	*1,677*	*9,339*	*1,913*	*948*	*2,774*	*3,017*	*(25,234)*	*(7,795)*

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

	2013/14 £000	*2012/13 £000*
Net Expenditure in the Directorate Analysis	17,828	*7,795*
Services and Support Services not in analysis	(201)	*(69)*
Amounts in the CIES not reported to management in the Analysis	-	*(170)*
Amounts included in the Analysis not included in the Net Cost of Service	(2,640)	*(3,340)*
Cost of Services in CIES	14,987	*4,216*

Reconciliation to Subjective Analysis

2013/14

	Directorate Analysis *£000*	Services and Support Services not in analysis *£000*	Amounts not reported to management for decision making *£000*	Amounts not included in Net Cost of Service *£000*	Cost of Services *£000*	Corporate Amounts *£000*	Total *£000*
Fees, charges & other service income	46,058	-	-	(4,359)	41,699	4,359	46,058
Impairment Reversal	30,544	-	-	-	30,544	-	30,544
Interest and Investment Income	-	-	-	-	-	431	431
Income from Council Tax	-	-	-	-	-	10,567	10,567
Government Grants and Contributions	39,271	-	-	-	39,271	8,770	48,041
Total Income	115,873	0	0	(4,359)	111,514	24,127	135,641
Employee Expenses	10,960	201	-	(636)	10,525	3,645	14,170
Other Service Expenses	60,199	-	-	(530)	59,669	530	60,199
Support Service Recharges	11,646	-	-	(512)	11,134	512	11,646
Depreciation, Amortisation and Impairment	15,240	-	-	(41)	15,199	(598)	14,601
Interest Payments	-	-	-	-	-	5,542	5,542
Precepts and Levies	-	-	-	-	-	3,310	3,310
Payments to Housing Capital Receipts Pool	-	-	-	-	-	684	684
(Gain)/Loss on Disposal of Fixed Assets	-	-	-	-	-	(2,046)	(2,046)
Rents to mortgages valuation increase	-	-	-	-	-	(127)	(127)
Total Expenditure	98,045	201	0	(1,719)	96,527	11,452	107,979
Surplus/(Deficit) on the provision of services	17,828	(201)	0	(2,640)	14,987	12,675	27,662

Reconciliation to Subjective Analysis

	2012/13						
	Directorate Analysis	*Services and Support Services not in analysis*	*Amounts not reported to management for decision making*	Amounts not included in Net Cost of Service	*Cost of Services*	*Corporate Amounts*	*Total*
Fees, charges & other service income	*42,786*	*387*	*237*	*(4,883)*	*38,527*	*4,884*	*43,411*
Impairment Reversal	19,228	*0*	*0*	*0*	*19,228*	*0*	*19,228*
Interest and Investment Income	-	-	-	-	-	*5,471*	*5,471*
Income from Council Tax	-	-	-	-	-	*11,373*	*11,373*
Government Grants and Contributions	48,236	-	-	-	*48,236*	*7,653*	*55,889*
Total Income	*110,250*	*387*	*237*	*(4,883)*	*105,991*	*29,381*	*135,372*
Employee Expenses	*10,061*	*181*	-	*(605)*	*9,637*	*7,439*	*17,076*
Other Service Expenses	*66,865*	*17*	*407*	*(635)*	*66,654*	*635*	*67,289*
Support Service Recharges	*10,856*	*257*	-	*(279)*	*10,834*	*279*	*11,113*
Depreciation, Amortisation and Impairment	*14,673*		-	*(24)*	*14,649*	*2,266*	*16,915*
Interest Payments	-	-	-	-	-	*5,516*	*5,516*
Precepts and Levies	-	-	-	-	-	*3,167*	*3,167*
Payments to Housing Capital Receipts Pool	-	-	-	-	-	*597*	*597*
(Gain)/Loss on Disposal of Fixed Assets	-	-	-	-	-	*(443)*	*(443)*
HRA self financing	-	-	-			-	
Rents to mortgages valuation increase	-	-	-	-	-	*(20)*	*(20)*
Total Expenditure	*102,455*	*455*	*407 -*	*1,543*	*101,774*	*19,436*	*121,210*
Surplus/(Deficit) on the provision of services	*7,795*	*(68)*	*(170)*	*(3,340)*	*4,217*	*9,945*	*14,162*

29. TRADING OPERATIONS

The trading operations of the Council comprise a number of Commercial Properties and Industrial Estates including North Weald Airfield where units are leased to local businesses at market rates, the Fleet Operations Service provides MOT testing and motor servicing to the public, and is currently under review.

	2013/14 Expenditure	2013/14 Income £000	2013/14 Surplus/Deficit £000
Industrial Estates	121	(1,225)	(1,104)
Commercial Properties	348	(1,847)	(1,499)
Fleet Operations	306	(283)	23
North Weald Centre	993	(1,053)	(60)
Total Surplus	1,768	(4,408)	(2,640)
2012/13	*1,544*	*(4,884)*	*(3,340)*

30. AGENCY SERVICES

An agreement exists with Sainsbury's supermarket whereby the Council's car parking management contractor manages two car parks on their behalf. In 2013/14 income from the car parks of £334,000 (2012/13 £333,000) was received, of which £297,000 (2012/13 £296,000), was paid over after allowing for an administration charge.

31. POOLED BUDGETS

Epping Forest Community Safety Partnership (CSP)
The Council works in partnership with a range of other public bodies and is supported by £26,928 funding from The Police and Crime Commissioner (PCC), to deliver Community Safety initiatives across the district.

Representatives on the Community Safety Partnership include the Council, Essex County Fire and Rescue Service, Essex Police, West Essex Clinical Commissioning Group, Probation Services and Voluntary Action Epping Forest. All partners have one voting right and as such, no one party has more control over the operation of the partnership than any other member.

The Police and Crime Commissioners Office is the accountable body for the Community Safety Fund in Essex and is responsible for the distribution of funding and monitoring and evaluation of work funded.

The Council is responsible for ensuring that grant monies are used in accordance with the wishes of the Community Safety Partnership as a whole and employs a Community Safety Manager, Community Safety Officer, CCTV Officer and assistant and two anti-social behaviour officers. In addition, part of the PCC funding supports a West Analyst post which is based at Epping Forest District Council (EFDC).

Local Strategic Partnership (LSP)
One Epping Forest is the Local Strategic Partnership (LSP) for Epping Forest District. It brings together public, private and voluntary sector agencies responsible for the provision of services. The partnership running costs are funded from a pooled budget established by Epping Forest District Council, to which other parties have made contributions. Epping Forest has made a contribution of £10,000 in 2013/14, and the partnership holds a balance of £52,000 available for use in future years.

32. MEMBER ALLOWANCES

Member allowances and expenses are shown below. Further details of these allowances are available on page 67.

	2013/14 £000	*2012/13 £000*
Allowances	291	*295*
Expenses	24	*23*
Total	315	*318*

33. OFFICER REMUNERATION

		Salary (Including fees & Allowances) £	Benefits in Kind £	Pension Contributions £	Total Remuneration including pension contributions £
Chief Executive	2013/14	112,000	1,397	14,560	127,957
	2012/13	*56,000*	*673*	*7,280*	*63,953*
Deputy Chief Executive	2013/14	89,803	2,951	11,674	104,428
	2012/13	*99,769*	*4,508*	*12,970*	*117,247*
Director of Housing	2013/14	78,944	1,234	10,263	90,441
	2012/13	*79,872*	*4,605*	*10,356*	*94,833*
Director of Planning & Economic Development	2013/14	78,697	525	10,231	89,453
	2012/13	78,948	5,548	10,263	*94,759*
Director of Finance & ICT	2013/14	79,094	3,041	10,282	92,417
	2012/13	79,577	3,351	10,344	*93,272*
Director of Environment & Street Scene	2013/14	78,798	1,239	10,244	90,281
	2012/13	79,341	1,259	10,314	*90,914*
Director of Corporate Support Services	2013/14	78,158	1,239	10,161	89,558
	2012/13	78,010	1,239	10,141	*89,390*
Assistant to the Chief Executive	2013/14	64,148	1,239	8,332	73,719
	2012/13	75,623	1,239	9,699	*86,561*

There were no payments relating to bonuses in the year. The emoluments above include all taxable employee payments. Pension Contributions relate to Employer's contributions of 13.0%.

The number of employees whose remuneration, including benefits in kind, but excluding employers pension contributions, was £50,000 or more in bands of £5,000 were (there were no officers in bands between £115,000 - £149,999).

Remuneration Band	2013/14 Number of Employees	*2012/13 Number of Employees*
£50,000 - £54,999	9	*10*
£55,000 - £59,999	5	*4*
£60,000 - £64,999	2	*2*
£65,000 - £69,999	1	*0*
£70,000 - £74,999	0	*0*
£75,000 - £79,999	2	*2*
£80,000 - £84,999	3	*4*
£85,000 - £89,999	0	*0*
£90,000 - £94,999	1	*0*
£95,000 - £99,999	0	*0*
£100,000 - £104,999	0	*1*
£105,000 - £109,999	0	*0*
£110,000 - £114,999	1	*0*
Total	24	*23*

Senior Officers where emoluments - salary is £150,000 or more per year.
No Senior Officer fell under this category in 2012/13 or 2013/14.

Termination Benefits

	2013/14			
Exit Package Cost Band (including special payments)	Number of Compulsory Redundancies	Number of Other Departures	Total number of Exit Packages	Total Cost of Exit Packages in each band
£0- £20,000	0	2	2	14,769
£20,000 - £40,000	0	1	1	25,891
£40,000 - £60,001	0	1	1	46,090
£150,000 - £200,000	0	1	1	164,817
Total cost included in bandings and in the CIES				251,567

In 2012/13 the Authority terminated one officers employment on the transfer of the management of on and off street parking to the North Essex Parking Partnership (NEPP). A redundancy payment of £46,064 was made to the employee in question which was wholly re-imbursed by Essex County Council.

34. EXTERNAL AUDIT FEES

The following external audit fees have been paid to the Audit Commission and BDO LLP.

	2013/14 £000	*2012/13 £000*
External audit services in accordance with section 5 of the Audit Commission Act 1998	85	*100*
Certification of grant claims and returns under section 28 of the Audit Commission Act 1998	32	*55*
Rebate of fees from Audit Commission	(11)	*(8)*
Total	106	*147*

35. GRANTS AND CONTRIBUTIONS

The Council credited the following grants and contributions to the CIES in 2013/14:

	2013/14 £000	*2012/13 £000*
Credited to Taxation and Non-Specific Grant Income		
Non domestic rates	-	*127*
Revenue Support Grant	4,373	*6,530*
New Homes Bonus	1,310	*719*
S31 Small business rate Relief	446	*-*
Council Tax Freeze grant	82	*204*
Second Homes Discount Allowance	-	*60*
Community Projects	17	*13*
Other	23	*-*
Total	6,251	*7,653*

	2013/14 £000	*2012/13 £000*
Credited to Services		
Department for Work and Pensions	38,577	*46,998*
Department for Communities and Local Government	587	*626*
Essex County Council	422	*222*
Essex Police Authority	23	*-*
Department of Health	-	*27*
Hughmark Continental	16	*65*
Broxbourne Borough Council	48	*-*
British Gas	-	*36*
Arts Council	54	*-*
Lottery Fund	35	*-*
Harlow Health Works Project	59	*-*
Contributions to Affordable Housing	412	*199*
Other grants and contributions received	84	*49*
Total	40,317	*48,222*

The Council has received some grants and contributions that have yet to be recognised as income as they have conditions attached to them that if they are not met will require monies to be returned to the giver. The balances at the year end are as follows:

	2013/14 £000	*2012/13 £000*
Capital Grants received in Advance		
Affordable Housing Contributions	467	*606*
St Johns Development	229	*225*
Department for Communities and Local Government	161	*199*
Essex County Council	-	*50*
Grange Farm Development	38	*38*
Manor Road Development	40	*-*
Hughmark Continental	44	*57*
Other	7	*7*
Total	986	*1,182*

36. RELATED PARTY DECLARATIONS

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council, or to be controlled or influenced by the council.

Central Government
Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis on Note 28 on reporting for resource allocation decisions.

Members
Members of the Council have direct control over the council's financial and operating policies. The total of members allowances paid in 2013/14 is shown in Note 32. During 2013/14 expenditure totalling £333,480 (£269,069 in 2012/13) was paid to, and income totalling £77,490 (£50,973 in 2012/13) was received from, organisations in which 27 members (22 in 2012/13) had connections. Included in the expenditure amount is a creditor of £3,000 (£3,000 in 2012/13). The nature of the expenditure was primarily grants and contributions to organisations of £297,305, subscriptions of £21,150, , rent of £6,000 and £9,025 of other items with which members had declared interests, with varying levels of involvement.

37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2014 £000	*2013 £000*
Opening Capital Financing Requirement	184,672	*184,672*
Capital Investment		
Property, Plant and Equipment	11,773	*12,173*
Investment Properties	50	*10*
Revenue Expenditure Funded from Capital Under Statute	1,029	*707*
Intangible Assets	154	*74*
Sources of Finance		
Capital Receipts	(1,644)	*(2,660)*
Government grants and other contributions	(994)	*(584)*
Value of vehicle written off	-	*(74)*
Major Repairs Reserve	(6,145)	*(5,418)*
Direct revenue contributions	(4,223)	*(4,228)*
Closing Capital Financing Requirement	184,672	*184,672*

38. LEASES

Leasing rentals are charged to service revenue accounts.

The Council has entered into various leasing agreements relating to cars and vending equipment. All of the leases are categorised as operating leases. The arrangements provide for charges to be made evenly throughout the period of the lease. The total lease payment in 2013/14 is £136,000.

The total of future minimum lease payments due within 1 year are:	2013/14 £000	*2012/13* *£000*
Cars	112	*14*
Vending Equipment	0	*5*
Total	112	*19*

Vehicles & Equipment

	2013/14 £000	*2012/13* *£000*
Payments due;		
Not later than one year	112	*19*
Later than one year and not later than five years	135	*9*
Later than five years	-	*-*
Total	247	*28*

The Council also has leases with third parties under operating leases with rental income from the lease being credited to trading operations.

Assets Leased to Third Parties The total of future minimum lease payments due within 1 year are:	2013/14 £000	*2012/13* *£000*
Land & Buildings		
Shops	1,655	*1,633*
Industrial & Commercial	1,032	*962*
Other	924	*898*
Total Rental Receivable	3,611	*3,493*

The timing of total future minimum lease payments are:

	31 March 2014		*31 March 2013*	
	Receipts due between 2 and 5 years	Total receipts due thereafter	*Receipts due between 2 and 5 years*	*Total receipts due thereafter*
	£000	£000	*£000*	*£000*
Land & Buildings				
Shops	5,293	4,231	*4,572*	*3,968*
Industrial & Commercial	3,968	50,732	*3,474*	*51,153*
Other	2,751	6,940	*3,192*	*7,077*
Total	12,012	61,903	*11,238*	*62,198*

Gross Amount of Assets held for use in operating leases.

	31 March 2014 £000	31 March 2013 £000
Land & Buildings		
Shops	16,437	*16,040*
Industrial & Commercial	12,997	*12,767*
Other	10,320	*10,435*
Total Assets	39,754	*39,242*

There are no accumulated depreciation charges on the assets held for use in operating leases.

39. PENSIONS

Employees of Epping Forest District Council are admitted to the Essex County Council Pension Fund ("the Fund"), which is administered by Essex County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The Fund is a funded scheme meaning that the authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with investment assets.

As part of the terms and conditions of employment of the Council's officers the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire the Council has a commitment to make the payments that need to be disclosed at the time employees earn their future entitlement.

The figures disclosed below have been derived from a re-assessment of the assets and liabilities as a result of an interim actuarial valuation of the Fund carried out by the Fund's Actuary, Barnett Waddingham Public Sector Consulting, as at 31 March 2014. The approach to calculating the IAS19 figures in between full actuarial valuations is approximate in nature. Broadly the approach by the Actuaries assumes that the experience of the Fund will be in line with the actuarial assumptions used for IAS19 purposes. The approach adopted by the Actuary follows "IAS 19 - Calculation Guide for Local Authorities".

The Council recognises cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against Council Tax is based on contributions payable to the fund in respect of 2013/14 so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure.

Changes to the reporting requirements of IAS 19 came into effect from 2013/14. The equivalent figures for the prior year would not be materially different to those reported previously so no restatement has been made.

The transactions below have been made in the CIES during the year.

Comprehensive Income and Expenditure Statement

	2013/14 £000	*2012/13 £000*
Service Cost	3,845	-
Current Service cost	-	*2,983*
Settlement and Curtailment loss	-	*21*
Net interest charged	3,009	-
Interest Cost	-	*6,835*
Expected return on Assets	-	*(4,954)*
Administration Expenses	15	-
Net charge made to the CIES	6,869	*4,885*

Pension Assets and Liabilities Recognised in the Balance Sheet

	2013/14 £000	2012/13 £000
Present value of the funded obligation	155,414	*165,891*
Present value of the unfunded obligation	4,101	*4,526*
Fair value of scheme assets	(101,695)	*(95,060)*
Net Liability in the Balance Sheet	57,820	75,357

Reconciliation of the fair value of the Scheme Liabilities

	Unfunded Liabilities		All Funded/Unfunded Liabilities: Local Government Pension Scheme	
	2014 £000	*2013 £000*	2014 £000	*2013 £000*
Net pensions liability at 1 April 2013	(4,526)	*(4,510)*	(170,417)	*(150,823)*
Movements in the current year				
Current service cost		-	(3,659)	*(2,983)*
Interest cost	(179)	*(200)*	(6,901)	*(6,835)*
Change in financial assumptions			3,662	*(14,344)*
Change in demographic assumptions			10,884	
Experience loss/gain			2,851	*58*
Estimated benefits paid			4,859	*5,092*
Employers' contributions payable to scheme	335	*337*		
Past service cost including curtailments		-	(186)	*(21)*
Contributions by scheme participants			(943)	*(898)*
Unfunded pension payments		-	335	*337*
Actuarial gain/(loss)	269	*(153)*		
Net pensions liability at 31 March	(4,101)	*(4,526)*	(159,515)	*(170,417)*

Reconciliation of fair value of the Scheme Assets:

	2014 £000	*2013 £000*
Fair value of the plan assets at 1 April	95,060	*85,198*
Interest on assets	3,892	*3,903*
Return on assets less interest	4,470	*6,682*
Other Actuarial gains/(losses)	(1,442)	-
Administration Expenses	(15)	*(21)*
Employer contributions including unfunded	3,981	*3,829*
Contributions by scheme participants	943	*898*
Benefits paid	(5,194)	*(5,429)*
Fair value of the plan assets at 31 March	101,695	*95,060*

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on assets less interest in the year was £3.97 million (£6.68 million for 2012/13).

Scheme History

	2013/14	2012/13	2011/12	2010/11	2009/10
	£000	£000	£000	£000	£000
Present Value of Liabilities	(159,515)	(170,417)	(150,823)	(130,136)	(139,219)
Fair Value of Assets	101,695	95,060	85,198	83,812	82,726
Surplus/(deficit) in the scheme	(57,820)	(75,357)	(65,625)	(46,324)	(56,493)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £58.32 million in the balance sheet has increased the reported net worth of the Council by 14% (22% 2012/13).

However statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be gradually eliminated by increased contributions over the remaining working life of employees, as assessed by the scheme Actuary.

The total employer contributions expected to be made to the scheme by the council in the year to 31 March 2015 is £3.62 million. The Service Cost is expected to be £3.39 million for the year to 31 March 2015.

Basis for estimating assets and liabilities
Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, and inflation rates. The District Council fund liabilities have been assessed by Barnett Waddington a firm of actuaries who provide the service for the Essex County Council Pension Fund, being based on the full Actuarial Valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	2013/14	*2012/13*
	%	*%*
Long term expected rate of return on assets in the scheme:		
Equity investments	6.70	*6.10*
Government Bonds	3.60	*3.00*
Other Bonds	4.20	*4.10*
Property	5.70	*5.10*
Cash/Liquidity	3.40	*0.50*
Alternative Assets	4.20	*6.10*

Mortality Assumptions

Longevity at 65 for current pensioners:		
Men	22.70	*22.70*
Women	25.10	*25.30*
Longevity at 65 for future pensioners:		
Men	24.90	*24.20*
Women	27.40	*26.90*
Rate of Inflation RPI	3.50%	*3.30%*
Rate of Inflation CPI	2.70%	*2.50%*
Rate of Increase in Salaries	4.50%	*4.30%*
Rate of Increase in pensions	2.70%	*2.50%*
Rate for discounting scheme liabilities	4.40%	*4.10%*

The Scheme's assets consist of the following categories, by proportion of the total assets held.

	As at 31 March 2014		*As at 31 March 2013*	
	£000	%	*£000*	*%*
Equities	67,803	67.00	*60,839*	*64.00*
Government Bonds	8,096	8.00	*6,654*	*7.00*
Other Bonds	8,096	8.00	*7,605*	*8.00*
Property	11,132	11.00	*11,407*	*12.00*
Cash/Liquidity	2,024	2.00	*3,802*	*4.00*
Alternative Assets	4,048	4.00	*4,753*	*5.00*
Total	101,199	100	*95,060*	*100*

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in the 2013 actuarial review of the Pension Fund. The anticipated shortfall in the funding of the scheme has determined the future level of pension contributions which will be due in between triennial valuations.

Sensitivity Analysis as at 31 March 2014	Sensitivity 1	Sensitivity 2	Sensitivity 3
The table sets out the impact of a small change in the discount rates on the defined benefit obligation and projected service cost along with a plus/minus year age rating adjustment to the mortality assumption.	+0.1% p.a. discount rate as at 31 March 2014 £000s	0.0% p.a. discount rate as at 31 March 2014 £000s	-0.1% p.a. discount rate as at 31 March 2014 £000s
Present Value of Total Obligation	156,910	159,515	162,165
Projected Service Cost	3,325	3,393	3,462
Adjustment to mortality age rating	+1year	none	-1year
Present Value of Total Obligation	153,932	159,515	165,149
Projected Service Cost	3,277	3,393	3,510

40. CONTINGENT LIABILITIES

There has for some time been a possibility that the Council might become liable for the settlement of claims relating to Mesothelioma, the lung disease associated with exposure to Asbestos. There have been court proceeding in an attempt to ascertain whether liability to settle any claims rests with the Council's current insurers or the insurers at the time of employees exposure to the risk. On 28 March 2012 judgement was passed that liability rests with the insurers at the time of potential exposure. The insurers at the time are no longer trading as such and it is unlikely that there are sufficient assets to meet the totality of any claims, which will therefore mean some liability, if not all, will fall on the scheme creditors of which this Council is one. Whilst there is a little more clarity suggesting that 15% or £84,500 might be the extent of the liability, which has now been paid, this is by no means certain. Having reviewed the situation It is felt for the time being the transfer made to the insurance fund of £650,000 in 2011/12 should remain until such time as things become clearer.

41. NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Prudential Code of Capital Finance for Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy (for 2013/14 this was agreed at Full Council on 19 February 2013). The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for local authorities. This guidance emphasis that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

<u>Credit Risk</u>

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

Investments

The risk is minimised through the Annual Investment Strategy, which requires that deposits are made with Debt Management Office, other local authorities, AAA rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. A limit of £10m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit (£10m) for institutions that are part of the same banking group.

The table below summaries the nominal value of the Council's investment portfolio at 31 March 2014, and confirms that all investments were made in line with the Council's approved rating criteria when investment placed:

The amounts below include the money market fund which is included in cash and cash equivalents.

		Balance invested as at 31 March 2014					
	Credit rating criteria met on 31	Up to 1 month	Between 1 and 3 months	Between 4 and 6	Between 7 and 12	Greater than 12 months	Total
		£000	£000	£000	£000	£000	£000
Banks UK	YES	3,500	12,000	12,000	1,300		28,800
Banks UK	NO						0
Banks non-UK	NO						0
Total Banks		3,500	12,000	12,000	1,300	0	28,800
Building Societies	YES			5,000			5,000
Local Authorities						10,000	10,000
Money Market Funds	YES	13,000					13,000
Total		16,500	12,000	17,000	1,300	10,000	56,800

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank at that time. As at 31 March 2014 an amount of £2.36m had been received from the administrator which represents a little over 94% of the original investment. The latest communication, received in September 2013, stated that further dividends were not expected until the end of the litigation process.

Debtors

The following analysis summaries the Council's potential maximum exposure to credit risk, based on the experience gathered over the last five financial years on the level of default on trade debtors, adjusted for market conditions.

	Amount at 31 March 2014	Default risk judged as at 31 March 2014	Bad debt provision for 2013/14
	£000	%	£000
Sundry Debtors	4,448	45.5	2,022
Housing Arrears	1,094	56.8	621
Total	5,542		2,643

The credit risk in relation to counterparty investments is relatively small as the likelihood of default is also small. With regard to sundry debtors, housing and taxation debtors, a risk arises by virtue of the fact that they represent amounts owed to the Council and there will always be a level of default inherent in such debts. A provision for non payment of debts is provided within the overall debtors figure stated in the accounts.

Liquidity Risk

The Council has access to borrowing facilities via the Public Works Loan Board, commercial banks, bond issues and other local authorities. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the nominal value of the Council's debt at 31 March 2014 was as follows:

		31 March 2014 £000	% of total debt portfolio
Short Term Borrowing	Less than 1 Year	0	0
Long Term Borrowing	Over 1 but not over 2	0	0.00
	Over 2 but not over 5	0	0.00
	Over 5 but not over 10	31,800	17.15
	Over 10 but not over 15	0	0.00
	Over 15 but not over 20	0	0.00
	Over 20 but not over 25	60,000	32.35
	Over 25 but not over 30	93,656	50.50
Long Term Borrowing		185,456	100.00

Market Risk

Interest Rate Risk - The Council is exposed to risks arising from movements in interest rates. The Treasury Strategy aims to mitigate these risks by setting an upper limit of 25% on external debt that can be subject to variable rates. At 31 March 2014, 83% of the debt portfolio was held in fixed rate instruments and 17% in variable rate instruments.

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

	£000
Increase in interest payable on variable rate borrowing	318
Increase in interest receivable on variable rate investments	(193)
Impact on Surplus or Deficit on the Provision of Services	125
Share of overall impact debited/(credited) to HRA	125

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Fair Value disclosure note.

Price risk - The Council does not invest in equity holdings or in financial instruments whose capital value is subject to market fluctuations. It therefore has no exposure to losses arising through price variations.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

42. CAPITAL COMMITMENTS

In April 2014 the Council purchased the long leasehold of 2 - 18 Torrington Drive for £3.5 million. The Council had committed itself to this purchase in January 2014. This was subject to the completion of works by the existing leaseholder.

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

	Note	2013/14 £000	*2012/13 £000*
INCOME			
Dwelling Rents (Gross)	3	(30,885)	*(29,226)*
Non Dwelling Rents		(870)	*(852)*
Charges for Services and Facilities		(1,985)	*(1,560)*
Leaseholder Contributions		(170)	*(172)*
Revaluation of Fixed Assets	1	(30,544)	*(19,228)*
TOTAL INCOME		(64,454)	*(51,038)*
EXPENDITURE			
Repairs and maintenance	4	6,053	*5,607*
Supervision and Management		7,169	*6,400*
Rents, Rates, Taxes and Insurance		542	*524*
Revenue Expenditure funded from Capital under Statute	10	170	*172*
Depreciation	2/8/9	13,110	*12,652*
Revaluation of Fixed Assets	1	632	*-*
Debt Management		51	*59*
Provision for Bad / Doubtful Debts		16	*176*
TOTAL EXPENDITURE		27,743	*25,590*
NET COST OF SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME & EXPENDITURE STATEMENT		(36,711)	*(25,448)*
HRA services share of Corporate & Democratic Core		572	*572*
HRA share of other services		44	*50*
NET COST (INCOME) OF HRA SERVICES		(36,095)	*(24,826)*
HRA SHARE OF THE INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		(36,095)	*(24,826)*
Gain on sale of HRA non-current assets		(2,236)	*(328)*
Interest Payable and Similar Charges		5,526	*5,517*
Interest and Investment Income		(375)	*(461)*
Valuation increase Rent to Mortgages		(127)	*(20)*
Pensions Interest/Return on Assets		963	*600*
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES		(32,344)	*(19,518)*

MOVEMENT ON HOUSING REVENUE ACCOUNT STATEMENT

The Housing Revenue Income and Expenditure Statement shows the Councils' actual financial performance for the year in managing its housing stock, measured in terms of the resources consumed and generated over the last twelve months. However,

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than from council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits earned.

The Housing Revenue Account Statement compares the Council's spending against the Income that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for the future.

This reconciliation statement summarises the differences between the outturn in the Housing Revenue Income and Expenditure Statement and the Housing Revenue Account balance.

	Note	2013/14 £000	*2012/13* *£000*
INCREASE/DECREASE IN THE HOUSING REVENUE ACCOUNT BALANCE			
(Surplus)/Deficit for the year on the Housing Revenue Account Income and Expenditure Statement		(32,344)	*(19,518)*
Adjustments between accounting basis and funding basis under statute (including to or from reserves)	12	30,468	*17,710*
Transfers to Earmarked Reserves	12	2,285	*2,926*
(Increase) or decrease in the Housing Revenue Account balance		409	*1,118*
Housing Revenue Account surplus brought forward		(3,375)	*(4,493)*
Housing Revenue Account surplus carried forward		(2,966)	*(3,375)*

1. HOUSING REVENUE ACCOUNT ASSET VALUATION

The valuation of the Council's housing stock and other HRA assets is as follows:

	OPERATIONAL ASSETS						NON-OPERATIONAL ASSETS	
	Land £000	Dwellings £000	Garages £000	Vehicles & Equipment £000	Other Land & Buildings £000	Other £000	Investment Properties £000	Total £000
Gross Book Value								
1 April 2013	152,597	303,382	3,869	3,238	869	2,525	143	466,623
Revalued								
Restated	(12)	(15)			237			210
Reclassified	-		-					
1 April 2013	152,585	303,367	3,869	3,238	1,106	2,525	143	466,833
Revalued in year								
Additions		10,310		76	63	226		10,675
Disposals	(1,308)	(2,429)		(56)				(3,793)
Reclassified in year	(525)	(792)	(120)		39	1,402		4
Accumulated Depreciation Written Off		(12,559)	(134)		(1)			(12,694)
Revalued	11,745	21,730	54		(45)	(222)		33,262
Gross Book Value	162,497	319,627	3,669	3,258	1,162	3,931	143	494,287
Depreciation 1 April 2013	-			(1,446)	(5)	(416)	-	(1,867)
Restated								
Reclassified								
1 April 2013	-	-	-	(1,446)	(5)	(416)	-	(1,867)
Accumulated Depreciation Written Off		12,559	134					12,693
Reclassified		37			2	-		39
Depreciation in Year	-	(12,688)	(138)	(260)	(10)	(56)		(13,152)
Depreciation on Assets Sold	-	92	4	56				152
Depreciation 31 March 2014	-	-	-	(1,650)	(13)	(472)	-	(2,135)
Net Book Value 31 March 2014	162,497	319,627	3,669	1,608	1,149	3,459	143	492,152
Net Book Value 1 April 2013	*152,597*	*303,382*	*3,869*	*1,588*	*856*	*2,053*	*143*	*464,488*

The dwelling valuation shown in the balance sheet represents the value of the housing stock to the Council in its existing use as social housing occupied on the basis of secured tenancies. The corresponding value of those dwellings if sold on the open market without tenants, i.e. vacant possessionis £1,148,017,500, based on stock figures as at 31 March 2014 and values as at 1 April 2013. The difference between the two values represents the economic cost of providing council housing at less than open market rents.

2. HOUSING STOCK

The Council was responsible for managing on average 6,530 (6,563 in 2012/13) dwellings during 2013/14. Changes in the stock are summarised below. The figures include 48 units for the homeless at Norway House, North Weald, and 6 wardens' and caretakers' dwellings.

		2013/14	2012/13
Stock as at 1 April		6,556	6,570
Less	Sales	(53)	*(13)*
	Stock Transfers / Conversions	(20)	*(5)*
	Reinstated Properties	(1)	
Add	New Properties	1	*4*
Stock as at 31 March		6,483	*6,556*
Number of:			
Houses and Bungalows		3,489	*3,518*
Flats and Maisonettes		2,984	*3,028*
Other		10	*10*

3. GROSS DWELLING RENT INCOME

During 2013/14 0.87% (0.76% in 2012/13) of all lettable dwellings were vacant. Average rents were £90.96 per week, an increase of £3.82 or 4% over the previous year. 52% (54% in 2012/13) of all Council tenants received some help through rent rebates in 2013/14. Rent arrears increased to £1,094,262 (£1,054,450 in 2012/13), which represents 3.5% (3.7% in 2012/13) of gross dwelling rent income. The provision for bad and doubtful debts on these arrears amounted to £621,478 (£735,794 in 2012/13). Amounts written off during the year totalled £129,980 (£73,122 in 2012/13). Dwelling rents are shown after allowing for voids.

4. HOUSING REPAIRS FUND

The Council maintains a Housing Repairs Fund that evens out the annual cost to tenants of a cyclical repairs programme. The movement on the Fund is as follows:

	2013/14		*2012/13*	
	£000	£000	*£000*	*£000*
Balance as at 1 April		(3,508)		*(3,915)*
Contribution from the HRA	(5,200)		*(5,200)*	
Other Income	(100)		*(81)*	
Total Income		(5,300)		(5,281)
Responsive & Void Repairs	3,884		*3,317*	
Planned Maintenance	2,093		*2,201*	
Other	76		*170*	
Total Expenditure		6,053		*5,688*
Balance as at 31 March		(2,755)		*(3,508)*

In accordance with the accounting changes introduced for the 2006/07 accounts, the amount shown on the face of the Housing Revenue Income and Expenditure Statement is the actual net expenditure on repairs and maintenance rather than the contribution to the repairs fund. The difference between the two figures forms part of the adjustments between accounting basis and funding basis under regulations (Note 6 page 20).

5. PENSIONS

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against the HRA is based on the contributions payable to the fund in respect of 2013/14; the real cost of retirement benefits is therefore reversed out of the Housing Revenue Account after Net Operating Expenditure.

6. HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

The Council received £5,824,067 in respect of HRA capital receipts during 2013/14. This arose as a result of the sale of council houses (£5,813,390), sale of vehicles (£3,850) and principal repayments on mortgages (£6,827). Of this the Council used £101,500 for the housebuilding project and £68,900 for the administration of the sales which left £5,653,667 to fund other capital projects and pay the central government pool an amount of £684,515.

7. CAPITAL EXPENDITURE

The HRA incurred the following capital expenditure.

Capital Expenditure on:	£000	Financed by:	£000
Council Dwellings	9,563	Revenue	4,200
House Building and developments	368	Major Repairs Reserve	6,145
Disabled Adaptations	494	Capital Receipts	101
Plant, Vehicles and Equipment	76	Other Contributions	237
Intangibles	8		
Environmental Works	111		
Land and Buildings	63		
	10,683		10,683

8. MAJOR REPAIRS RESERVE

With effect from 1 April 2001 the Council is required to maintain a Major Repairs Reserve. This was originally funded from the Government via Housing Subsidy but is now funded from the HRA directly. The Housing Revenue Account is charged with the depreciation for the year the opposite entry of which is a credit to the Major Repairs Reserve. This income can then be used to fund repairs of a capital nature. For a transitionary period of five years The Council is allowed to transfer back to the HRA a notional sum calculated by the Government in lieu of the Major Repairs Allowance received. The movement on the reserve is as follows:

	2013/14		*2012/13*	
	£000	£000	*£000*	*£000*
Balance as at 1 April		(9,755)		*(8,241)*
Depreciation transferred from the HRA		(13,098)		*(12,652)*
Used to fund Capital Expenditure on Council Dwellings	6,145		*5,418*	
Transferred to the HRA	5,349		*5,720*	
Total Expenditure		11,494		*11,138*
Balance as at 31 March		(11,359)		(9,755)

9. DEPRECIATION

Depreciation is charged on Housing Revenue Account assets in accordance with IAS 16. Depreciation is now charged with reference to balance sheet values and the average life remaining on the housing stock and its major components. No depreciation is chargeable on the HRA investment assets. (See also note 1, page 58)

10. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

A charge of £170,000 (£172,000 in 2012/13) was made in respect of revenue expenditure funded from capital under statute. This related to recharges to leaseholders for repairs.

11. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON HRA BALANCE

	2013/14 £000		*2012/13 £000*	
AMOUNTS TO BE EXCLUDED				
Transfer from Major Repairs Reserve and other depreciation reversals and impairments	(5,393)		*(5,767)*	
Upward revaluation of Council Dwellings and Garages	29,930		*19,228*	
Revenue expenditure funded from Capital under statute	(170)		*(172)*	
Valuation changes Rents to Mortgages	127		*20*	
Gain/(loss) on disposal of HRA fixed assets	2,236		*328*	
Flexi / Leave Accruals	(4)		*2*	
HRA share of contributions to/ (from) pensions reserve	(2,139)		*(1,559)*	
		24,587		*12,080*

	2013/14		*2012/13 £000*	
AMOUNTS TO BE INCLUDED				
Leaseholder Contributions	170		*172*	
Employers contributions payable to the pension fund	1,274		*1,222*	
Capital Expenditure funded by the HRA	4,200		*4,200*	
Capital Contributions Applied	237		*36*	
		5,881		*5,630*
Net Increase or Decrease before Transfers to/from Reserves		30,468		*17,710*

TRANSFERS TO EARMARKED RESERVES				
Housing Repairs Fund	(753)		*(407)*	
Self Financing Reserve	3,180		*3,180*	
Service Enhancement Fund	(58)		*170*	
Insurance Fund	(84)		*(17)*	
		2,285		*2,926*
		32,753		*20,636*

12. SETTLEMENT PAYMENTS DETERMINATION 2012 (HRA SELF-FINANCING)

On 28 March 2012 the Council borrowed £185,456,000 from the Public Works Loan Board in order to pay an equivalent amount over to the Department for Communities and Local Government. This payment was the amount prescribed as payable on the cessation of the HRA Subsidy regime on 31 March 2012. This amount is shown as long term loans on the Balance Sheet.

13. TRANSFER TO INSURANCE FUND

There has for sometime been a possibility that the Council might become liable for the settlement of claims relating to Mesothelioma. There have been court proceeding in an attempt to ascertain whether liability to settle any claims rests with the Councils current insurers or the insurers at the time of employees exposure to the risk. On 28 March 2012 judgement was passed that liability rests with the insurers at the time of potential exposure. The insurers at the time are no longer trading as such and it is unlikely that there are sufficient assets to meet the totality of any claims, which will therefore mean some liability if not all will fall on the scheme creditors of which this Council is one. Whilst there is a little more clarity and in fact the 15% levy of £84,000 has now been paid the actual extent of the liability is by no means certain. Having reviewed the situation it is felt for the time being the transfer made to the fund of £650,000 in 2011/12 should remain until such time as things become clearer.

14. TRANSFER TO SELF FINANCING RESERVE/SERVICE ENHANCEMENT FUND

As part of the new financial arrangements for the HRA two new earmarked reserves have been set up. A Self Financing Reserve was set up with the purpose of receiving a transfer of £3.18m per annum to accumulate enough funds to repay the £31.8m variable loan. Whilst this is the stated purpose of the fund the decision does not preclude the use of these funds for another HRA purpose. Self financing has meant additional funds have become available for HRA expenditure, as a result a programme of service enhancements and improvements have been agreed by the Council. It was agreed that any unspent monies allocated in 2013/14 should be carried forward within the fund for use in future accounting periods. The value of this carry forward at the end of the financial year was £112,000.

THE COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

INCOME	Note	Council Tax 2013/14 £000	Non Domestic Rates 2013/14 £000	Collection Fund Total 2013/14 £000	*Council Tax 2012/13 £000*	*Non Domestic Rates 2012/13 £000*	*Collection Fund Total 2012/13 £000*
Council Tax	1	(76,662)	-	(76,662)	*(82,973)*	-	*(82,973)*
Non Domestic Rates	2	-	(32,979)	(32,979)	-	*(32,301)*	*(32,301)*
TOTAL INCOME		(76,662)	(32,979)	(109,641)	*(82,973)*	*(32,301)*	*(115,274)*
EXPENDITURE							
Precepts and Demands:							
Essex County Council		54,521	2,871	57,392	*59,663*	-	*59,663*
Essex Police		7,098		7,098	*7,505*	-	*7,505*
Essex Fire Authority		3,332	319	3,651	*3,647*	-	*3,647*
Epping Forest District Council		10,453	12,759	23,212	*11,334*	-	*11,334*
Distribution of Estimated Collection Fund Surplus/(Deficit).	3						
Essex County Council		57	-	57	*(400)*	-	*(400)*
Essex Police		7	-	7	*(49)*	-	*(49)*
Essex Fire Authority		4	-	4	*(24)*	-	*(24)*
Epping Forest District Council		11	-	11	*(75)*	-	*(75)*
Non Domestic Rate							
Payment to National Pool		-	-	-	-	*32,127*	*32,127*
Payment to Central Government		-	15,949	15,949	-	-	-
Transitional Protection		-	42	42	-	-	-
Cost of Collection Allowance		-	171	171	-	*174*	*174*
Provision for Appeals			1,486	1,486	-	-	-
Provision for Non Payment		280	(30)	250	*28*	-	*28*
Council Tax Write Offs		159	397	556	*509*	-	*509*
TOTAL EXPENDITURE		75,922	33,964	109,886	82,138	32,301	*114,439*
DEFICIT / (SURPLUS) FOR YEAR		(740)	985	245	*(835)*	-	*(835)*
BALANCE BROUGHT FORWARD		(115)	-	(115)	*720*	-	*720*
BALANCE CARRIED FORWARD		(855)	985	130	*(115)*	-	*(115)*

Notes to the Collection Fund

1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands, estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Essex County Council, Essex Police, Essex Fire Authority and this Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted discounts: 50,169 for 2013/14, 54,900 for 2012/13). The figure Band d equivalent figure has reduced in 2013/14 due to the abolition of Council Tax Benefit and the introduction of Local Council Tax Support (LCTS). The effect of LCTS is to act as a discount on Council Tax and reduce the number of chargeable properties rather than under Council Tax Benefit where the benefit granted was treated as a payment toward the Council Tax due. The basic amount of Council Tax for a Band D property (£1,443.42 for 2013/14, £1,438.65 for 2012/13) is multiplied by the proportion specified for the particular band to give an individual amount due.

	Chargeable Dwellings	Chargeable Dwellings after Discount, Exemptions and Disabled Relief	Ratio to Band D	Band D Equivalents
Band A Disabled	-	2	5/9	1
Band A	1,748	1,400	2/3	933
Band B	4,902	3,968	7/9	3,086
Band C	11,392	10,015	8/9	8,902
Band D	13,690	12,504	1	12,504
Band E	9,363	8,659	1 2/9	10,583
Band F	6,717	6,297	1 4/9	9,096
Band G	5,788	5,500	1 2/3	9,167
Band H	1,133	1,072	2	2,144
Total Band D				56,416
Band D equivalents entitled to Council Tax Support				5,118
Total Band D equivalents				51,298
Less Adjustment for Collection Rate				1,129
Council Tax Base				50,169

The income of £76,662,113 for 2013/14 (£82,973,314 for 2012/13) is receivable from the following sources.

	2013/14 £000	*2012/13 £000*
Billed to Council tax payers	76,804	*73,959*
Council Tax Benefits paid/(clawed back)	(142)	*9,014*
	76,662	*82,973*

2. NATIONAL NON DOMESTIC RATES

Non Domestic Rates are organised on a national basis. The Government specifies an amount, 46.2p (small business) and 47.1p (others) in 2013/14, (45.0p (small business) 45.8p (others) in 2012/13) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

In 2013/14 the method of distributing and accounting for Business Rates changed. Prior to 1 April 2013 Non Domestic Rates were collected by the Council and paid over to central Government who then redistributed the sums collected in the form of Non Domestic rates grant.

From 1 April 2013 Business Rates Retention came in whereby Local Authorities retain 50% of the Business Rates collected and pay the remainder over to Central government. The amount retained is shared between the Council (40%), Essex County Council (9%) and Essex Fire Authority (1%). In addition the Government has set a level of Business Rates Funding deemed to be applicable to each area and every Council either receives a top up (where business rates are below this deemed level of funding) or pays a tariff (if business rates collected are above this deemed level of funding). In 2013/14 this Council paid a tariff of £9,846,000 which is a charge to the General Fund.

If the Council increases its business rates base and therefore income it is allowed to retain a proportion of this increased income whilst paying up to 50% to Central Government. This payment is known as a levy payment.

If a reduction of business rates income of more than 7.5% of its funding baseline has occurred then the government will make up any difference between this and the actual loss in the form of a safety net payment. Whilst there has been a reduction in income this was not enough for the Council to fall into the safety net.

The total non-domestic rateable value at the year-end was £86,726,349(£86,549,824 in 2012/13).

3. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS

The surplus or deficit on the Collection Fund arising from council tax and business rates transactions relates to this Council and the other Major Precepting Authorities. The surplus or deficit on the fund is estimated as at 15 January every year and paid over or recovered from the Council's General fund and major precepting authorities in the following Financial year. The balance on the Fund represents the difference between the estimated surplus or deficit and the actual position. There was no deficit or surplus in relation to Business Rates as this is the first year of operation.

Annual Governance Statement

1 Scope of Responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and forms part of the Councils Constitution. A copy of the Code is on our website at www.eppingforestdc.gov.uk. This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2011, in relation to the publication of a Statement on Internal Control.

2 The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the Governance Framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. It is also responsible for evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council's Code of Governance recognises that effective governance is achieved through the following core principles.

(i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.

(ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles.

(iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour.

(iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk.

(v) developing the capacity and capability of Members and officers to be effective.

(vi) engaging with local people and other stakeholders to ensure robust public accountability.

The table below summarises the Council's Governance Framework (which includes the system of internal control) for the year ending 31st March 2014 and up to the date of approval of this Statement and the Statement of Accounts.

	The Governance Framework
	The key elements of the Council's governance arrangements for 2013/14 were:
1	A corporate plan covering 2011-2015, setting out the Council's priorities and defining the goals to be achieved
2	The Constitution, which is revised each year
2.1	sets out the Council's decision-making framework
2.2	gives a clear definition of the roles and responsibilities of members, committees, and the statutory officers (Head of the Paid Service, Section 151 Officer and Monitoring Officer)
2.3	includes a scheme of delegation of responsibility, financial regulations and contract standing orders
2.4	defines codes of conduct for members and officers, and a protocol for how the two work together.
3	The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios.
4	There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee.
5	A Standards Committee.
6	An Audit and Governance Committee
7	A Management Board consisting of the Chief Executive, Deputy Chief Executive and Directors
8	A Corporate Governance Group consisting of the Chief Executive, Deputy Chief Executive, Section 151 Officer, Monitoring Officer, Deputy Monitoring Officer and The Chief Internal Auditor, meeting monthly
9	A Corporate Risk Strategy managed by a Risk Management Group meeting quarterly
10	Working Group on Financial Regulations, Contract Standing Orders and Delegated Authorities
11	A standard committee report format that includes specific consideration of all legal, financial, professional and technical considerations
12	A Medium Term Financial Strategy which informs service planning and budget setting,
13	A compliments and complaints procedure
14	A risk-based approach to internal audit, emphasising the need for sound control and good value
15	A robust whistle blowing policy and process, refreshed in 2011-12, along with supporting documents outlining the Council's zero tolerance approach to fraud and corruption
16	Contribution to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Corporate Plan 2011/15 with the Community Strategy.

3 Review of effectiveness

The Council is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the various sources noted below.

- Directors governance statements, which provide appropriate management assurance that the key elements of the system of internal control are operating effectively;
- Documentary evidence of processes, procedures and standards:
- The Chief Internal Auditor's annual opinion on the Council's control environment, delivered to the Audit and Governance Committee, as the body charged with governance. Audit reports issued along with the assurance ratings of full, substantial, limited or no assurance, on the adequacy and effectiveness of the Council's control environment, particularly in the key financial systems;
- The work undertaken by the External Auditor reported in their annual audit and inspection letter and other review reports;

- Significant governance issues from previous years;
- Significant governance Issues from 2013/14.

In the Annual Governance Statement for 2012/13 we reported two significant governance issues relating to the Housing Repairs Service and Housing and Council Tax Benefits. Both of these issues had been resolved by the time that statement was published.

In preparing this statement and reviewing the effectiveness of the council's governance arrangements, we have identified areas for improvement which are set out in the table below, together with the steps to be taken to address them.

No.	Issue	Action to be taken
1	**ICT Procurement** During a routine internal audit, it was observed that there had been departures from Contract Standing Orders in respect of monitoring expenditure with individual suppliers, and Financial Regulations, which included inventory and invoice control.	Reports have been developed and regular monitoring put in place. Relevant staff have been reminded of the requirements of the Financial Regulations regarding inventory control and invoice certification.
2	Car Parking Income As part of an internal audit review of the contracted service it was identified that there were limitations in the information supplied by North Essex Parking Partnership (NEPP) which affected the monitoring and reconciliation of the income. It should be noted that based on the testing of the system of key controls in place at EFDC, it was considered that the processes are sound and are in place for when the full data is made available from NEPP.	This issue is in the process of being addressed by management and by the internal audit sections of the Councils which are members of the NEPP. The introduction of new parking meters will greatly improve the monitoring of the pay and display income received

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………………

Glen Chipp
Chief Executive

Signed ………………………………

Councillor Chris Whitbread
Leader of the Council

Members Allowances

The allowances of £314,501 listed below include the connect scheme, travel and subsistence and employers national insurance and pension costs. The figures also include allowances paid to lay members of the Audit & Governance Committee and the Standards Committee.

		£		£
R.H.MORGAN		8,034	**M.A.PEDDLE(Nee Rickman)**	244
P.SMITH		4,554	**S.A.LYE**	266
D.J.STALLAN		10,566	**R.THOMPSON**	500
D.J.JACOBS		3,664	**D.JACKMAN**	266
A.G.GRIGG		9,977	**A.LION**	5,550
S.W.MURRAY		5,300	**W.S.BREARE-HALL**	11,068
J.M.WHITEHOUSE		3,400	**T.O.COCHRANE**	3,499
M.A.MCEWEN		3,698	**J.HART**	3,537
J.KNAPMAN		3,400	**Y.R.KNIGHT**	5,445
C.L.WHITBREAD	Leader	18,938	**S.I.WATSON**	3,400
J.H.WHITEHOUSE		3,400	**L.T.LEONARD**	4,029
U.M.GADSBY		3,503	**R.COHEN**	3,400
P.GODE		3,400	**S.JONES**	5,445
M.SARTIN	Chairman	11,594	**C.W.FINN**	1,375
J.M.HART		6,468	**R.KELLY**	266
J.LEA		5,183	**K.AVEY**	3,150
J.A MARKHAM		3,025	**P.KESKA**	3,400
C.P.POND		3,601	**A.MITCHELL**	3,400
B.P.SANDLER		5,762	**G.WALLER**	10,534
S.A.STAVROU		10,781	**H.BRADY**	3,229
K.ANGOLD-STEPHENS		4,413	**G.CHAMBERS**	3,658
K.S.CHANA		3,787	**A.J CHURCH**	3,400
G.MOHINDRA		3,400	**L.GIRLING**	3,650
P.J.SPENCER		4,032	**H.KANE**	3,400
L.A.WAGLAND		3,400	**H.MANN**	3,150
J.A.WYATT		5,812	**G.SHEILL**	3,400
B.A.ROLFE		5,061	**T.THOMAS**	3,400
R.BASSETT		10,846	**N.WRIGHT**	3,900
A.WATTS		5,550	**P.ADAMS**	63
H.ULKUN		9,977	**D.COOPER**	250
E.A.WEBSTER(SPINKS)		10,516	**R.BUTLER**	2,853
A.L.BOYCE	Vice-Chairman	7,172	**J.GUTH**	63
J.PHILIP		5,183	**A.JARVIS**	256
D.J.WIXLEY		3,657		
Total		211,055	Total	103,446
			GRAND TOTAL	314,501

Glossary of Terms

For the purposes of this Statement of Accounts, the following definitions have been adopted:

ACCRUALS

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

BALANCE SHEET

This statement sets out an authority's financial position at the year-end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness and the fixed and net current assets employed in its operations together with summarised information on the fixed assets held.

CAPITAL EXPENDITURE

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

CAPITAL ADJUSTMENT ACCOUNT

This account records the accumulated amount of set aside receipts and minimum revenue provision together with capital expenditure financed by way of capital receipts and revenue contributions. Set against these amounts are adjustments to the revenue account for depreciation and capital expenditure written off to revenue during the year. This, therefore, ensures that only actual expenses are charged to revenue in year. This account was formerly known as the Capital Financing Account.

CAPITAL FINANCING REQUIREMENT

This measures the change in and the underlying need for the council to borrow to finance Capital expenditure. Where all capital expenditure is financed by resources generated by the council the Capital Financing Requirement will remain unchanged.

CASH FLOW STATEMENT

This statement summarises the cash flows of the authority for capital and revenue spending as well as the cash flows used to finance these activities.

COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate collection fund which shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates the way in which these have been distributed to preceptors and the general fund.

COMMUNITY ASSETS

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

Glossary of Terms

CONSISTENCY

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

CONTINGENCY

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

CONTINGENT LIABILITIES

A contingent liability is either:

(i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the authority's control; or

(ii) a present (current) obligation arising from past events where it is not probable (but not impossible) that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

It is considered that a contingent liability below £50,000 need not be disclosed, as any such amounts would not be significant.

CONTINGENT GAINS

A contingent gain (or asset) is a possible economic gain arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose nominated bodies managing the same services.

INTANGIBLE ASSETS

Expenditure which may properly be defined as being capital expenditure, but which does not result in a physical asset being created. For expenditure to be recognised as an intangible asset it must yield future economic benefits to the council.

REVENUE EXPENDITURE CHARGED TO CAPITAL UNDER STATUTE

Expenditure of a capital nature that does not result in a fixed asset being created. An example of such an item would be expenditure on a former HRA property held on a long lease by a third party. The expenditure is written off in the year that it is incurred.

Glossary of Terms

DEPRECIATION

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes. The useful life is the period over which the local authority will derive benefit from the use of a fixed asset.

EXCEPTIONAL ITEMS

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

EXTRAORDINARY ITEMS

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

FAIR VALUE

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

FINANCE LEASE

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

FIXED ASSETS

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

GENERAL FUND

This statement records the information of all the authority's activities, excluding those in relation to the Housing Revenue Account and Local Council precepts.

GOING CONCERN

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

GOVERNMENT GRANTS

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

Glossary of Terms

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for local authority housing provision, as defined in particular in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure such as maintenance, administration, rent rebates and capital financing costs, and how these are met by rents subsidy and other income.

IMPAIRMENT

An impairment occurs when a fixed asset suffers a loss in value either due to a fall in market values generally, or as a result of use of the asset other than normal wear and tear.

INFRASTRUCTURE ASSETS

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

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments that do not meet the above criteria should be classified as current assets.

INVESTMENT PROPERTIES

Interest in land and / or buildings:

(i) in respect of which construction work and development have been completed; and

(ii) which is held for its investment potential, any rental income being negotiated at arms length.

LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

MINIMUM REVENUE PROVISION (MRP)

Local authorities are required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculation is defined by statute and does not relate to actual external debt outstanding. Statute requires MRP of 2% of the housing credit ceiling and 4% of the non-housing credit ceiling, offset by an adjustment for debts commuted in relation to old improvement grants.

NET BOOK VALUE

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets that are surplus to requirements pending sale or redevelopment and assets under development or construction.

OPERATING LEASES

Leases other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Operational assets comprise Council dwellings, other land and buildings, vehicles plant and equipment, infrastructure and community assets.

POST BALANCE SHEET EVENTS

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

PRIOR YEAR ADJUSTMENTS

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

PROVISIONS

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are required to be recognised when:

(i) the local authority has a present obligation (legal or constructive) as a result of a past event;

(ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision should be recognised.

A constructive obligation is an obligation that derives from an authority's actions where;

(i) by an established pattern of past practice, published policies or sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities; and

(ii) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

PRUDENCE

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

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other party; or
(ii) the parties are subject to common control from the same source; or
(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

(i) central government;
(ii) local authorities and other bodies precepting or levying demands on the Council Tax;
(iii) its subsidiary and associated companies;
(iv) its joint ventures and joint venture partners;
(v) its members;
(vi) its chief officers; and
(vii) its pension fund.

Examples of related parties of a pension fund include its:

(i) administering authority and its related parties;
(ii) scheduled bodies and their related parties; and
(iii) trustees and advisers.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

(i) members of the close family or the same household; and
(ii) partnerships, companies, trusts or other entities in which the individual or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

(i) the purchase, sale, lease, rental or hire of assets between related parties;
(ii) the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
(iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
(iv) the provision of services to a related party, including the provision of pension fund administration services;

(v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority but also in relation to its related party.

REVALUATION RESERVE

This account was created on 31 March 2007. The purpose of which is to hold all revaluations occurring to fixed assets subsequent to that date.

STOCKS

Comprise the following categories:

(i) Goods or other assets purchased for resale;
(ii) consumable stores;
(iii) raw materials and components purchased for incorporation into products for sale;
(iv) products and services in intermediate stages of completion;
(v) long-term contract balances; and
(vi) finished goods.

UNAPPORTIONABLE CENTRAL OVERHEADS

These are overheads for which no user now benefits and should not be apportioned to services.

Glossary of Pension Related Terms

ACTUARIAL GAINS AND LOSSES

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

(i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or

(ii) the actuarial assumptions have changed

CURRENT SERVICE COST

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

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

(i) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and

(ii) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DISCRETIONARY BENEFITS

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

EXPECTED RATE OF RETURN ON PENSION ASSETS

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

Glossary of Pension Related Terms

EXTRAORDINARY ITEMS

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

IAS19

International Accounting Standard 19 (IAS19) ensures that organisations account for employee retirement benefits when they are committed to pay them, even if the actual payment may be years into the future.

INTEREST COST (PENSIONS)

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

INVESTMENTS (NON-PENSIONS FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund, which do not meet the above criteria should be classified as current assets.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions Fund will be accounted for in the statements of the fund. However authorities (other than town and community councils) are also required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

PAST SERVICE COST

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

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(i) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and

(ii) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date, or

(ii) an employee's decision to accept redundancy in exchange for those benefits,

because these are not given in exchange for services rendered by employees.

SCHEME LIABILITIES

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

SETTLEMENT

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(i) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits

(ii) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and

(iii) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

VESTED RIGHTS

In relation to a defined benefit scheme, these are:

(i) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;

(ii) for deferred pensioners, their preserved benefits, and

(iii) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.

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Report to the Audit & Governance Committee

Epping Forest District Council

Report reference: AGC-011-2014/15
Date of meeting: 25 September 2014

Portfolio: **Finance**

Subject: **Annual Outturn Report on Treasury Management and Prudential Indicators for 2013/14.**

Responsible Officer: **Simon Alford (01992 564455).**

Democratic Services: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) To consider how the risks associated with Treasury Management have been dealt with during 2013/14; and

(2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee, in particular :-

> **(a) the proposed amendment to the Treasury Management Strategy Statement 2014/15 to 2016/17 to permit lending to Service Providers that the Council is in a contractual relationship with, e.g. Waste Management.**

Executive Summary:

The annual treasury management outturn report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2013/14 and confirms that there were no breaches of policy during the year.

The risks associated with setting these indicators are highlighted within the report along with how these risks were managed during the year.

Reasons for Proposed Decision:

The proposed decision is necessary in order to show that the risks associated with the treasury strategy were managed during the year and to comply with the requirements of the CIPFA Code of Practice on Treasury Management on reporting on the performance of the treasury activity.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for reporting on the treasury outturn on the financing and investment activity for the previous year.

2. The report attached at appendix 1 shows the Treasury Management Outturn Report for 2013/14 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the Year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council did not plan to borrow in order to carryout its capital investment. The outturn capital programme is shown below in the table:

Capital Expenditure	**2013/14 Original £m**	**2013/14 Revised £m**	**2013/14 Actual £m**
Non-HRA capital expenditure	4.326	4.555	2.331
HRA capital expenditure	13.918	11.130	10.675
Total Capital Expenditure	**18.244**	**15.685**	**13.006**
Financed by:			
Capital grants	0.937	1.254	0.994
Capital receipts	4.398	3.402	1.644
Revenue	12.909	11.029	10.368
Total Resources Applied	**18.244**	**15.685**	**13.006**
Closing balance on:			
Capital Receipts	10.153	12.741	17.467
Major Repairs Reserve	8.168	9.998	11.359

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve the major repairs allowance received in the year.

6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk has the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.

7. The table above shows that the balances on Capital Receipts and Major Repairs Reserve are higher than expected. This means that moving forward the Council is in a better position than estimated and therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The Impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council has borrowed £185.456m to finance the payment to Government for housing Self-Financing. This resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing was incurred in 2013/14.

CFR	**Original 31-Mar-14 £m**	**Revised 31-Mar-14 £m**	**Actual 31-Mar-14 £m**
Non-HRA	38.6	38.6	29.6
HRA	155.1	155.1	155.1
Closing balance	**193.7**	**193.7**	**184.7**

9. The Council did not breach the Authorised Limit (set at £200m for 2013/14) or the Operational Boundary (set at £188m for 2013/14) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this was achieved through the Council producing a viable thirty-year financial plan. This plan continues to be reviewed quarterly by officers and half yearly reports are presented to the Housing Scrutiny Panel. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. Only 17% of the amount borrowed in 2011/12 was at a variable rate, the remainder were fixed at preferential rates. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid when matured and all future capital expenditure will be financed through internal resources, therefore no risk currently exists for refinancing.

The Council's treasury position

11. The table below shows the Council's level of balances for 2013/14. (*actual 12/13):

Treasury position	**Original 31-Mar-2014 £m**	**Revised 31-Mar-14 £m**	**Actual 31-Mar-14 £m**
Usable Reserves	45.4	45.4	56.7
Working Capital	38.8*	n/a	47.8

12. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

13. The Council did not breach any of the following indicators:

(a) The Maximum Upper Limit for Fixed Rate Exposure during 2012/13 was 86% (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2012/13 was 14% (limit set at 25%);

(b) The maximum amount of the portfolio being invested for longer than 364 days was £11.3m (limit set at £30m); and

(c) The maximum limit set for investment exposure per country outside of the UK was 13.6% (limit set at 30%). £8m in Sweden.

14. The risks associated with this section are as follows:

(a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors.

(b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Resources has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.

(c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 75% of its investments to be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates.

15. The prudential indicators within this section assist the Council to reduce the risk of:

(a) counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring that the majority of deposits are kept within one year.

16. It is possible that the waste management contractor (and others, e.g. Leisure) will benefit from the Council providing "Prudential Borrowing". The Treasury Management Strategy Statement requires amendment to permit this. As the contractor will have been through rigorous financial checks before the contract is awarded this is a low risk activity. Risk will be further reduced by seeking a charge over any assets purchased with the loan.

Summary

17. The Council has continued to finance its capital programme through using internal resources. Both capital receipts and Major Repairs Reserve at the year-end matched the anticipated closing balances, resulting in the Council having adequate resources going forward to finance its medium term capital programme. During 2011/12 the Council procured £185.5m to finance the HRA self-financing payment, resulting in the Council now becoming a debt authority. The Council did not breach any of the treasury prudential indicators during the year.

Financial Implications:

As outlined within the report.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2013/14 and the Treasury Management Strategy for 2013/14 to 2015/16 went to Council on 19 February 2013.

Risk Management:

As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people affected by this report which is not directly service related.

Epping Forest District Council Treasury Outturn Report 2013/14

1. Background

The Council's treasury management activity for 2013/14 was underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports twice a year to the Finance and Performance Cabinet Committee and scrutiny of treasury policy, strategy and activity is delegated to the Audit and Governance Committee.

Treasury Management is defined as: "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

This report fulfils the Authority's legal obligation under the Local Government Act 2003, to have regard to both the CIPFA Code and the CLG Investment Guidance.

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

2. External Context

Economic background: At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a ***threshold*** for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the 'low for longer' interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility's 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition's austerity measures remained on track.

The Federal Reserve's then Chairman Ben Bernanke's announcement in May that the Fed's quantitative easing (QE) programme may be 'tapered' caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. 'Tapering' (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from $75bn to $55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for yield through riskier asset, suffered large capital outflows in December and January.

With the Eurozone struggling to show sustainable growth, the European Central Bank cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

Russia's annexation of the Crimea in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

Gilt Yields and Money Market Rates: Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

3. The Borrowing Requirement and Debt Management

	Balance on 01/04/2013 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2014 £m	Avg Rate % and Avg Life (yrs)
CFR	184.672				184.672	
Short Term Borrowing[1]	0	0	0	0	0	
Long Term Borrowing	185.456	0	0	0	185.456	3% - 23.5yrs
TOTAL BORROWING	185.456	0	0	0	185.456	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	185.456	0	0	0	185.456	
Increase/ (Decrease) in Borrowing £m	0	0	0	0	0	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2014 was £184.672 million. Usable reserves and working capital, which are the internal resources available for investment, were £56.7m and £47.8m respectively, a total of £104.5 million.

The Authority's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. Also, given the low rates secured there are likely to be fewer opportunities to beneficially renegotiate loans.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

At 1st April 2013 the Authority held £185.5 million of loans, as part of its strategy for funding Housing Self-Financing. The Council decided to borrow the full amount available under Self-Financing to provide flexibility going forward and to secure funding at very low interest rates.

The Council expects it will need to borrow £10 to 20 million for General Fund capital purposes within the next few years. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this "cost of carry" analysis.

Total borrowing at 31st March 2014 was £185.5 million.

[1] Loans with maturities less than 1 year.

4. Investment Activity

Both the CIPFA and the CLG's Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

Investment Counterparty	Balance on 01/04/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2014 £m	Avg Rate % and Avg Life (yrs)
UK Local Authorities - Long-term	10.0	0	0	10.0	1.15% 919 days
Banks and building societies and other organisations - Short-term	30.3	107.5	94.1	43.7	0.63% 187 days
AAA-rated Money Market Funds	5.0	20.0	20.0	5.0	0.36%
TOTAL INVESTMENTS	45.3	127.5	114.1	58.7	
Increase/ (Decrease) in Investments £m				13.4	

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Investments with banks and building societies were primarily call accounts, and fixed-rate term deposits. The maximum duration of these investments was 364 days in line with the prevailing credit outlook during the year as well as market conditions.

Credit developments and credit risk management

The Authority assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

The debt crisis in Cyprus was resolved by its government enforcing a 'haircut' on unsecured investments and bank deposits over €100,000. This resolution mechanism, in stark contrast to the bail-outs during the 2008/2009 financial crisis, sent shockwaves through Europe but allowed banking regulators to progress reform which would in future force losses on investors through a 'bail-in' before taxpayers were asked to support failing banks.

The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future.

The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority's minimum credit criterion of A- (or 7), the banks were withdrawn from the counterparty list for further investment. RBS/NatWest is the Council's banker and will continue to be used for operational and liquidity purposes.

The Co-op's long-term ratings were downgraded by Moody's and Fitch to Caa1 and B respectively, both sub-investment grade ratings. The Co-op Bank's capital raising plans to plug a capital shortfall include a contribution from the Co-op Group which is committed to injecting £313m in 2014 of which £50m has been paid initially. However, in order to cover future expected losses and to meet the Prudential Regulation Authority's capital targets, a further £400m is being sought from shareholders, of which Co-operative Group's share is approximately £120m. Given the Co-op Group's own financial position, payment of these sums is by no means certain, leaving the bank with a precarious capital position.

The Authority's counterparty credit quality has been maintained as demonstrated by the Credit Score Analysis summarised below[2]. The table in Appendix 3 Table 7 explains the credit score. A- or 7 is the minimum.

Credit Score Analysis 2013/14

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2013	A+	5.27	AA	2.71	233
30/06/2013	A+	5.23	AA	3.50	227
30/09/2013	A+	4.96	AA	2.95	255
31/12/2013	A+	5.08	AA-	3.90	193
31/03/2014	A+	5.16	AA-	3.95	179

[2] *Please refer to Arlingclose's quarterly credit risk benchmarking spreadsheets for your Authority's credit scores*

Liquidity Management

In keeping with the CLG's Guidance on Investments, the Authority maintained a sufficient level of liquidity averaging £19m through the use of Money Market Funds/overnight deposits/call accounts. The Authority uses its own cash flow forecasting method to determine the maximum period for which funds may prudently be committed.

Yield

The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels (as shown in table 1 in Appendix 3) which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

Income earned on £10m of longer-dated investments made in 2012/13 at an average rate of 1.15% provided some cushion against the low interest rate environment.

The funds' performance and continued suitability in meeting the Authority's investment objectives are monitored regularly.

The Authority's budgeted investment income for the year had been estimated at £0.428m. The average cash balances representing the Authority's Usable reserves, working capital, were respectively £56.7m and £47.8m during the period, and interest earned was £0.431m.

Update on Investments with Icelandic Banks

Heritable – The authority has now recovered 94% of its investments in Heritable Bank. It is likely that further distributions will be received in October or November 2014, although the administrators have not made any further estimate of final recoveries yet.

CIPFA issued further guidance on the accounting treatment surrounding these transactions in September 2013 when LAAP 82 (update 8) was issued. CIPFA have no plans to issue any additional updates.

5. Compliance

The Authority confirms that it has complied with its **Prudential Indicators** for 2013/14, which were approved on 19th February 2013 as part of the Authority's Treasury Management Strategy Statement. Details can be found in Appendix 2.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

The Authority also confirms that during 2013/14 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

6. Other Items

Investment Training: The needs of the Authority's Treasury Management staff for training in investment management are assessed every month as part of the Treasury Management function and in the staff appraisal process (PDR's), and additionally when the responsibilities of individual members of staff change.

During 2013/14 staff attended training courses, seminars and conferences provided by Arlingclose and CIPFA. No relevant staff are studying professional qualifications but 5 of the staff involved in Treasury Management are qualified accountants.

Appendix 1 : Debt and Investment Portfolio Position 31/3/2014

	31/3/2014 Actual Portfolio £m	31/3/2014 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	**153.656**	**3.48**
PWLB - Variable Rate	**31.8**	**0.62**
Total External Borrowing	**185.456**	
Total Gross External Debt	185.456	
Investments:		
Managed in-house		
Short-term investments	48.736	0.46
Long-term investments	10.0	1.15
Total Investments	58.736	
Net Debt	126.72	

Appendix 2

(a) Capital Financing Requirement (CFR)

Estimates of the Authority's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

Increased GF borrowing assumed, but delayed.

Capital Financing Requirement	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
General Fund	38.6	**38.6**	**29.6**	48.6	63.6
HRA	155.1	**155.1**	**155.1**	155.1	155.1
Total CFR	**193.7**	**193.7**	**184.7**	**203.7**	**218.7**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Borrowing	185.456	**185.456**	185.456	205.0	220.0
Total Debt	**185.456**	**185.456**	185.456	205.0	220.0
Borrowing in excess of CFR?			Yes		

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The Director of Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2013/14; borrowing at its peak was £185.456m.

	Operational Boundary (Approved) 31/03/2014 £m	Authorised Limit (Approved) 31/03/2014 £m	**Actual External Debt 31/03/2014 £m**
Borrowing	188.0	200.0	185.456
External Debt	188.0	200.0	185.456

(c) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed.

	Approved Limits for 2013/14 Proportion %	Maximum during 2013/14 Proportion %
Upper Limit for Fixed Rate Exposure	100	86
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	25	14
Compliance with Limits:		Yes

(d) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	**Actual Fixed Rate Borrowing at 31/03/2014 £m**	% Fixed Rate Borrowing at 31/03/2014	Compliance with Set Limits?
under 12 months	100	0	**0**	0	Yes
12 months and within 24 months	100	0	**0**	0	Yes
24 months and within 5 years	100	0	**0**	0	Yes
5 years and within 10 years	100	0	**0**	0	Yes
10 years and within 20 years	100	0	**0**	0	Yes
20 years and within 30 years	100	0	**153.656**	100	Yes
30 years and within 40 years	100	0	**0**	0	Yes
40 years and within 50 years	100	0	**0**	0	Yes
50 years and above	100	0	**0**	0	Yes

(e) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Authority tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Non-HRA	4.326	4.555	2.331	8.629	1.417
HRA	13.918	11.130	10.675	17.823	15.49
Total	**18.244**	**15.685**	**13.006**	**26.452**	**16.907**

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Capital receipts	4.398	3.402	1.644	**7.895**	**2.040**
Government Grants	0.937	1.254	0.994	**2.346**	**0.549**
Major Repairs Allowance	8.709	6.679	6.145	**10.511**	**8.618**
Revenue contributions	4.200	4.350	4.223	**5.700**	**5.700**
Total Financing	18.244	15.685	13.006	**26.452**	**16.907**
Supported borrowing	0	0	0	**0**	**0**
Unsupported borrowing	0	0	0	**0**	**0**
Total Funding	0	0	0	**0**	**0**
Total Financing and Funding	**18.244**	**15.685**	**13.006**	**26.452**	**16.907**

(f) Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/2014 Approved %	**31/03/2014 Actual %**	31/03/2015 Estimate %	31/03/16 Estimate %
Non-HRA	-3.28	**-0.39**	-0.05	-0.06
HRA	16.97	**16.47**	16.05	15.81

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 in 22 April 2002.

(h) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
	30	**30**	**11.3**	**30**	**30**

(i) HRA Limit on Indebtedness (England Only)

HRA Debt Cap (as prescribed by CLG)	£ 185.457m				
	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
HRA CFR	155.1	155.1	**145.6**	155.1	155.1
Difference	30.357	30.357	**39.857**	30.357	30.357

(j) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the potential impact if funded through Council Tax / Rents, not what the actual impact will be of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2013/14 Estimate £**	**2013/14 Actual £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Increase in Band D Council Tax	2.69	-0.75	-0.45	-0.28
Increase in Average Weekly Housing Rents	-2.84	-0.05	-0.48	0.02

Appendix 3

The average, low and high rates correspond to the rates during the financial year rather than only those in the tables below

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2013		0.50		0.40	0.50	0.40	0.44	0.51	0.75	0.59	0.68	0.97
30/04/2013		0.50		0.50	0.47	0.40	0.44	0.51	0.75	0.57	0.64	0.91
31/05/2013		0.50		0.38	0.42	0.40	0.44	0.51	0.75	0.68	0.82	1.15
30/06/2013		0.50		0.43	0.38	0.40	0.44	0.51	0.75	0.78	0.99	1.52
31/07/2013		0.50		0.42	0.50	0.40	0.44	0.51	0.75	0.68	0.86	1.39
31/08/2013		0.50		0.43	0.41	0.41	0.44	0.51	0.76	0.81	1.10	1.71
30/09/2013		0.50		0.38	0.38	0.41	0.44	0.51	0.76	0.83	1.12	1.73
31/10/2013		0.50		0.38	0.38	0.42	0.45	0.53	0.80	0.79	1.07	1.66
30/11/2013		0.50		0.38	0.36	0.42	0.45	0.54	0.81	0.80	1.11	1.76
31/12/2013		0.50		0.35	0.35	0.42	0.45	0.54	0.81	1.00	1.43	2.13
31/01/2014		0.50		0.36	0.41	0.42	0.45	0.55	0.82	0.94	1.34	1.95
28/02/2014		0.50		0.36	0.40	0.42	0.45	0.60	0.83	0.98	1.34	1.95
31/03/2014		0.50		0.35	0.39	0.42	0.46	0.56	0.84	1.05	1.45	2.03
Minimum		0.50		0.30	0.35	0.40	0.44	0.51	0.75	0.55	0.62	0.87
Average		**0.50**		0.40	0.41	0.41	0.45	0.53	0.78	0.81	1.08	1.63
Maximum		0.50		0.50	0.50	0.45	0.53	0.65	0.84	1.05	1.47	2.17
Spread		--		0.20	0.15	0.05	0.09	0.14	0.09	0.5	0.85	1.29

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2013	125/13	1.11	1.74	2.83	3.87	4.18	4.25	4.22
30/04/2013	166/13	1.16	1.72	2.72	3.74	4.06	4.13	4.08
31/05/2013	208/13	1.26	1.97	3.03	3.99	4.29	4.36	4.33
30/06/2013	248/13	1.22	2.34	3.49	4.30	4.52	4.56	4.54
31/07/2013	293/13	1.21	2.22	3.43	4.29	4.50	4.52	4.50
31/08/2013	335/13	1.28	2.53	3.74	4.43	4.54	4.54	4.53
30/09/2013	377/13	1.30	2.50	3.66	4.36	4.49	4.50	4.48
31/10/2013	423/13	1.29	2.43	3.55	4.27	4.42	4.42	4.40
30/11/2013	465/13	1.34	2.60	3.78	4.47	4.57	4.55	4.53
31/12/2013	503/13	1.38	2.96	4.08	4.60	4.64	4.61	4.59
31/01/2014	044/14	1.36	2.75	3.77	4.39	4.49	4.45	4.43
28/02/2014	084/14	1.37	2.76	3.78	4.39	4.49	4.47	4.45
31/03/2014	126/14	1.46	2.87	3.84	4.43	4.53	4.51	4.49
	Low	1.11	1.70	2.71	3.71	4.02	4.08	4.04
	Average	1.30	2.46	3.58	4.32	4.48	4.49	4.46
	High	1.46	3.00	4.11	4.63	4.71	4.72	4.71

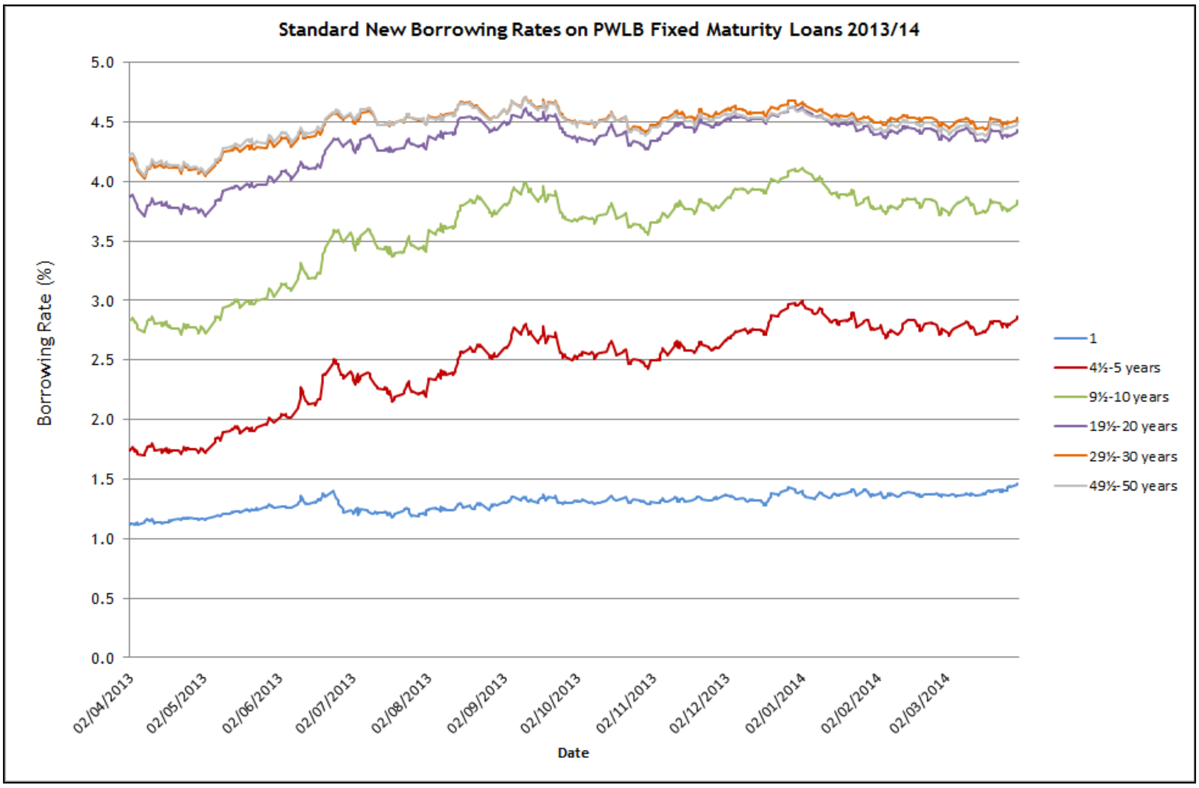

Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2013	125/13	0.02	0.51	1.62	2.72	3.05	3.13	3.09
30/04/2013	166/13	0.04	0.49	1.52	2.59	2.94	3.01	2.96
31/05/2013	208/13	0.14	0.73	1.82	2.84	3.16	3.24	3.21
30/06/2013	248/13	0.10	1.07	2.29	3.16	3.39	3.44	3.42
31/07/2013	293/12	0.09	0.95	2.22	3.16	3.37	3.40	3.38
31/08/2013	335/12	0.16	1.25	2.53	3.30	3.42	3.42	3.41
30/09/2013	377/12	0.18	1.23	2.46	3.23	3.37	3.38	3.36
31/10/2013	423/13	0.17	1.16	2.36	3.14	3.30	3.30	3.28
30/11/2013	465/13	0.22	1.31	2.58	3.34	3.45	3.43	3.41
31/12/2013	503/13	0.26	1.67	2.89	3.47	3.52	3.49	3.47
31/01/2014	044/13	0.24	1.47	2.58	3.26	3.37	3.33	3.31
28/02/2014	084/14	0.25	1.49	2.60	3.26	3.37	3.35	3.33
31/03/2014	126/13	0.34	1.60	2.65	3.29	3.41	3.39	3.37
	Low	0.02	0.48	1.51	2.56	2.89	2.96	2.92
	Average	0.18	1.19	2.38	3.18	3.35	3.36	3.34
	High	0.34	1.70	2.92	3.50	3.59	3.60	3.59

Table 4: PWLB Borrowing Rates - Fixed Rate, EIP Loans (Standard Rate)

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2013	125/13	1.30	1.80	2.87	3.52	3.88	4.08
30/04/2013	166/13	1.31	1.77	2.76	3.39	3.75	3.96
31/05/2013	208/13	1.49	2.02	3.07	3.67	4.00	4.19
30/06/2013	248/13	1.66	2.41	3.53	4.05	4.30	4.45
31/07/2013	293/13	1.58	2.29	3.47	4.04	4.30	4.44
31/08/2013	335/13	1.78	2.61	3.77	4.26	4.44	4.51
30/09/2013	377/13	1.79	2.58	3.69	4.17	4.37	4.45
31/10/2013	423/13	1.74	2.51	3.59	4.07	4.28	4.38
30/11/2013	465/13	1.84	2.67	3.81	4.29	4.48	4.55
31/12/2013	503/13	2.10	3.04	4.11	4.48	4.60	4.64
31/01/2014	044/14	1.98	2.82	3.80	4.21	4.40	4.47
28/02/2014	084/14	2.00	2.84	3.81	4.21	4.40	4.47
31/03/2014	126/14	2.11	2.94	3.87	4.26	4.43	4.51
	Low	1.29	1.76	2.75	3.37	3.72	3.91
	Average	**1.77**	**2.53**	**3.61**	**4.10**	**4.32**	**4.43**
	High	2.13	3.08	4.14	4.51	4.63	4.69

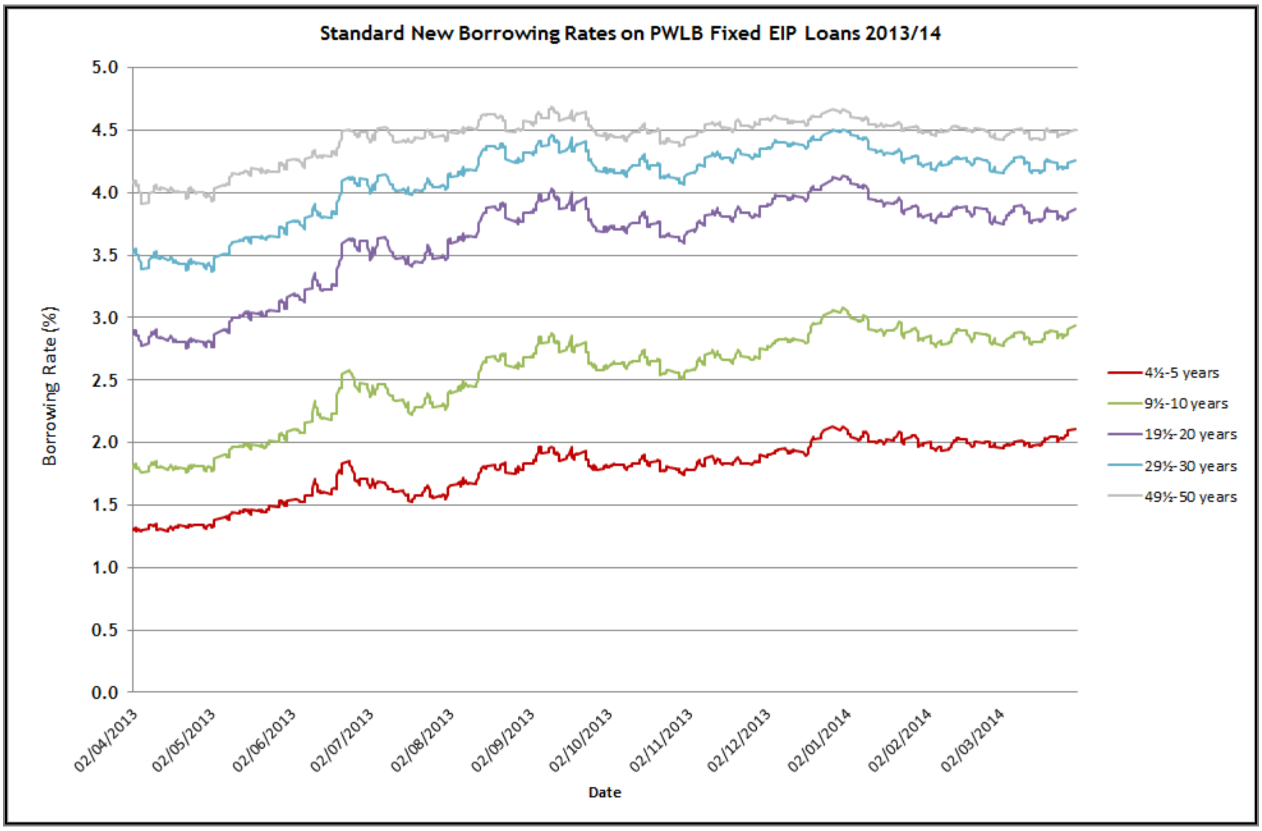

Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2013	125/13	0.14	0.62	1.71	2.38	2.75	2.95
30/04/2013	166/13	0.16	0.60	1.60	2.25	2.62	2.83
31/05/2013	208/13	0.33	0.85	1.91	2.53	2.87	3.06
30/06/2013	248/13	0.47	1.22	2.37	2.91	3.18	3.32
31/07/2013	293/13	0.39	1.10	2.31	2.90	3.17	3.31
31/08/2013	335/13	0.58	1.41	2.62	3.12	3.31	3.39
30/09/2013	377/13	0.59	1.38	2.54	3.04	3.24	3.33
31/10/2013	423/13	0.55	1.31	2.43	2.94	3.15	3.26
30/11/2013	465/13	0.64	1.48	2.66	3.15	3.35	3.43
31/12/2013	503/13	0.87	1.84	2.96	3.35	3.48	3.52
31/01/2014	044/14	0.77	1.63	2.65	3.08	3.27	3.35
28/02/2014	084/14	0.78	1.64	2.66	3.08	3.27	3.35
31/03/2014	126/14	0.90	1.75	2.72	3.12	3.31	3.39
	Low	0.13	0.58	1.59	2.23	2.59	2.79
	Average	0.58	1.34	2.46	2.97	3.20	3.31
	High	0.90	1.88	2.99	3.38	3.51	3.56

Table 6: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR			Post-CSR (Standard Rate)		
02/04/2013	0.5700	0.5600	0.5500	1.4700	1.4600	1.4500
28/06/2013	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
30/09/2013	0.5700	0.5700	0.5700	1.4700	1.4700	1.4700
31/12/2013	0.5700	0.5700	0.5700	1.4700	1.4700	1.4700
31/03/2014	0.5500	0.5600	0.5700	1.4500	1.4600	1.4700
Low	0.5500	0.5500	0.5400	1.4500	1.4500	1.4400
Average	0.5653	0.5641	0.5630	1.4653	1.4641	1.4630
High	0.5800	0.5700	0.5800	1.4700	1.4700	1.4800

Table 7: Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.