



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE **Monday, 21st September, 2015**

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 **Monday, 21st September, 2015**
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 J Knapman (Chairman), L Hughes and S Weston.

Independent A Jarvis (Vice-Chairman) and N Nanayakkara.

WEBCASTING/FILMING NOTICE

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site - at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed. The meeting may also be otherwise filmed by third parties with the Chairman's permission.

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If you have any queries regarding this, please contact the Senior Democratic Services Officer on 01992 564243.

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.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

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 29 June 2015 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2015/16.

7. INTERNAL AUDIT MONITORING REPORT - APRIL TO SEPTEMBER 2015 (Pages 7 - 22)

(Chief Internal Auditor) To consider the attached report (AGC-005-2015/16).

8. ANNUAL GOVERNANCE STATEMENT 2014/15 (Pages 23 - 30)

(Chief Internal Auditor) To consider the attached report (AGC-006-2015/16).

9. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2014/15 (Pages 31 - 50)

(Director of Resources) To consider the attached report (AGC-007-2015/16).

10. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2014/15 (Pages 51 - 76)

(External Auditor) International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council’s Statutory Statement of Accounts for 2014/15 is nearly complete and that they wish to present their ISA260 report to this meeting. (AGC-008-2015/16).

11. STATUTORY STATEMENT OF ACCOUNTS 2014/15 (Pages 77 - 164)

(Director of Resources) To consider the attached report (AGC-009-2015/16).

12. 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.

13. 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	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 Work Programme

2015/16

29 June 2015

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

21 September 2015

- 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 2014/15.

30 November 2015

- Treasury Management Mid-Year Report.
 - Q2 Internal Audit Monitoring Report.
 - Review of Business Continuity Plan for Internal Audit.
- ❖ Annual Audit Letter 2014/15.

1 February 2016

- Treasury Management Investment & Strategy Statements.
 - Q3 Internal Audit Monitoring Report.
- ❖ Grant Claims Audit Report 2014/15.

31 March 2016

- Effectiveness of Risk Management.
 - Internal Audit Business Plan.
- ❖ Planning Letter 2016/17.
- ❖ Audit Plan 2015/16.

Key

- EFDC Officer Report.
- ❖ External Auditor Report.

N.B...In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 31 March 2016 meeting in the Conference Room.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-005-2015/16

Date of meeting: 21 Sept 2015

Portfolio: Governance & Development Management

Subject: Internal Audit Monitoring Report April to September 2015

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) The Committee notes the progress being made against the 2015/16 Internal Audit plan and by the corporate fraud team; and**
- (2) The Committee approves the new approach for monitoring and reporting audit recommendations.**

Executive Summary:

This report provides a summary of the work undertaken by Internal Audit between April and the beginning of September 2015, progress against the 2015/16 Internal Audit plan and a summary of the work undertaken by the Corporate Fraud Team. It also details the proposed new approach for dealing with the monitoring and reporting of audit recommendations.

Reasons for Proposed Decision:

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

A new tracker process for recommendations is proposed to ensure all audit recommendations are implemented within agreed timescales rather than continue with the current process whereby only priority one recommendations are reported to this Committee.

Other Options for Action:

Not to change reporting processes.

Report:

2015/16 Internal Audit Plan

1. Work has commenced on the 2015/16 Audit Plan as detailed in Appendix 1 and timings have been agreed with the Management Board and Assistant Directors to ensure a steady flow of reports throughout the year.
2. The Audit Plan includes audits carried forward from the 2014/15 Plan and two new ones (Langston Road Development and Depot Health and Safety), as agreed with the Management Board as being high profile and/or potentially high risk, using the allocated

contingency days. Following a recent fraud investigation the ICT Procurement audit has been retitled as ICT Asset Management to ensure the safekeeping of Council ICT assets.

3. The Internal Audit function currently has an auditor vacancy. Therefore, Mazars (an outsourced provider of internal audit services) has been commissioned to undertake a set number of audits and further days can be purchased if the budget allows for this. Mazars were chosen because of their competitive prices compared to similar outsourced providers. The longer term structure of the Internal Audit team will be considered as the Shared Service with Broxbourne Borough Council and Harlow District Council develops.

Internal Audit Reports

4. The following seven reports have been issued as final reports since the Committee received its last update in June 2015:

(a) From 2014/15 Audit Plan:

- *Housing Benefit:* Substantial assurance – Benefit is only awarded once all the necessary supporting documentation has been received from the claimant, and the benefit awarded is correctly calculated by the system (Academy). Any overpayments are calculated by Academy and the overpayments team take action as appropriate.
- *Council Tax Reduction:* Substantial assurance – Processes for the assessment and payment of Local Council Tax Support are operating effectively. Local Council Tax Support is only awarded once all the necessary supporting documentation has been received in order to assess the claim, and is correctly calculated in accordance with the scheme.

(b) From 2015/16 Audit Plan:

- *Management of Sickness Absence:* Substantial assurance – Processes are working well and sickness is recorded in accordance with Council policy. Managers hold informal sickness evaluation meetings with employees who have met the Councils sickness trigger levels; however, managers need to keep a written record of these discussions and forward to Human Resources. In addition, Human Resources need to resume monitoring the action taken by managers in relation to these employees.
- *Reprographics:* Substantial assurance – The systems and controls covering the purchasing of materials, and the recording and recharging of both internal and external jobs by the reprographics section are operating effectively. However, there is currently no contract in place for the purchase of copier paper. Directorates are complying with the corporate guidance in relation to the procurement of printing services by asking Reprographics to quote for these jobs.
- *Norway House:* Substantial assurance – The admissions process at Norway House is operating effectively. Eligibility for hostel accommodation is assessed by Housing Options and admissions are properly recorded. Income collection procedures are effective and Hostel Management monitor rent arrears. An issue was identified during the audit concerning damage by vermin to residents' property held in storage. Insurance claims from residents in respect of this could result in the Council bearing the cost of the insurance excess and steps are being taken to remedy the vermin problem and introduce an inventory of property stored.

- *Key and Local Performance Indicators:* Substantial assurance – Each directorate is responsible for collating, checking and submitting performance data to the Performance Improvement Unit (PIU). Overall, the process is working well with the majority of PI data being collected and submitted in an accurate and timely manner as per the Data Quality Strategy. A number of weaknesses within Directorates have been noted which are mostly minor in nature and the Performance Improvement Unit continues to have a pivotal role in ensuring officers are aware of their responsibility with regards to data quality, verification and submission.
- *Business Plans:* Substantial assurance – All Directorate Business Plans had been prepared and submitted in accordance with the corporate guidance, with the exception of the Housing Revenue Account Business Plan which is required by the Department for Communities and Local Government to be produced in a prescribed format. The Performance Improvement Unit is undertaking a more in-depth review of the Business Plan guidance this year to support the process and resolve the issue of late submission as has happened in previous years.

Recommendation Tracker

5. Previously the Audit and Governance Committee received a recommendations tracker that contained only priority one audit recommendations. A new process for tracking recommendations has been proposed and agreed with the Management Board to ensure timelier implementation of recommendations by management, ensuring all recommendations are tracked and better use of Internal Audit resources.

6. The tracker will contain all Internal Audit recommendations once an internal audit report has been agreed and finalised. The tracker presented to Audit and Governance Committee will contain all overdue recommendations plus any priority one recommendations from final reports issued, regardless whether they are overdue or not. It should be noted that the basis for an overdue recommendation is whether the original implementation date has been exceeded, not any revised dates.

7. The flow diagram (Appendix 2) explains the process for obtaining responses from management on progress being made with individual recommendations. Where the service area and responsible officer have deemed a recommendation to be complete Internal Audit will seek to confirm this, which may involve additional audit testing. If suitably satisfied, Internal Audit will remove the recommendation from the tracker and it will not be reported to the Audit and Governance Committee.

8. This approach has been introduced at Broxbourne and Harlow Councils and has resulted in an increased buy-in by managers; ensuring audit recommendations are implemented in a timely manner (or ensure there are valid business reasons for any delays).

9. It is important that those priority one recommendations on the previous tracker continue to be monitored. The Chief Internal Auditor has reviewed each of the outstanding recommendations on the tracker which went to the June 2015 Audit and Governance Committee and, working with the appropriate Assistant Director, has reviewed the original risk the recommendation sought to mitigate. Where the risk still exists the recommendation has been added to the new tracker.

10. It is anticipated that as the new system becomes embedded, and as managers proactively seek to inform Internal Audit as recommendations are completed, this will reduce the time currently spent setting up the new tracker. In addition, there will be time savings as the number of formal follow up audits required decreases.

11. There have been no priority one recommendations raised so far during 2015/16. The current tracker contains five recommendations (Appendix 3):

Recommendation type	Number
Priority one not passed its due date	0
Priority one passed its due date	5
Priority two passed its due date	0
Priority three passed its due date	0

Other Internal Audit Activities

(I.) Project Groups

12. There is Internal Audit representation on a number of project groups in order to provide advice and challenge on internal controls, risk management and governance arrangements. This includes:

- Risk Management Group – The Group, chaired by the Director of Resources, ensures the Council maintains a formal framework for the management of risks. It disseminates information and guidance regarding risk management to directorates, Management Board and Members on a regular basis, including the corporate risk register and related action plan. This provides a two-way process - any new risks identified by Internal Audit are taken to the Group for discussion, and Internal Audit is made aware of new risks which may need to be reviewed.
- Contract Standing Orders Working Party – This Group has been set up to fundamentally review the Council’s Contract Standing Orders and to formulate new ones. The aim is to produce new Contract Standing Orders which provide a more modern and flexible approach, are simpler to understand and comply with, and are more responsive to the current and future procurement needs of the Council. Internal Audit is providing advice to ensure there are appropriate controls in order to safeguard the use of public money.
- Personal Data Working Group – The Group is reviewing the way in which the Council manages employee’s personal data. Internal Audit advises on the streamlining of processes ensuring proper controls remain in place.
- Corporate Debt Working Group – The Group has been set up following direction from Management Board to undertake a corporate review of the Council’s approach to Debt Recovery (excluding Council tax, NNDR and current Housing rent arrears). The Group identified the debt recovery policies and procedures for each Service area, and recommendations were made in relation to debts under £500. Management Board has accepted the recommendations and the Group has since been instructed to review debts over £500. An interim progress report is due to be submitted to Management Board in September.
- E-invoicing Group – The Council is in the process of implementing e-invoicing and Internal Audit attends meetings and provides advice as necessary.

(II.) National Fraud Initiative

13. Internal Audit in conjunction with the Corporate Fraud Team continue to co-ordinate the Council’s responses to data matches coming out/ arising from the National Fraud Initiative, an exercise that matches electronic data within and between public and private

sector bodies to prevent and detect fraud.

14. In May the function submitted the Council's responses to the annual fraud survey which is co-ordinated by The European Institute for Combatting Corruption and Fraud (TEICCAF). This was previously undertaken by the Audit Commission's Counter Fraud Team where previous surveys achieved a 100% response rate from councils. TEICCAF have published the survey results in a 2015 'Protecting the English Public Purse' report and will be used to review the council's anti-fraud strategy.

Internal Audit Performance Management

15. The Internal Audit function has local performance indicator targets to meet in 2015/16 based on targets set in 2014/15. A new one on recommendations implemented is proposed in line with the new tracker process.

Description	Target 2015/16	Actual as at Sept 15
% planned audits completed	90%	13%
Productivity of staff	72%	70%
Implementation of agreed audit recommendations from 15/16 plan	Within agreed timescales	n/a

Internal Audit Shared Service: Borough of Broxbourne, Harlow District and Epping Forest District Councils

16. Epping Forest District Council's Chief Internal Auditor retired at the end of May and the Head of Internal Audit for the Shared Service between Broxbourne and Harlow took on this role from the 1 June 2015. To begin with Epping Forest will share the costs of the Chief Internal Auditor with their time split equally across all three councils.

17. Epping Forest District Council has made a commitment to integrate internal audit services with the other two authorities over the coming year. The situation will be closely monitored by all three Councils to ensure there is no detrimental effect on the quality of internal audit services provided.

18. A joint team meeting with auditors from all three Councils has taken place and the Epping Forest team is in the process of introducing the same audit methodology, document templates and electronic working papers. There is regular dialogue between all the auditors, especially where similar audits are taking place, in order to share ideas and good practice.

Corporate Fraud Team

19. At the beginning of August the Senior Fraud Investigator, who was previously the Councils Investigations and Interventions Manager, started in post. The team now consists of a Senior Fraud Investigator and two Fraud Investigators, with a vacancy for a third. Recruiting to this vacant post will be considered once the Senior Fraud Investigator has settled into their new role.

20. Earlier this year Epping Forest District Council prosecuted two individuals for their respective roles in a fraud against the council involving the Right to Buy scheme. One of the defendants was sent to prison. Part of the case involved the council taking action under the Proceeds of Crime Act (POCA) to claw back the total discount plus any further monies

deemed to be proceeds of crime. The POCA order was discharged at the beginning of July with Epping Forest District Council receiving over £88,000. This is a significant case, not only for the council but for social housing fraud in general and it has attracted national interest including being used as an example for a national housing fraud strategy.

21. Between April and August 2015 the Corporate Fraud Team has:

- recovered seven properties as a result of discovering issues with the tenancies (not living there etc.);
- stopped eight Right to Buy (RTB) applications (including one which ended with the tenant giving the property back). These were stopped / withdrawn as a result of investigator intervention at an early stage identifying problems and potential fraud;
- stopped one housing application at an early stage due to the discovery of fraud within the application process; and
- currently five criminal prosecutions in the various stages of being prepared (four relate to RTB applications and one is a sublet. With the sublet there is a strong possibility that the Council may go down both the Proceeds of Crime and unjust enrichment routes).

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

2015/16 Audit and Resource Plan.

Risk Management:

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

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.

Date/Name	Summary of equality analysis
1/9/15 Chief Internal Auditor	The report is a summary of the work carried out by Internal Audit and has no equality implications.

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**Appendix 1 - Audit Plan Monitoring 2015-16
September 2015**

	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	Priority 1 Recs	Priority 2 Recs	Priority 3 Recs
14/15 Plan Completion										
Housing Benefit	Resources		Final report	n	n	n	Substantial	0	1	0
Council Tax Support	Resources		Final report	n	n	n	Substantial	0	0	0
15/16 Plan										
Quarter 1 and 2										
Business Plans	Resources	10	Final report	n	n	n	Substantial	0	0	2
Reprographics	Resources	10	Final report	n	n	n	Substantial	0	1	0
Management of Sickness Absence	Resources	10	Final report	n	n	n	Substantial	0	2	0
Key and Local Performance Indicators	Governance	15	Final report	n	n	n	Substantial	0	1	0
Norway House (hostel)	Communities	10	Final report	n	n	n	Substantial	0	1	0
Homeless Prevention (Bed and Breakfast)	Communities	10	Draft report	n	n					
Members Allowances	Governance	10	In progress	n						
Local Land Charges	Governance	10	In progress	n						
Grounds Maintenance	Neighbourhoods	10	In progress	n						
Local Plan	Neighbourhoods	10	Scoping							
Commercial Property	Neighbourhoods	10	Scoping							
Licensing	Neighbourhoods	10	Scoping							
Council Housebuilding Programme (c/f from 14/15 Plan)	Communities	15	Scoping							
Right To Buy	Communities	10	Scoping							
Private Sector Housing Grants	Communities	15	Scoping							
Planning Fees	Governance	20	Scoping							
Data Protection Act (External Data Transfers)	Governance	10	Scoping							
Equalities (c/f from 14/15 Plan)	Governance	10	Scoping							
Debt Recovery within Legal Services (c/f from 14/15 Plan)	Governance	10	Scoping							
Corporate Asset Register	Resources	5	Scoping							
Budgetary Control	Resources	10	Scoping							
Sundry Debtors	Key Financial Control	15	Scoping							
Quarter 3										
Corporate Partnerships	Corporate	10								
Housing Repairs Service	Communities	20								
Grants to Voluntary Organisations	Communities	10								
Economic Development	Neighbourhoods	10								
Langston Road Development (new audit)	Neighbourhoods	10								
Depot Health and Safety (new audit)	Neighbourhoods	10								

**Appendix 1 - Audit Plan Monitoring 2015-16
September 2015**

	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	Priority 1 Recs	Priority 2 Recs	Priority 3 Recs
Car Parking Contract	Neighbourhoods	10								
Business Rates	Key Financial Control	20								
Creditors (incl travel and subsistence claims)	Key Financial Control	15								
Housing Benefits and Council Tax Support	Key Financial Control	20								
Bank Reconciliations (incl cash receipting & income control)	Key Financial Control	15								
Facilities Management Contracts	Resources	10								
Corporate Procurement	Resources	15								
Access Controls	ICT	10								
Quarter 4										
Payroll (incl mileage claims, overtime and committee allowances)	Key Financial Control	20								
Council Tax	Key Financial Control	20								
General Ledger	Key Financial Control	15								
Treasury Management	Key Financial Control	10								
Housing Rents	Key Financial Control	20								
Waste Management and Recycling (c/f from 14/15 Plan)	Neighbourhoods	20								
North Weald Airfield	Neighbourhoods	15								
Gifts and Hospitality	Governance	10								
ICT Asset Management (was ICT Procurement)	ICT	10								
Email, Internet and Telephone Usage	ICT	10								
Rental Assistance Loans	Communities	10								
Risk Management	Resources	10								
Recruitment and Selection (c/f from 14/15 Plan)	Resources	10								
Totals	Totals	610		11	8	7		0	6	2

Abbreviations

Incl = including

c/f = carried forward

Internal Audit (IA) Tracker Process

Action Timeline

Triggers

Trackers will be updated in line with Corporate Governance Group meeting dates and Audit Committee meetings.

Stage 1: Internal Audit generates a Tracker for each Assistant Director and emails to them their relevant recommendations with a 10 day target for response, which will be monitored. These are recommendations that are overdue or will be overdue before the next Audit Committee.

Day 1: IA sends current tracker

Stage 2: Once in receipt of their Tracker, the Assistant Director collates updates from the relevant manager /responsible officer to formulate a update for each agreed action. Wording in the update should include specific progress in implementing the action.

Days 1-5: HoS seek updates for agreed actions

Still in Progress

Give an explanation of why an extension is needed, along with a revised date.

Completed

Give an explanation of why it is completed and what evidence is available to support this.

Stage 3: When their Tracker has been updated by each Assistant Director, it is to be sent back to IA via email. IA will request a meeting with the Assistant Director if email responses are overdue.

Day 8: HoS send through tracker updates to IA

Stage 4: Internal Audit will review the responses for overdue actions and:

Still in Progress

Accept or query the update, including the revised date.

Completed

Accept or query and may ask that evidence is provided, or a member of IA team validates completion.

Day 8-9: IA review overdue actions

Stage 5: IA will update the master tracker, with the updates provided and produce revised trackers within reporting timeframes for Corporate Governance Group and Audit Committee meetings, as required.

Days 8-9: IA inputs updates produces revised tracker

Follow Up audits

In addition, IA will complete a sample of formal Follow Up audits depending on the severity and risk profile of the original report.

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Appendix 3 Internal Audit Recommendation Tracker (Overdue)

Last updated: 7 September 2015

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Agreed Imp Date	Revised Imp Date	Status Update from Management	Status
Previous Priority One Recommendations 2014/15									
Planning Fees Report No. 713 July 2014	4.1	Development Control management to liaise with ICT to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to reconcile. Reconciliation to be brought up to date and then completed monthly to establish control within the process.	1	Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner. Recent audit input has resulted in a simpler reconciliation which will reduce the work required.	Assistant Director (Development Manager)	March 2015	31/12/15	Aug15: ICT and Accountancy are providing assistance with the reconciliations. A report from M3 has been developed and the reconciliation for June 2015 has been completed. The reconciliations for April and May 2015 are still to be completed	Overdue
Corporate Procurement Report No. 725 February 2015	1	A realistic estimate of expenditure (consider previous years expenditure) and the length of employment should be considered at the start of the procurement process and one purchase order should be raised to cover the whole process if possible. Officers should agree rates with agencies where possible, in order that agency rates and exit fees are reasonable. Expenditure should be monitored in compliance with CSOs.	1	As discussed at the 28 th January CGG, work is underway to address these findings.	All Assistant Directors	31/3/15	31/3/16	Aug15: The recruitment process is just starting for a HR person who's work will include looking at existing agency worker framework agreements for a range of roles that the Council.	Overdue

Appendix 3 Internal Audit Recommendation Tracker (Overdue)

Last updated: 7 September 2015

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Agreed Imp Date	Revised Imp Date	Status Update from Management	Status
<p>Housing Repairs Service Report No. 729 December 2014</p> <p style="text-align: center;">Page 20</p>	4.1	The issues surrounding the interface should be resolved as soon as possible	1	<p>The work on the interface is working fine on the test system. The interface go-live dates are:</p> <p>The People (property status, warning codes, RTB, Sold and AAL) coming across nightly from the 23/2/15</p> <p>The new SORs to go live, 9/3/15, which will include all the completion information.</p> <p>The reason for the gap is to arrange some training on how to use the codes for the staff and operatives of the HRS.</p>	<p>Housing Repairs Manager</p> <p>Assistant Director (Housing Property and Development)</p>	31/3/15	30/9/15	<p>Aug15: There was a problem with the archiving of the interface files generated every night. This was resolved recently and the files are now running every night and the new jobs being registered are flowing through error free.</p> <p>There are still 3 types of errors that are occurring on the completion information and aim to resolve these within 2 to 3 weeks maximum.</p>	Overdue

Appendix 3 Internal Audit Recommendation Tracker (Overdue)

Last updated: 7 September 2015

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Agreed Imp Date	Revised Imp Date	Status Update from Management	Status
Housing Rents Report No. 743 June 2015 Page 21	1	<p>Arrears recovery processes should be reviewed to ensure former tenant arrears are pursued in a timely manner.</p> <p>Irrecoverable arrears (e.g. where the former tenant cannot be traced) should be written off; with the option of writing back the debt should the tenant be traced.</p>	1	Agreed	Area Housing Manager (South) Assistant Director (Housing Operations)	1/9/2015	30/11/15	The Communities Directorate set up a Debt Project Team. Debts are being written off when appropriate.	Overdue
		Achieved					Meeting set up with Audit on 18 September to explore any improvements to processes and consider if any lessons can be learned by the South from the North. If so, new procedures will be implemented.		
		<p>Former tenant arrears under £500 (currently on hold) should be reviewed as a priority to address the risk of increasing arrears.</p> <p>The monthly report of debts with Legal should be reviewed to ensure arrears are monitored regularly by Housing Management and Legal.</p>					Achieved	Former Tenant Arrears under £500 now being referred to Enforcement Agents (Bailiffs). Monthly Debt report now being reviewed by Area Housing Managers.	
Sundry Debts Report No. 733 April 2015	2	Resources should be provided to ensure appropriate action is taken to maximise recovery of outstanding debts in Governance, Neighbourhoods and Communities Directorates.	1	Agreed	All Assistant Directors	1/9/2015	30/9/15	Aug15: The Corporate Debt Working Group is looking into these issues and will be reporting on progress to the Management Board in September 2015.	Overdue

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-006-2015/16**
Date of meeting: **21 September 2015**

Portfolio: Governance and Development Management

Subject: Annual Governance Statement 2014/15

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) The Committee is requested to approve the revised Governance Statement for 2014/15

Executive Summary:

The Audit and Governance Committee at their June 2015 meeting approved the 2014/15 Annual Governance Statement, subject to minor wording changes. The Governance Statement has been revised since that meeting to ensure it captures all relevant governance issues following review by the External Auditors and is being re-presented for approval.

Reasons for Proposed Decision:

To provide the Committee with the opportunity to scrutinise the revised draft Governance Statement.

Other Options for Action:

No other options.

Report:

1. The Council's Statutory Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2011. Within the Regulations, and in accordance with defined 'proper practice', there is a mandatory requirement to publish an Annual Governance Statement (AGS). In accordance with good practice the governance statement has included the following information:

- (a) an acknowledgement of responsibility for ensuring there is a sound system of governance;
- (b) an indication of the level of assurance that the systems and processes that comprise the authority's governance can provide;
- (c) a brief description of the key elements of the governance framework, including reference to group or partnership activities where those activities are significant;
- (d) a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements; and

(e) an outline of the actions taken, or proposed, to deal with significant governance Issues.

2. The Audit and Governance Committee at their June 2015 meeting received and approved the draft Governance Statement for 2014/15. Following review by the External Auditors and subsequent discussion at the Corporate Governance Group it has been agreed to extend the proposed actions table from two actions to four to take into account two common control weaknesses coming out of Internal Audit's work in 2014/15; these being Contract Standing Orders and sundry debtors. No other changes to the version already seen by the Audit and Governance Committee have been made except that point 1 of "The Governance Framework" section has been amended to refer to "The Corporate Plan covering 2011 – 2015...", not "A Corporate Plan ..." as requested by the Committee.

3. The Committee is reminded the Annual Governance Statement is the product of an annual review by the Authority, of the effectiveness of the Council's governance arrangements. This includes an assessment of the effectiveness of its internal control arrangements and the AGS is published with the Statement of Accounts.

Resource Implications:

From existing resources.

Legal and Governance Implications:

No specific implications.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group and Service Directors.

Background Papers:

Annual Governance Statement 2014/15 report to the Audit and Governance Committee on 29 June 2015

Risk Management:

The preparation of the Annual Governance Statement is a key part of the Council's governance arrangements in demonstrating that there is a continuous review of the Council's internal control and risk management systems.

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.

Date / Name	Summary of equality analysis
9/9/15 Chief Internal Auditor	The report is a review of the Governance arrangements within the Council and has no equality implications.

EPPING FOREST DISTRICT COUNCIL

Annual Governance Statement 2014-15

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 2015 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 2014/15 were:
1	The 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: <ul style="list-style-type: none"> 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; and 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	A standard committee report format that includes specific consideration of all legal, financial, professional and technical considerations
11	A Medium Term Financial Strategy which informs service planning and budget setting,

12	A compliments and complaints procedure
13	A risk-based approach to internal audit, emphasising the need for sound control and good value
14	A robust whistle blowing policy and process, refreshed in 2014-15, along with supporting documents outlining the Council's zero tolerance approach to fraud and corruption, which include anti bribery and anti money laundering policies.
15	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 development throughout 2014/15 of a framework to support counter fraud and corruption and processes and procedures to enable action to prevent, detect and investigate fraud, which will culminate in the creation of a Corporate Fraud Investigation Team as from 1st April 2015.

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 2014/15.

In the Annual Governance Statement for 2013/14 we reported two significant governance issues relating to ICT Procurement and Car Parking Income. The ICT Procurement issue had been resolved by the time that statement was published while the Car Parking Income was partly resolved but further work was required.

In preparing this statement and reviewing the effectiveness of the Council's governance arrangements, we have identified areas for improvement or require careful monitoring which are set out in the table below, together with the steps to be taken to address them. The second issue below was also reported in the External Auditors (BDO) Annual Audit Letter 2013/14.

No.	Issue	Management response
1	<p>Car Parking Income In 2013/14 it was reported in the Annual Governance Statement that 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. During 2014/15 this problem was resolved but following the contracting out of cash collection by NEPP a similar problem was identified in the information provided by the cash collection contractor.</p>	<p>Action to be taken This issue was addressed by management and by the internal audit sections of the Councils which are members of the NEPP following a meeting with the cash collection contractor. The introduction of new ticket machines will greatly improve the monitoring of the pay and display income received. The installation of these new machines is scheduled to start early in 2015/16</p>
2	<p>Housing rent reconciliations A Limited Assurance audit report was issued for Housing Rent Collection and Arrears, due to the Rental Income reconciliation and Council Stock reconciliation had not been completed for 2013/14.</p>	<p>Staff from both the Communities and Resources Directorates had worked together to resolve the issue; the Council Stock reconciliation had been completed by the time the final report was issued, and the Rental Income reconciliation had been completed by 7 August 2014. Rental Income reconciliations are now carried out on a monthly basis.</p>
3	<p>Contract Standing Orders A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders.</p>	<p>Contract Standing Orders have been developed over time and can be difficult to follow, therefore, a Contract Standing Orders Working Party, chaired by the Director of Communities, has been set up to undertake a fundamental review of the Council's Contract Standing Orders.</p> <p>The group is making substantial progress and the new Contract Standing Orders (subject to Member approval) will provide a more flexible approach and be more responsive to the current and future procurement needs of the Council and will be widely communicated across the organisation to help ensure compliance.</p>
4	<p>Sundry Debtors Internal audit reviews in 2014/15 also identified weaknesses in debt recovery processes, especially for debts below £500.</p>	<p>In light of concerns raised by Internal Audit, the Corporate Debt Working Group, chaired by the Assistant Director Revenues, continues to oversee the implementation of recommendations made to the Management Board in February 2015.</p>

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

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: AGC-007-2015/16
Date of meeting: 21 September 2015

Portfolio: Finance

Subject: Annual Outturn Report on the Treasury Management and Prudential Indicators for 2014/15.

Responsible Officer: Simon Alford (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider how the risks associated with Treasury Management have been dealt with during 2014/15; and
- (2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee.

Executive Summary:

The annual treasury management outturn report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2014/15 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 2014/15 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	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
Non-HRA capital expenditure	8.629	8.842	5.648
HRA capital expenditure	17.823	15.250	13.850
Total Capital expenditure	26.452	24.092	19.498
Financed by:			
Capital grants	2.346	1.638	1.149
Capital receipts	7.895	7.578	5.402
Revenue	16.211	14.876	12.947
Total resources Applied	26.452	24.092	19.498
Closing balance on:			
Capital Receipts	5.875	7.661	19.534
Major Repairs Reserve	6.532	10.127	11.154

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 2014/15.

CFR	Original 31-Mar-15 £m	Revised 31-Mar-15 £m	Actual 31-Mar-15 £m
Non-HRA	48.6	29.6	29.6
HRA	155.1	155.1	155.1
Closing balance	203.7	184.7	184.7

9. The Council did not breach the Authorised Limit (set at £230m for 2014/15) or the Operational Boundary (set at £204m for 2014/15) 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. Policies introduced by the Chancellor’s Summer Budget may change this situation going forward, this will be the subject of separate reports on the HRA Business Plan.

The Council’s treasury position

11. The table below shows the Council’s level of balances for 2014/15.

Treasury position	Original 31-Mar-2015 £m	Revised 31-Mar-15 £m	Actual 31-Mar-15 £m
Usable Reserves	44.6	44.6	59.9
Working Capital	40.0	40.0	55.1

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 2014/15 was 83% for Debt and 87% for Investments (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2014/15 was 17% on Debt and 13% on Investments (limit set at 25%);
- b) The maximum amount of the portfolio being invested for longer than 364 days was £5m (limit set at £30m); and
- c) The maximum limit set for investment exposure per country outside of the UK was 6% (limit set at 30%). £4m 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.
 - 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. The waste management contractor (and possibly others, e.g. Leisure) have benefitted from the Council providing "Prudential Borrowing". The Treasury Management Strategy Statement has been varied to permit this. £4.1m was lent to the Waste Contractor for the purchase of new vehicles.

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 exceeded the anticipated closing balances, resulting in the Council having adequate resources going forward to finance its medium term capital programme. 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.

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 or subsequently);
- 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.

Resource Implications:

As outlined within the report.

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 2014/15 and the Treasury Management Strategy for 2014/15 to 2016/17 went to Council on 20 February 2014.

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.

Annual Treasury Outturn Report

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the "Code") requires that Local Authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2014/15 was approved by Full Council on 20th February 2014 and can be accessed via the Council's website.

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. This report covers treasury activity and the associated monitoring and control of risk.

External Context

Growth and Inflation: The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

UK Monetary Policy: The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers

on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament, but resulted in a small majority for the Conservatives.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone has receded. In August 2015 it reached a deal with its international creditors for a third bailout that would provide aid worth up to 86 billion euros, or about \$94.4 billion, in exchange for harsh austerity terms, but substantial debt relief has been called for by the International Monetary Fund.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough to weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Market reaction: From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission through into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

Local Context

At 31/03/2015 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £184.7m, while usable reserves and working capital which are the underlying resources available for investment were £114.9m.

At 31/03/2015, the Council had £185m of borrowing and £67.4m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £10m.

The Council has an increasing CFR over the next few years due to the capital programme, but reducing investments, and will therefore be required to borrow between £20m and £50m over the forecast period, depending on the Council's decisions on the use of Capital Resources.

Borrowing Strategy

At 31/03/2015 the Council held £185m of loans, no change from the previous year, as part of its strategy for funding Self-Financing for Housing.

The Council's chief objective when borrowing 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, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

There have been significant items of capital expenditure approved by the Council during 2015/16 that were not contained within the original Capital Programme. For example the supplementary capital estimate approved by Council in June 2015 for £30.6m for the Langston Road Retail Development. There are also demands for capital resources from the Budget effects on the HRA Business Plan, possibly £15m, and the requirements of the Leisure Contract Procurement, possibly £11m to £15m. These two projects are still being developed and will subsequently go to Cabinet for approval.

Arlingclose are also advising on our borrowing decisions. We are likely to borrow in 2015/16 and / or 2016/17.

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2015 £m	Avg Rate % and Avg Life (yrs)
CFR	184.7				184.7	
Short Term Borrowing ¹	0	0	0	0	0	
Long Term Borrowing	185.5	0	0	0	185.5	3% - 22.5yrs
TOTAL BORROWING	185.5	0	0	0	185.5	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	185.5	0	0	0	185.5	
Increase/ (Decrease) in Borrowing £m					0	

LOBOs: The Council holds none.

Debt Rescheduling: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

¹ Loans with maturities less than 1 year.

Abolition of the PWLB: In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The Council intends to use the PWLB's replacement as a potential source of borrowing if required.

Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Council's investment balances have ranged between £58.1 and £70.5 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/03/2015 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	43.7	73.0	69.3	47.4	0.60%-123 days
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	10.0	0	5.0	5	1.30%-624 days
Money Market Funds	5	26.0	16.0	15	0.45%
TOTAL INVESTMENTS	58.7	99.0	90.3	67.4	
Increase/ (Decrease) in Investments £m				8.7	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2014	A+	5.16	AA-	3.95
30/06/2014	A+	5.28	AA-	4.20
30/09/2014	A+	5.07	AA-	3.87
31/12/2014	A+	5.03	AA-	3.70
31/03/2015	A+	5.10	AA-	3.98

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.

Scoring:

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, some of whose constituent banks are on the Council's lending list, is taking measures to augment capital and the PRA does not require the

group to submit a revised capital plan. RBS, which is not on the Council's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.

The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total - none of the failed banks featured on the Council's lending list.

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. The Council's Treasury Strategy for 2015/16 includes the ability to diversify into Treasury Bills and Certificates of Deposit. In 2014/15 we continued to rely on unsecured deposits.

Budgeted Income and Outturn

The average cash balances were £22m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix B). New deposits in banks and building societies were made at an average rate of 0.60%. Investments in Money Market Funds generated an average rate of 0.45%.

The Council's original budgeted investment income for the year was £399,000. The Council's investment outturn for the year was £47,000 higher than the original budget due to investment balances being higher than anticipated.

Update on Investments with Icelandic Banks

The likely dividend on Heritable is now 98 to 100 pence in the pound and this will be confirmed and paid later in 2015. So we confidently expect to recover our principal. Which makes the original decision to place the bank into administration look rather strange.

Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2014/15 (see Appendix A), which were set in February 2014 as part of the Council's Treasury Management Strategy Statement.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the percentage of net principal borrowed or interest payable will be:

D=Debt I=Investment	2014/15 %	2015/16 %	2016/17 %
Upper limit on fixed interest rate exposure	100 D/100 I	100 D/100 I	100 D/100 I
Actual	83 D/87 I		
Upper limit on variable interest rate exposure	25 D/75 I	25 D/75 I	25 D/75 I
Actual	17 D/13 I		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

The amount of the portfolio in Variable Rate Investments fluctuated during the year, from 8% to 21%, an average of 13%.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	100%	0%	0
12 months and within 24 months	100%	0%	0
24 months and within 5 years	100%	0%	0
5 years and within 10 years	100%	0%	17%
10 years and within 20 years	100%	0%	0
20 years and within 30 years	100%	0%	83%
30 years and within 40 years	100%	0%	0
40 years and within 50 years	100%	0%	0
50 years and above	100%	0%	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£5m		

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit risk score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	A-	A+

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£20m	£50m

(£50m is the cash flowing in, but is not all available.)

Investment Training

EFDC Members - Training was held on 9 January 2014. An evening session from Arlingclose.
 S Alford - Arlingclose Investment Workshop on 10 December 2014. Treasury Strategy update.
 S Alford - Minimum Revenue Provision by Cipfa on 25 February 2015.

Prudential Indicators 2014/15

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000
General Fund	5,648	7,276	2,071
HRA	13,850	18,952	22,003
Total Expenditure	19,498	26,228	24,074
Capital Receipts	5,402	7,802	4,537
Government Grants	1,149	1,395	390
Reserves	7,526	11,969	11,235
Revenue	5,421	5,062	7,912
Borrowing	0	0	0
Leasing and PFI	0	0	0
Total Financing	19,498	26,228	24,074

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
General Fund	29.6	59.6	59.6
HRA	155.1	155.1	155.1
Total CFR	184.7	214.7	214.7

The CFR is forecast to rise by £30m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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 Council 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	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	185.456	214.5	214.5
Finance leases	0	0	0
PFI liabilities	0	0	0
Total Debt	185.456	214.5	214.5

Total debt is not expected to remain above the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	204.0	225.0	225.0
Other long-term liabilities	0	0	0
Total Debt	204.0	225.0	225.0

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	230.0	230.0	230.0
Other long-term liabilities	0	0	0
Total Debt	230.0	230.0	230.0

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	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %
General Fund	-0.93	-0.06	-0.83
HRA	15.78	15.81	15.03

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the theoretical impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the previous capital programme proposed.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual Band D Council Tax	3.94	-0.28	0.15
HRA - increase in average weekly rents	-1.59	0.01	-16.80

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in April 2002.

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below. Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction, EFDC are eligible.

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
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.50	0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014	0.50	0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014	0.50	0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014	0.50	0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015	0.50	0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015	0.50	0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015	0.50	0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
Average	0.50	0.39	0.44	0.43	0.50	0.67	0.95	1.09	1.38	1.79
Maximum	0.50	0.50	0.62	0.43	0.51	0.81	1.00	1.38	1.77	2.26
Minimum	0.50	0.24	0.36	0.42	0.46	0.56	0.84	0.80	0.96	1.18
Spread	--	0.26	0.26	0.01	0.05	0.25	0.16	0.58	0.81	1.08

Table 2: PWLB Borrowing 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
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	Low	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	Average	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48

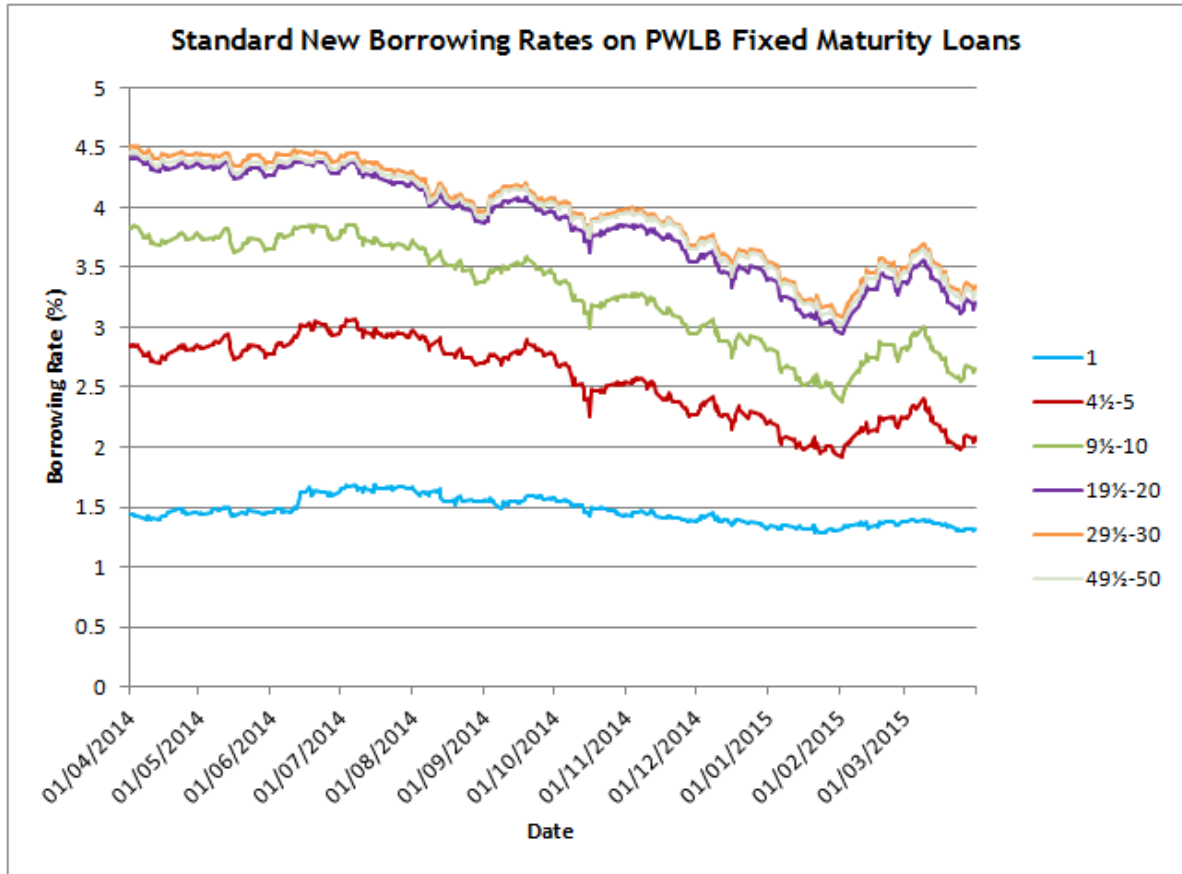


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	Low	1.58	1.94	2.40	2.72	2.95	3.06
	Average	1.99	2.61	3.31	3.66	3.85	3.94
	High	2.39	3.13	3.89	4.26	4.43	4.50

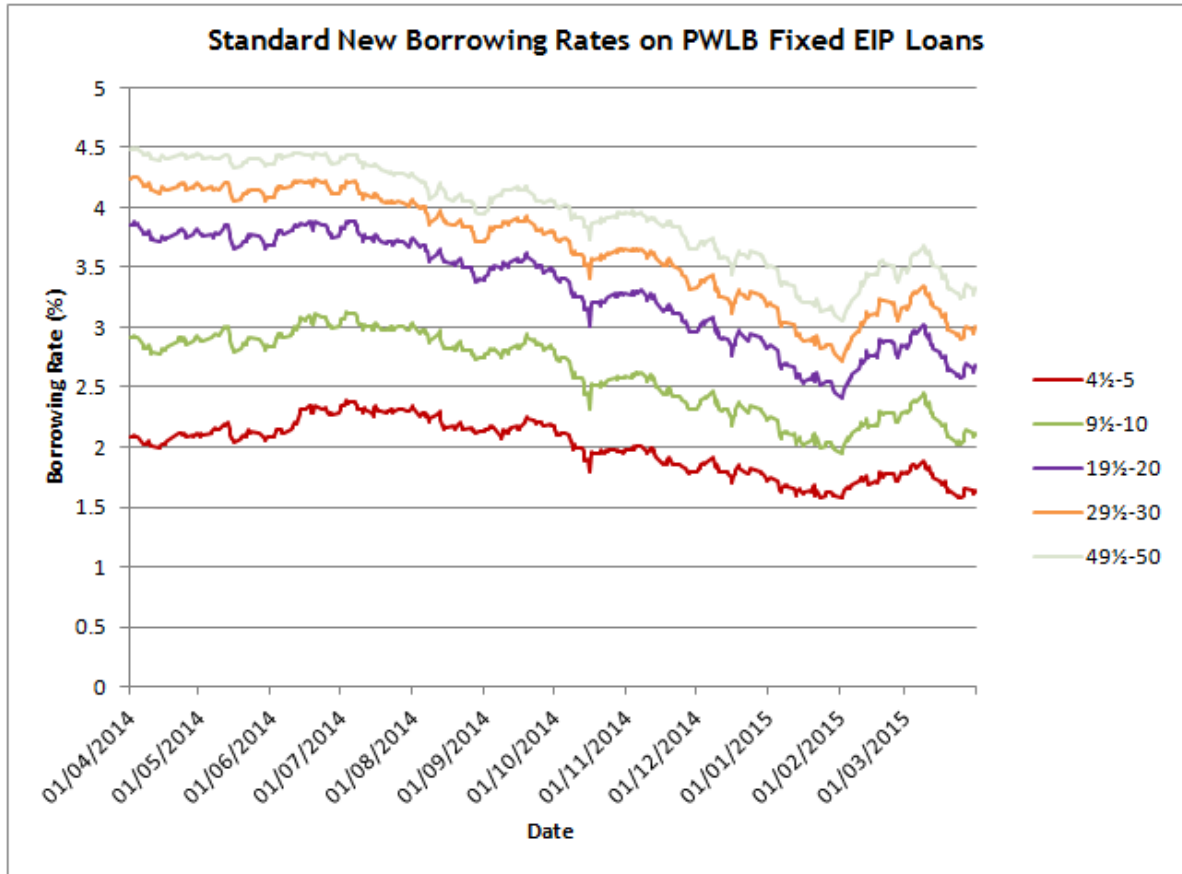


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56
Low	0.55	0.56	0.57	1.45	1.46	1.47
Average	0.59	0.61	0.66	1.49	1.51	1.56
High	0.64	0.68	0.76	1.54	1.58	1.66

EPPING FOREST DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2015

9 September 2015



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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Epping Forest District Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	<p>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.</p> <p>We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our Audit Plan, subject to completion of our outstanding work.</p> <p>Our final audit materiality is £1,900,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £39,000.</p> <p>Our work identified one material misstatement relating to incorrect data input into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6,554,747 and the balance on the Capital Adjustment Account understated by the same amount.</p> <p>There is one unadjusted audit difference (see Appendix II) which would increase the draft surplus on the provision of services in the comprehensive income and expenditure account by £88,000 to £15.863 million (from £15.775 million).</p> <p>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 2015.</p>
Control environment	We did not identify any significant deficiencies in internal controls during the course of our audit.
Governance reporting	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).
Whole of Government Accounts (WGA)	The Council is below the threshold for full assurance review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.
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 2015. 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 2015. The following matters are outstanding at the date of this report.

- Completion of our testing of housing benefit expenditure
- Clearance of outstanding issues raised with management regarding:
 - Evidence to support the revaluation of leisure centres
 - Classification of items relating to creditors and reconciling items in the cash flow statement
 - Calculations to support the bad debt provision for housing benefit debtors
- 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
- Management representation letter, as attached in Appendix VI, to be approved and signed.

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

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Governance Committee meeting	21 September 2015
Completion and issue of the auditor's report	29 September 2015

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 2015.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	86,229
Certification fees	⁽¹⁾ 24,710
Fees for non-audit services:	
Pooled Capital Receipts	TBC
TOTAL FEES	TBC

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 (or seven with approval from PSAA) and the audit manager for 10 years.

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

⁽¹⁾ work remains on-going on the housing benefit subsidy return and the fees shown above is the current Scale fee.

Non audit fees are in relation to the audit of Pooled Capital Receipts which are now outside of the Public Sector Audit Appointments (PSAA) certification regime and will be subject to a separate engagement letter. Arrangements for this piece of work are yet to be confirmed by DCLG and we are therefore unable to confirm the fee.

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

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 2015 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 misleading or 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 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and 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 issues

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS Page 57	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>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.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
VALUATION OF LAND AND BUILDINGS	<p>The calculation of the fair value of land and buildings requires the use of judgement in determining the appropriate assumptions underlying the valuation, and this is susceptible to bias or error. As a result there is a risk of material misstatement if inappropriate or inaccurate estimates or assumptions are used in the calculation of these fair values.</p>	<p>We reviewed the estimates and assumptions used to calculate the fair value of land and buildings to ensure that those used by the valuer are reasonable.</p> <p>We will compare the fair values used within the financial statements to industry suggested values to ensure that the balances used by the Council in their financial statements are reasonable.</p>	<p>At the date of this report, our work on the valuation of land and buildings, specifically the Council's leisure centres, remains ongoing. Further details are provided on pages 6 and 7 of this report.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	WORK PERFORMED	CONCLUSION
VALUATION OF PROPERTY Page 58	<p>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. The valuation of HRA properties is completed by an external valuer with other land and buildings subject to valuation by a suitably qualified Council officer.</p> <p>Management make valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by external and internal valuers with specialist knowledge and experience valuing local authority estates, whom have regard to local prices and building tender indices in the public sector.</p> <p>We have considered the independence, objectivity and competence of the external and internal valuers 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.</p>	<p>We are satisfied that the external valuer used to value council dwellings 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.</p> <p>At the time of writing this report, our work on the valuation of the Council's leisure centres remains ongoing. Further details regarding this matter are included on page 7 of this report.</p>
ESTIMATED PENSION LIABILITY	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>
PROVISION FOR BAD AND DOUBTFUL DEBTS	<p>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</p>	<p>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.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
<p>VALUATION OF LEISURE CENTRES</p> <p>Page 59</p>	<p>We reviewed the valuations of the Council’s leisure centres which were performed by the Council’s internal valuer and identified a significant increase in the value of these assets. We requested the internal valuer’s working papers to support the valuation but these could not be located. Due to unforeseen circumstances, the officer responsible for the valuation was unavailable during the audit to retrieve the relevant information.</p> <p>We requested that the Council revisit the valuation of the leisure centres and provide supporting working papers. In response, the Council’s Estates and Valuation team provided an indicative opinion on the value of the assets (which was materially different from that recognised in the draft accounts). However, the team were unable to provide a formal valuation due to a lack of experience valuing this type of asset.</p> <p>The Council have now engaged an external valuer to provide a valuation of the leisure centres, which is currently being completed. Once this is done, we will review the revised valuation.</p>	<p>We are unable to conclude until we have received and audited the revised valuation.</p>
<p>REVALUATION RESERVE HISTORICAL COST ADJUSTMENT</p>	<p>Proper accounting practice requires that the Council transfers an amount from the revaluation reserve to the Capital Adjustment Account (CAA) to ensure that any gains held in the revaluation reserve are depreciated at the same rate as the asset to which they relate.</p> <p>Our review of movements in the revaluation reserve identified a historical cost depreciation adjustment of £6.6m. This compares to £122k in the prior year. Further investigation identified that the Council had incorrectly processed historical cost adjustments in the Asset Management System, resulting in historical cost of all revalued assets being written out to the CAA.</p>	<p>We are satisfied that the underlying cause of the error has not had a material impact on the value of property held on the balance sheet. Management have agreed to adjust for the error to ensure that the revaluation reserve and capital adjustment account are correctly stated.</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
NON-DOMESTIC RATES (NDR) APPEALS PROVISION	<p>When calculating the NDR appeals provision, the Council has applied the 2014/15 NDR multiplier¹ to all previous years from the effective date of the appeal, rather than using the prior year multiplier. We consider the latter method to be a more accurate approach and have calculated that the year-end provision has been overstated by £220,025 as a result (of which the Council's share is 40% or £88,010).</p> <p>Had the provision been calculated using prior year multipliers, the reported NDR deficit for the year of £62k on the collection fund would have been a £158k surplus.</p>	<p>We are satisfied that this matter does not have a material impact on either the Council's reported financial performance or the collection fund. However, given that the Council's estimate has resulted in a deficit rather than a surplus being reported on the NDR element of the collection fund, we have raised this matter for your consideration.</p> <p>We have recorded an unadjusted judgemental misstatement in Appendix II.</p>

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 2015.

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¹ NDR is calculated by multiplying the rateable value by a "multiplier", which is expressed as a set number of pence (per pound of value).

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, were prepared and provided to us for audit on 30 June 2015.

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.

CONCLUSIONS AND AUDIT ISSUES

We have no matters to report.

GOVERNANCE STATEMENT

We are required to review the draft 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.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the 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

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, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

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

REVIEW OF THE DATA COLLECTION TOOL

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

ASSURANCE STATEMENT

W will submit the WGA Assurance Statement by the deadline of 2 October 2015.

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). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (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 (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

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

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

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

USE OF RESOURCES

Financial resilience

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	RISK DETAIL	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>Page 64</p> <p>FINANCIAL RESILIENCE</p>	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.</p>	<p>We have reviewed the assumptions made in the latest version of the Council's medium term financial strategy (MTFS), which covers the five year period 2015/16 to 2019/20, and considered the level of savings the Council is required to make during the period covered by the strategy.</p> <p>The MTFS shows that the Council expects to be able to maintain a level of general fund (excluding earmarked) reserves which exceeds the member approved level of 25% of the Council's net budget requirement (NBR) which will average £13.2m per annum over the life of the MTFS. At the start of the MTFS, reserves a forecast to be 73% of NBR, falling to 66% at the end of the MTFS.</p> <p>The MTFS shows that the Council is forecasting that savings of £1.0m are required over the next five years. The Council has yet to determine how these savings will be achieved, although the Council has historically met its savings targets. Should these savings not be achieved, the Council has adequate reserves over the life of the MTFS to address the resulting budget gap.</p> <p>The balance on the capital fund will be used up over the life of the MTFS meaning that, should additional capital investment over and above that forecast be required, the Council may need to consider borrowing funds.</p> <p>Changes announced by central government following the election regarding the capping of social housing rent is likely to have a significant impact on the ability of the Council to deliver the HRA business plan as it currently stands. The Council have estimated that rent income will be £14m lower over the four year period covered by the announcement. The Council is currently considering the impact of this on its investment plans for council dwellings and its effect on the proposed repayments of borrowing entered into following the move to HRA self-financing.</p> <p>The Council's MTFS therefore shows that the Council expects to remain in a healthy financial position in the medium term.</p>	<p>No areas of concern were identified that we need to report.</p>

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

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

Key: ■ Significant risk/issue ■ Other relevant use of resources work

AREA	WORK PERFORMED AND FINDINGS	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 65 CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS</p>	<p>We have considered the Council's arrangements for improving efficiency and productivity. We have reviewed the Council's operations during the year for evidence which demonstrates that it is taking action to prioritise its resources.</p> <p>The Council has produced a "Value for Money" strategy, which sets out its corporate arrangements for delivering value for money services which meet the needs of residents and service users. This describes the concept of value for money and describes how the Council aims to achieve it. It is available to all officers.</p> <p>The Council has continued to develop annual budgets which reflect the priorities outlined in its Corporate Plan. The existing Corporate Plan came to an end in March 2015 and a new Corporate Plan, covering the period 2015 - 2020 has recently been approved by members. Delivery against the objectives in the plan will be enabled via an annual key action plan, which will set out what needs to be achieved and when to ensure that the aims of the Corporate Plan are being met.</p> <p>Key performance indicators were developed at the beginning of 2014/15, with 36 KPIs covering all four directorates. Progress against these has been reported to the Finance and Performance Management Cabinet Committee on a quarterly basis, allowing members to identify areas where performance may require improvement and providing the opportunity to challenge officers where necessary.</p> <p>During 2014/15, the Council entered discussions regarding a local non-domestic rates pool with nine other authorities in Essex and the pooling arrangement came into force on 1 April 2015. The Council expects to gain approximately £136k from this arrangement, although the impact of non-domestic rate appeals submitted prior to the 31 March deadline may have an impact on this amount.</p> <p>The Council has re-tendered its waste contract during the year, with the successful bidder taking over in November 2014. The contractor has recently experienced operational issues which have had a negative impact on service delivery. The Council has engaged with the contractor at a senior level to address the issues, resulting in an improvement in the service.</p>	<p>No areas of concern were identified that we need to report.</p>

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 2015. We anticipate issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Epping Forest District Council
Management	<p>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:</p> <ul style="list-style-type: none"> 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	<p>The persons 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.</p>
Standards (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(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
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 one correction in the revised draft financial statements in respect of incorrect data entry on the Asset Management System which has increased the surplus for the year by £188,543. This issue has also resulted in a material correction to the revaluation reserve and CAA, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £88,000 to £15.863 million (from £15.775 million).

This uncorrected audit difference (which is recorded as a judgemental/estimation misstatement) is shown in the schedule on the following page. We request that you correct this misstatement. 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.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance would increase the reported underlying surplus for the current year by £115,000.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	(15,775)				
Dr Deferred Income				115	
Cr Income	(115)		(115)		
<i>The brought forward extrapolated error occurring as a result of an amount of £5,000 being recognised as income in the prior year when it should have been included in deferred income and released to the CIES in 2014/15.</i>					
<i>As this prior year error relates to a timing difference, it affects in year performance only and has no impact on the general fund balance.</i>					
Dr Provisions				88	
Cr NDR appeals provision	(88)		(88)		
<i>Council's share of over provided NDR appeals (judgemental / estimation misstatement)</i>					
<i>The impact of the appeals provision reflected in the surplus on the provision of services does not have an impact on the general fund balance as it is replaced by the Council's share of NDR income estimated before the start of the year under statutory arrangements.</i>					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(203)		(203)	203	
CIES (surplus) or deficit on the provision of services after adjustments	(15,978)				

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE	HRA BALANCE
	£'000	£'000
Balances before adjustments	(9,293)	(2,570)
Adjustments to CIES above	-	-
Balances after adjustments	(9,381)	(2,570)

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	£1,929,000
Final materiality	£1,900,000
Clearly trivial threshold	£39,000

Planning materiality of £1,929,000 was based on 2% of gross expenditure from 2013/14 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				
<p>Valuation of Leisure Centres</p> <p>The Council were unable to locate working papers to support the valuation of the leisure centres recognised in the draft version of the accounts.</p>	<p>Implement a system to obtain, store and retrieve all working papers supporting amounts recognised in the financial statements so that these are readily available for audit purposes</p>	<p>Agreed</p>	<p>Assistant Director - Resources</p>	<p>March 2016</p>
<p>Revaluation Reserve Historical Cost Adjustment</p> <p>Incorrect data input uploaded to the Asset Management System during the year resulted in a material error in the revaluation reserve and capital adjustment account.</p>	<p>Provide training to AMS users to ensure data input is correct</p> <p>Complete analytical review of draft accounts to assist with the identification of material errors prior to submission for audit</p>	<p>Agreed</p> <p>Agreed</p>	<p>Principal Accountant</p> <p>Assistant Director - Resources</p>	<p>December 2015</p> <p>May 2016</p>

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

September 2015

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2015

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 2015 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 2015 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.

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.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and 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. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Bob Palmer

Director of Resources

September 2015

Councillor J Knapman

Chairman of Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

September 2015

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-009-2015/16
Date of meeting: 21 September 2015

Portfolio: Finance

Subject: Statutory Statement of Accounts 2014/15

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services Officer: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2014/15 be adopted.

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 29 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

There have been no substantial changes to the annual Statutory Statement of Accounts for 2014/15. The format of the accounts and the disclosure notes within them are very similar to those for 2013/14. Also, following the significant changes to the system of local authority finance in 2013/14, 2014/15 has been a year of consolidation with no other significant changes.

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 29 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.*

Critical accounting policies and practices, and any changes to them

3. 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

4. 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.

5. Two of the notes required 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.

6. 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.

7. 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 increased in the year from £57.8 million to £69.9 million. This larger deficit is due to a £13.4 million increase in the value of the scheme assets being outweighed by an increase of £25.5 million in the projected liabilities.

8. The key to calculating the value of the projected liabilities is the discount rate, and as this falls the size of the liability increases. The reduction in the discount rate from 4.4% to 3.2% reflects the falling yields in the corporate bond market, which actuaries are required to base discount rates on.

9. The figures shown in the table below 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	2013/14 £'m	2012/13 £'m	2011/12 £'m	2010/11 £'m
Liabilities	(185.0)	(159.5)	(170.4)	(150.8)	(130.1)
Assets	115.1	101.7	95.0	85.2	83.8
Deficit	(69.9)	(57.8)	(75.4)	(65.6)	(46.3)

10. 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 2015. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

11. There are two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these is the Council's Property, Plant and Equipment, which dominates the Balance Sheet with a value of just under £600 million. These assets are revalued periodically to ensure their valuations are correct and up to date. This process has not caused any concern previously as the valuations have either been prepared by qualified valuers in the Council's estates section or by external valuers in such a way that the external auditors have been able to satisfy themselves as to the accuracy of the valuations.

12. This year has been more problematic as the valuer who had revalued the Council's leisure centres is now on long term sick leave and his colleagues have been unable to locate his working papers. Work by other team members in the estates section indicated that their colleague may have made a significant error in his valuation and so it has been necessary to instruct an external valuer.

13. The output from the external valuer is still in progress so it is unclear yet how different his values will be to those currently in the accounts. It is likely that some adjustment will be needed to the accounts and amended pages of the Statutory Statement will be issued as a supplementary agenda for this meeting.

14. The other area is the provision for business rate appeals. 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.

15. The Collection Fund includes a Provision for Appeals of £3.26 million, up from £1.49 million last year. Part of 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. However, ending the right of appeal against the 2010 list from 31 March 2015 generated a large number of additional appeals and given the limited time available it was necessary to apply a cruder approximation to these cases. It is helpful to give some numbers here to illustrate the size of this problem, prior to March 2015 we had 192 appeals outstanding which covered properties with a combined rateable value of £14.5 million in March 2015 we received an additional 274 appeals which covered properties with a combined rateable value of £14.2 million.

16. An area of particular difficulty is with surgeries and medical premises where it has become evident that the District Valuer used an incorrect methodology in the initial valuation of these premises. This has resulted in substantial reductions on appeal, for example from £184,000 to £45,000 and from £73,500 to £20,250. This has been offset by some high value appeals being dismissed, for example the provision included an amount of £96,000 against a rateable value of £800,000 that has been upheld. To date the appeals that have been settled are similar in total to the provisions that were held against them and it appears the provision is not materially misstated. 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, including one with a rateable value of £5.83 million.

17. 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

18. There were no transactions in either 2014/15 or 2013/14 that require separate disclosure as Exceptional Items.

Significant adjustments resulting from the audit

19. There is one significant adjustment arising from an error in data input to the asset management system. This has resulted in the Revaluation Reserve being overstated by £6.5 million and the Capital Adjustment Account being understated by the same amount. This has no effect on the Balance Sheet as both these items are within the heading "Unusable Reserves". It also has no effect on either the surplus for the year or the balance on the General Fund.

20. 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

21. Neither the Internal nor External Auditor has 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 2014/15. 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.

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Epping Forest District Council
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STATEMENT OF ACCOUNTS
2014/15



STATUTORY STATEMENT OF ACCOUNTS 2014/15

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

INTRODUCTION AND EXPLANATORY FOREWORD

INTRODUCTION

The preparation of the annual accounts under the requirements of International Financial Reporting Standards (IFRS) is now well established and hopefully stakeholders are 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 and now the Financial Reporting Advisory Board have insisted that public sector financial statements move toward more closely resembling 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.
- 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.
- Balance Sheet - this is the statement of the Council's financial position at the end of the financial year.
- Cashflow Statement - this reports the movement on cash and cash equivalents in a summarised form.

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 and cash equivalents at the end of the year.

2014/15 was a year of consolidation, with the significant changes for several aspects of local authority finance introduced in 2013/14 becoming more established. 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. The collection of Council Tax from those paying it for the first time went better than had been anticipated. This success was only possible due to the additional resources made available by the major preceptors. The use of dedicated resources on these challenging cases meant efforts on collecting the majority of non-benefit cases were not compromised. The better than expected collection rates have meant it has been possible to leave the scheme largely unchanged and the support available has not been reduced from the initial level of 80%.

Unfortunately the local retention of Non-Domestic Rates has not gone as smoothly as the transition to Local Council Tax Support. We have remained successful at collecting Non-Domestic Rates and 2014/15 again saw performance exceed the target set by Members. 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.

There is nothing within the current system to discourage speculative appeals that have no justification from coming forward. This meant it was no surprise that the deadline of 31 March 2015 for raising appeals against the 2010 valuation list produced an avalanche of new appeals. Several hundred new appeals were received and amongst the many spurious cases there are some of potentially national significance. All of the more traditional supermarket chains have raised appeals on their store valuations, to reflect the lower trading levels since the arrival of their newer discounting rivals. There probably is not a single council in the country that does not have several supermarkets operated by the traditional operators and so any significant reduction in valuations will impact not only on individual councils but also on the overall system.

Even before the fresh torrent of appeals the Valuation Office Agency (VOA) had a huge backlog and has shown itself completely incapable of dealing with the additional pressures of the new system. This means we have a vast number of outstanding appeals with no realistic prospect of most of them being resolved any time soon and because of the uncertainty on the value of their ultimate settlement we have to make some provision against them. Given the number of new appeals and the short space of time between receiving notifications of the appeals from the VOA and having to prepare these accounts, a different methodology had to be applied in dealing with these appeals to those that we had known about for longer. The bottom line here is that it has been necessary to double the provision for these appeals from £1.5 million to £3 million. The Councils element of this provision represents 40% and has increased from 0.6 million to £1.3 million.

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 has resulted from the increased provision for appeals will not be reflected in lower income to the General Fund until 2015/16. This rather odd situation means it appears that we have more income in 2014/15 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.

There was one major service change during 2014/15 that is worth mentioning. After a lengthy process of competitive dialogue there was a change in the Council's waste management contractor, with Biffa replacing Sita from November 2014. The handover was a success and the new contract ran smoothly through to the end of the financial year. However, during May 2015 Biffa introduced a new four day collection system which has been problematic. At the time of writing, the situation is improving but the long term solution to the collection system and the short term issue of funding the rectifications are still to be determined.

More generally across the authority in 2014/15 the service restructures were bedding in, with the Continuing Services Budget (CSB) showing a consequent combined reduction of over £300,000. Income from the Council's property portfolio and development control increased by over £400,000 but this was largely offset by a reduction of £310,000 in the income from the market at North Weald. It was another good year for New Homes Bonus with an additional £569,000 being added to the CSB.

In 2014/15 the Council's Balance Sheet value has increased by £33.3 million to £443.8 million. The improvement in the Balance Sheet total arises primarily from the increase in the value of the Council's properties of £39.4 million. There was also an increase in the Council's cash and investments went up by £9 million to £68.3 million.

The growth in the Council's Balance Sheet was reduced by an increase in Long Term Liabilities, particularly in respect of the pension fund. This has gone up significantly in the year from £57.8 million to £69.9 million. The assets of the scheme have increased in value by £13.4 million but the major change is on the liabilities which have increased by £25.5 million. The key to calculating the value of future costs is the discount rate and as this falls the size of the liability increases. The reduction in the discount rate from 4.4% to 3.2% reflects the falling yields in the corporate bond market, which actuaries are required to base discount rates on. 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 2015. 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 worse than was anticipated when the revised estimates were set. A predicted General Fund deficit of £493,000 has ended up as a deficit of £591,000, although it should be remembered this is after a transfer of £500,000 to the new Invest to Save Reserve. The Housing Revenue Account has a deficit of £396,000, some £591,000 better than the revised estimate of a deficit of £987,000. 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 2014/15

General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances

General Fund	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Net Expenditure after Adjustments	13,784	14,324	14,574	790	250
Government Grants and Local Taxation	(13,541)	(13,831)	(13,983)	(442)	(152)
(Contribution to)/from Balances	243	493	591	348	98
Opening Balances - 1/04/2014	(9,884)	(9,884)	(9,884)	-	-
(Contribution to)/from Balances	243	493	591	348	98
Closing Balances - 31/3/15	(9,641)	(9,391)	(9,293)	348	98

Net expenditure for 2014/15 totalled £14.57 million, which was £790,000 (5.7%) above the original estimate agreed in February 2014 and £250,000 (1.7%) above the revised estimate compiled in December 2014. When compared to a gross expenditure budget of approximately £74 million, the variances can be restated as 1% and 0.3% 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	14,654	15,413	15,625	971	212
In Year Growth	379	752	692	313	(60)
In Year Savings	(1,249)	(1,841)	(1,743)	(494)	98
Total Continuing Services Budget	13,784	14,324	14,574	790	250
DDF - Expenditure	2,458	2,530	2,207	(251)	(323)
DDF - One Off Savings	(595)	(1,408)	(1,958)	(1,363)	(550)
Total DDF	1,863	1,122	249	(1,614)	(873)
Appropriations	(1,863)	(1,122)	(249)	1,614	873
Net Expenditure	13,784	14,324	14,574	790	250

Continuing Services Budget

CSB expenditure was £790,000 above the original estimate and £250,000 higher than the revised. The variances have arisen on both the opening CSB which was £212,000 higher than the revised estimate, and the in year figures which were £38,000 higher than the revised estimate.

In common with most years, when measured against the Original Budget, salaries were underspent by £109,000. Actual salary spending for the Authority in total, including agency costs, was some £20.5 million compared against an original estimate of £20.6 million. Whilst the General Fund was underspent by around £103,000, the HRA was marginally overspent. The General Fund underspend was split between the Governance and Neighbourhoods directorates. Over time a number of posts have been deleted from the establishment and this has reduced the number of vacant posts. To reflect this change, the vacancy allowance in the budget was reduced from 2.5% to 1.5%. The outturn was 2%, hence the small underspend.

There were a number of other CSB budgets which were either overspent or failed to achieve their income target and the cumulative effect was a variance of £212,000 on the opening CSB. One of the largest movements on the opening figures was the increase in the provision for bad and doubtful debts, which included a one-off adjustment for the change in systems of Non-Domestic Rate accounting.

The main movement between the Original estimate and the Revised estimate and Actual position was the creation of the Invest to Save Reserve which has moved £500,000 from the General Fund Balance into an earmarked reserve set up to fund any initial costs required to achieve on-going CSB savings. The Reserve will operate in a similar way to the District Development Fund (DDF) in that there will be the ability to move budgetary provision between years as necessary. 2015/16 will be the first year of operation for this Reserve.

The original in-year CSB net saving figure of £870,000 increased at revised estimate to a net saving of £1,089,000. The main reasons for this being the saving on the new waste contract and additional income in Planning from development control and pre-application checking. This was offset to a degree by a further reduction in the income from the market at North Weald. The ongoing reductions in income from the market question the viability of this activity and an exercise will be conducted to look at alternative uses. The actual net savings were £38,000 below the revised figure at £1,051,000. This was primarily due to savings on the waste management contract falling £81,000 short of the estimate.

District Development Fund

Net DDF expenditure was £1,614,000 below the Original estimate and £873,000 below the Revised estimate. There are requests for carry forwards totalling £575,000 and therefore the variation actually equates to a £298,000 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 estimate by some £741,000. This was mainly due to new items identified during 2014/15, the main item being £326,000 for the recovery of housing benefit overpayments together with Council Tax benefit adjustments and grants. Other significant changes included additional income from Development Control (£120,000) and shops (£78,000) whilst there was slippage on the Local Plan (£91,000) and building maintenance (£46,000).

The rephasing of the Local Plan budget proved overly pessimistic as there was an overspend of £34,000 to carry forward to 2015/16. Cabinet has recently received an update on the Local Plan which indicated that the work will take a year longer than had previously been estimated and the funding requirement is likely to be at least £0.5 million more than currently allowed for in the DDF programme. The amount and timing of funding will be analysed in detail as part of the compilation of the 2016/17 budget.

Carry forwards of £575,000 have been requested, with the largest request being £245,000 from the Governance Directorate. Nearly half this amount relates to work on asset rationalisation, with smaller amounts of £30,000 for staffing in Development Control and £28,000 for Town Centre Support/Portas Initiative. 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 (£58,000). Less significant carry forwards were also seen in the Neighbourhoods Directorate (£55,000) and for the Chief Executive (£75,000). The amount for the Chief Executive relates to the transformation programme.

Several items contributed to the net underspend of £298,000, the largest being additional income over that anticipated of £103,000 in Development Control. Notification has been received from the administrator of Heritable Bank that a final dividend of £100,000 will be paid during 2015. This means that the full amount of the deposits will have been recovered and supports the argument that the Government were wrong to place Heritable in administration as the bank was clearly not insolvent.

The effect of this is that there is a balance of £3.6 million on the DDF as at 31 March 2015 whereas it was expected that the balance would be £2.7 million. The carry forward provision of £575,000 has been added to the programme for 2015/16. The MTFS set in February 2015 had anticipated that the unallocated DDF balance would still be £0.9 million at the end 2018/19 and this has increased to £1.2 million. Even allowing for an additional £0.6 million on the Local Plan this still leaves a further £0.6 million as unallocated at this time.

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	14,019	14,001	13,512	(507)	(489)
Depreciation	13,231	12,480	12,941	(290)	461
Total Expenditure	27,250	26,481	26,453	(797)	(28)
Gross Dwelling Rents	(31,815)	(31,631)	(31,585)	220	(46)
Other Rents and Charges	(2,450)	(2,457)	(2,410)	(40)	(47)
Total Income	(34,265)	(34,088)	(33,995)	270	93
Net Cost of Service	(7,015)	(7,607)	(7,542)	(527)	65
Interest and Other Transfers	(402)	(395)	(521)	(119)	(126)
Interest Payable	5,532	5,529	5,558	26	29
Transfer from Major Repairs Reserve	(6,186)	(4,958)	(5,611)	575	(653)
Net Operating Income	(8,071)	(7,431)	(8,116)	(45)	(685)
Appropriations					
Capital Expenditure Charged to Revenue	5,700	5,200	5,200	(500)	0
Transfer to Self Financing Reserve	3,180	3,180	3,180	0	0
Other	(2)	38	132	134	94
Deficit for Year	807	987	396	(411)	(591)
Opening Balance 1/4/14	(2,966)	(2,966)	(2,966)	0	0
Deficit for year	807	987	396	(411)	(591)
Closing Balance - 31/3/15	(2,159)	(1,979)	(2,570)	(411)	(591)

Deficits within the HRA of £807,000 and £987,000 were expected within its original and probable outturn revenue budgets respectively; the actual outturn was a deficit of £396,000. The difference of £591,000 between the revised estimate and the actual is largely due to depreciation and the transfer from the Major Repairs Reserve (MRR). These two items are related so it is only the net difference between the two variances of £192,000 that affects the bottom line.

Income from Dwelling Rents was down on expectations as sales of Council properties were higher than expected. This was largely adjusted for in the revised estimates and that is why the variance to the revised budget of £46,000 is much smaller than the variance of £220,000 from the original budget. There were savings on Revenue Expenditure of £488,000 when compared to the revised position. One of the larger underspends was on energy charges (£61,000) and there was also a lower than expected increase in the bad debt provision which saved £67,000.

The revenue balance on the HRA of £2.6 million is above the target balance of £2 million previously agreed by Cabinet. This is also supported by the balance on the MRR of £11.1 million, being £1.5 million higher than estimated.

The government has announced that for four years beginning on 1 April 2016 Local Authority rents will be reduced by 1% per annum, there is also a proposal to compel the sale of high value properties once they become void to fund the extension of the right to buy to registered social landlords. Both of these factors will have a significant impact on the Council and it will be necessary to review replacement cycles of key components to assess whether these need to be increased in light of these developments.

Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2014/15.

	Original Estimate	Revised Estimate	Actual Spend	Variance from Original	Variance from Revised
Capital Expenditure and Financing	£000	£000	£000	£000	£000
General Fund	8,629	8,873	6,263	(2,366)	(2,610)
Housing Revenue Account	17,823	15,219	13,851	(3,972)	(1,368)
Total Expenditure	26,452	24,092	20,114	(6,338)	(3,978)
Grants	2,346	2,348	1,735	(611)	(613)
Capital Receipts	7,895	7,578	5,403	(2,492)	(2,175)
Revenue Contributions	16,211	14,166	12,976	(3,235)	(1,190)
Total Financing	26,452	24,092	20,114	(6,338)	(3,978)

The table identifies a net underspend against the revised estimate of £3.98 million. This includes some schemes showing genuine savings. However, there are also schemes where expenditure was ahead of schedule and these overspends in 2014/15 have been financed by bringing forward £217,000 of funding from 2015/16.

As always with the capital programme, there has been some slippage and £4.3 million of funding has been carried forward to 2015/16. The two largest areas of slippage on non-housing items were the expenditure on the St Johns redevelopment project (£1,000,000) and the planned maintenance programme (£557,000). This is an unusually large figure for the planned maintenance programme, but the window replacements have been delayed by problems in manufacture and this in turn has delayed the solar panel project which will follow on from completion of the windows. The £2.52 million underspend on the General Fund programme is closely matched by the net carry forward is £2.51 million, as overspends are a relatively small £10,000 on the projects undertaken.

On the housing programme the greatest slippage was on the kitchen and bathroom replacements (£501,000 less than expected). This was partly caused by some of these works being done as void refurbishment when the properties became free. There was also an underspend of £436,000 on the new house building schemes as these were running behind schedule. The total underspend of £1.37 million on the HRA programme matches the net carry forward as there were no significant over or underspends on projects undertaken.

The generation of capital receipts proved to be higher in 2014/15 than had been anticipated. This was partly 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. Actual sales of 46 were down slightly on last year's total of 53, but comfortably exceeded the estimate of 37. In addition to this, the Council benefited from further capital receipts from the sales of Leader Lodge (HRA) and the refuse fleet and Church Hill car park (General Fund). On the other hand, the use of capital receipts to finance expenditure was £2.2 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 £4.9 million higher than projected, standing at £19.6 million as at 31 March 2015. The movements in capital resources are set out in the tables below:

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Usable Capital Receipt Balances					
Opening Balance - 1/04/14	12,741	17,467	17,467	4,726	-
Usable Receipts Arising	1,029	4,874	7,469	6,440	2,595
Use of Other Capital Receipts	(7,895)	(7,578)	(5,402)	2,493	2,176
Closing Balance - 31/3/15	5,875	14,763	19,534	13,659	4,771

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Major Repairs Reserve					
Opening Balance - 1/04/14	9,998	11,359	11,359	1,361	-
Major Repairs Allowance	7,045	7,045	7,321	276	276
Use of MRR	(10,511)	(8,754)	(7,526)	2,985	1,228
Closing Balance - 31/3/15	6,532	9,650	11,154	4,622	1,504

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 following encouragement from the International Monetary Fund has now adopted more expansionary monetary policies to provide a stimulus. However, the main problem in Europe is the question of who will be staying in Europe with talk of both the "Grexit" and a "Brexit." Even if the Greek referendum supports the austerity measures demanded by Greece's creditors, it is hard to see who will implement the necessary reforms and that this will be anything other than another temporary delay before the inevitable exit. The Middle east continues as a concern with several on-going conflicts and this instability causing fluctuations in oil prices. Iraq and Syria head the list of concerns at the moment but the whole region is in a volatile state. 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.

The two domestic votes since last year have seen Scotland decide to remain as part of the United Kingdom and a Conservative government returned at the General Election. The first past the post system limited the affect of UKIP on the national stage but they now have a presence of varying sizes in most councils. As the next vote will be the one to determine what role the United Kingdom has in Europe it would be rash to think we will be seeing any less of Mr Farage for some time.

The domestic economy continues to recover, although still at a slow pace. 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 high and further action is needed on deficit reduction. There is still a week to go before the Budget, but there are likely to be few surprises. Further reductions in funding for local authorities are inevitable it is just their size that is still to be confirmed. One reduction we know the size of already is the £12 billion that is to come off the welfare bill. With protection promised for pensioners and child benefit it is evident those of working age will suffer the greatest impact. Speculation about the cuts is focused on tax credits and the welfare cap but to achieve a saving of £12 billion the net will need to be cast wider than this.

It is a concern that as funding will be reduced for local authorities there will be pressure to increase the Council Tax and the amount of Council Tax paid by those receiving Local Council Tax Support (LCTS). We have held the charge to those on LCTS at 20% for two years and this is also the recommendation for 2016/17, but at some point this will need to increase. However, those in receipt of LCTS are likely to have their income reduced by the other welfare reforms and so will be less able to pay the Council Tax. 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 future schemes. 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. Imposing a deadline on appeals against the 2010 Rating List produced an avalanche of appeals with the Valuation Office Agency (VOA) receiving 200,000 new appeals between January and March 2015. This caused a doubling in our appeals provision to over £3 million. It is difficult to predict what the ultimate outcome will be and when the VOA will provide it. The late flood of appeals was common across most authorities and this creates another risk as we are part of the Essex Pool for 2015/16 and so, even if our own appeals go well, we could be adversely affected by other Pool members suffering shortfalls. Prospects for own rating list are promising with the developments at St John's Road, Langston Road and North Weald Airfield. 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. In the lead up to the General Election, the Labour Party had stated they would scrap NHB whilst the Conservatives were keen to keep it in place. As the CSB contains £2 million of income from the NHB, it is good from a financial viewpoint that this funding will remain. There is less certainty about the system for non-domestic rates as the Department for Communities and Local Government (DCLG) is conducting a review. The business community and local authorities are at opposite ends of the spectrum in terms of the powers that should be devolved and the extent to which the system should be localised. My main hope for any new system is that an adequate replacement is found for the VOA which is simply not fit for the job it is currently being asked to perform.

Whilst the General Fund revenue balances are lower than anticipated, the variance is not significant. 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 £9.3 million to £3.1 million by the end of 2018/19. It is very difficult to imagine £1.6 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 dedicated Cabinet Committee keeps the house building programme and its financing under review to ensure the Council is not required to pay over receipts and interest to the Government.

The forward programme of non housing revenue account capital investment has been boosted by the recent decision to spend £30 million on acquiring land at Langston Road and proceeding with the redevelopment of this site as a retail park. This should bring huge benefits to the area in terms of jobs and regeneration. It will also help secure the financial future of the Council, with the annual rents likely to exceed £2.5 million. The redevelopment of St Johns should have similar positive affects, although it is unlikely the Council will retain a financial interest in this scheme.

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 restructures that began in 2013/14 have been finalised and efficiency and effectiveness have been enhanced whilst realising savings in a sustainable way. Reductions in grant support will continue and financial pressures will inevitably arise from service areas. 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 2015.

Robert Palmer BA ACA
Director of Resources

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 ELIZABETH WEBSTER
CHAIRMAN OF THE COUNCIL

THE DIRECTOR OF RESOURCES 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 5 to 68 give a true and fair view of the financial position of the Council as at 31 March 2015 and the income and expenditure for the year then ended.

ROBERT PALMER BA ACA
DIRECTOR OF RESOURCES

June 30, 2015

Opinion on the Council's financial statements

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

This report is made solely to the members of 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

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 2015 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 2014/15.

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.

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 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the 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 2015.

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.

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

Ipswich, UK

30-Jun-15

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 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
Movements in 2014/15	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
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
Surplus/(Deficit) on Provision of Services	(3,761)	-	19,536	-	-	-	-	15,775	-	15,775
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	17,593	17,593
Total Comprehensive Income and Expenditure	(3,761)	-	19,536	-	-	-	-	15,775	17,593	33,368
Adjustment between accounting and funding bases under regulations	6 3,499	-	(17,949)	-	2,067	(205)	(48)	(12,636)	12,636	-
Net Increase/(Decrease) before transfer to Earmarked Reserves	(262)	-	1,587	-	2,067	(205)	(48)	3,139	30,229	33,368
Transfers to Earmarked Reserves	(329)	369	(1,983)	1,983	-	-	(40)	-	-	-
Increase/(Decrease) in Year	(591)	369	(396)	1,983	2,067	(205)	(88)	3,139	30,229	33,368
Balance as at 31 March 2015	9,293	5,434	2,570	11,771	19,534	11,154	96	59,852	383,975	443,827

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2015

	Note	2014/15		<i>Net Expend £000</i>	2013/14		<i>Net Expend £000</i>
		Gross Expend £000	Income £000		Gross Expend £000	Income £000	
CONTINUING OPERATIONS							
Central Services to the Public		3,872	(1,158)	2,714	4,306	(1,191)	3,115
Corporate and Democratic Core		2,629	-	2,629	2,600	-	2,600
Cultural & Related Services		4,956	(1,415)	3,541	4,945	(837)	4,108
Environmental & Regulatory Services		10,689	(2,836)	7,853	10,738	(3,180)	7,558
Highways and Transport Services		1,329	(1,446)	(117)	1,200	(1,150)	50
Non Local Authority Housing		40,128	(38,470)	1,658	40,667	(39,524)	1,143
Planning Services		4,239	(1,375)	2,864	4,274	(1,124)	3,150
Housing Revenue Account		27,269	(50,791)	(23,522)	27,743	(64,454)	(36,711)
NET COST OF SERVICES		95,111	(97,491)	(2,380)	96,473	(111,460)	(14,987)
OTHER OPERATING EXPENDITURE	8			2,181			1,948
FINANCING AND INVESTMENT INCOME AND EXPENDITURE	9			5,002			4,714
TAXATION AND NON-SPECIFIC GRANT INCOME	10			(20,578)			(19,337)
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES				(15,775)			(27,662)
(Surplus) on Revaluation of Property Plant and Equipment	11			(27,940)			(4,653)
Actuarial (gains)/losses on Pension Assets/Liabilities	32			10,210			(20,425)
Other (Gains)/Losses				137			133
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(33,368)			(52,607)

BALANCE SHEET

	Note	31 March 2015		31 March 2014	
		£000	£000	£000	£000
LONG TERM ASSETS					
Property, Plant & Equipment	11	593,875		554,477	
Heritage Assets		542		542	
Investment Properties	12	43,034		39,754	
Intangible Assets		616		543	
Long Term Investments	14	5,001		10,004	
Long Term Debtors	13	2,642		2,453	
TOTAL LONG TERM ASSETS			645,710	607,773	
Current Assets					
Assets held for sale		850		1,510	
Inventories		240		274	
Debtors and Prepayments	15	5,168		5,653	
Short Term Temporary Investments	14	37,088		33,910	
Cash & Cash Equivalents	16	26,209		15,338	
			69,555	56,685	
Current Liabilities					
Creditors	17	(13,146)		(8,943)	
Provisions	18	(1,356)		(794)	
			(14,502)	(9,737)	
LONG TERM LIABILITIES					
Long Term Loans	14	(185,456)		(185,456)	
Pensions Liability	32	(69,929)		(57,820)	
Capital Grant Receipts in Advance		(1,551)		(986)	
			(256,936)	(244,262)	
TOTAL ASSETS LESS LIABILITIES			443,827	410,459	
Usable Reserves		59,852		56,713	
Unusable Reserves	19	383,975		353,746	
			443,827	410,459	

THE CASH FLOW STATEMENT

	Note	2014/15 £000	2013/14 £000
Net Surplus on Provision of Services		15,775	27,662
Adjustments to net surplus or deficit on the provision of services for non-cash movements	20	9,637	(6,901)
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	20	(8,950)	(6,870)
<hr/>			
Net cash flows from Operating Activities	20	16,462	13,891
Investing Activities	21	(4,994)	(10,187)
Financing Activities	22	(597)	1,728
<hr/>			
Net Increase or (Decrease) in cash and cash equivalents		10,871	5,432
Cash and Cash Equivalents at the beginning of the reporting period		15,338	9,906
<hr/>			
Cash and Cash equivalents at the end of the reporting period	16	26,209	15,338

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1. ACCOUNTING POLICIES

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 United Kingdom 2014/15. 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.

There is now a requirement to split other comprehensive income and expenditure between those items that will be credited or debited to the CIES in a future period and those that will not, but only where this is appropriate. There are no items that will appear in the CIES in a future period so the format of the other comprehensive income and expenditure section remains the same.

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

1.2. ACCOUNTING CONCEPTS

The accounting policies referred to are consistent with the pervasive 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 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 is for more than one year. This excludes expenditure on routine repairs and maintenance of assets, which is charged directly to service accounts.

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. Other assets are revalued as part of the Council's rolling programme under which assets are revalued over a five year period.

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.

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.

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). Non Current assets (excluding land) are classified as follows:

Type of Asset	Valuation Method
Council Dwellings and Garages	Existing use value for social housing Existing use value
Other land and buildings	Existing use value
Infrastructure assets	Depreciated Historic Cost
Community assets	Historic Cost
Vehicles, plant, furniture and equipment	Depreciated historic cost
Non-operational assets	Existing use value Market value Historic Cost (where market value for existing use cannot be ascertained)

1.5 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.

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.

1.6 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.

1.7 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.

1.8 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.

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.

1.9 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.

1.10 FINANCIAL INSTRUMENTS

Financial assets and liabilities are carried at amortised cost. Credits are made to the CIES for Interest Receivable and are based on the carrying amount multiplied by the effective rate of interest. The amount appearing in the Balance Sheet relates to the principal outstanding plus accrued interest.

1.11 GRANTS AND OTHER 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.

1.12 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.

1.13 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.

1.14 RESERVES

The Council has set aside certain revenue and capital amounts as earmarked reserves. They include reserves for the Housing self financing, District Development Fund, Invest to save, 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.

1.15 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.

1.16 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 2014/15.

1.17 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.

1.18 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.

1.19 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.

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 31).

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.

1.20 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.

1.21 COLLECTION FUND

Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus or minus the Council's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non Domestic Rates (NDR)

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Council's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from NDR payers belongs proportionately to the Council, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

1.22 EVENTS AFTER THE REPORTING PERIOD

Events occurring after the year end fall into two categories either adjusting or non-adjusting event. In the case of an adjusting event where information becomes available after the year end that provides more certainty relating to conditions that existed at the year end the accounts are adjusted to reflect the new information. In the case of a non adjusting event this usually takes the form of information relevant to an understanding of the accounts rather than relating to conditions that existed at the year end. No adjustment is made to the accounts for such items.

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 2015 for the 2015/16 financial year). The applicable standards are as follows:

IFRS 13, Fair Value measurement issued in May 2011. This unlikely to have a significant impact on the Council.

IFRIC 21 is concerned with Levies. As above this is unlikely to have a significant impact on the Council.

Annual improvements to IFRSs (2011-2013 cycle). The issues included in the cycle related to the following standards:-

IFRS 1: Meaning of effective IFRSs:

IFRS 3: Scope exceptions for joint ventures;

IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

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:

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 32. The carrying value of the Pensions Liability is (£69.9 million).

5. EVENTS AFTER THE BALANCE SHEET DATE

The Council has agreed to purchase land at Langston Road to enable the construction of a retail park on that site and the neighbouring site currently occupied by the Council. The cost of land acquisition, building and letting the retail units concerned is expected to be around £30m with the project expected to be completed towards the end of the 2016 calendar year. No amount have been recognised with regard to this in 2014/15.

Non-adjusting event

On 8 July 2015 the UK chancellor announced a number of proposals that will impact on housing authorities including a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. This event occurred after the balance sheet date and does not provide additional information about, nor represent a change in, conditions that existed at that date. Therefore, in accordance with International Accounting Standard 10 "Events after the reporting period", the Government's budget statement is a non-adjusting post balance sheet event.

The financial statements do not reflect the possible financial consequences of the matters described below.

As per accounting policy 1.4, the Council carries its social housing properties at valuation. This valuation is determined as the Existing Use Value – Social Housing (EUV-SH). EUV-SH takes into account that the Council has committed to use the housing assets for social housing purposes and so represents a lower value than would be applied to comparable housing in the private sector. Overall it is expected that Government's intentions will lead to a revaluation loss to be recognised in the 2015/16 financial statements, however, until further details of the intentions are made available the Council has been unable to determine the specific details of the financial impact.

The financial statements were authorised for issue on 30 June 2015 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.

	2014/15 £000					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments involving the Capital Adjustment Account:						
<i>Exclusions;</i>						
Charges for depreciation and impairment of non-current assets	(2,637)	(12,955)	-	-	-	15,592
Reversal of Impairment of non-current assets	647	16,531	-	-	-	(17,178)
Movements in the fair value of Investment Properties	(233)	-	-	-	-	233
Amortisation of intangible assets	(175)	(11)	-	-	-	186
Capital Grants and contributions applied	499	611	-	-	39	(1,149)
Revenue expenditure funded from Capital under statute	-	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(2,407)	(3,879)	-	-	-	6,286
Capital expenditure charged against the General Fund and HRA balances	221	5,200	-	-	-	(5,421)
Adjustments primarily involving the Capital Grants Unapplied Account	(9)	-	-	-	9	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	2,580	5,716	(8,296)	-	-	-
Transfer from Deferred Capital receipts on receipt of cash	-	-	(6)	-	-	6
Used to finance new capital expenditure	-	-	5,402	-	-	(5,402)
Contribution towards administrative costs of non-current asset disposals	(13)	(69)	82	-	-	-
Contribution to finance the payments to the Government capital receipts pool	(751)	-	751	-	-	-
Adjustments involving the Deferred Capital Receipts Reserve:						
Transfer to Deferred Capital Receipts Reserve upon revaluation of rents to mortgages.	-	82	-	-	-	(82)
Adjustments relating to the Major repairs Reserve:						
Reversal of Major repairs Allowance credited to the HRA	-	7,321	-	(7,321)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,526	-	(7,526)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited\credited to the CIES.	(1,323)	(576)	-	-	-	1,899
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.	143	-	-	-	-	(143)
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.	(41)	(22)	-	-	-	63
TOTAL ADJUSTMENTS	(3,499)	17,949	(2,067)	205	48	(12,636)

	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
Upward/(Downward) revaluation of non-current assets	(62)	29,930	-	-	-	(29,868)
Movements in the market 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	23	4,200	-	-	-	(4,223)
Application of HRA self financing loan transferred to the Capital Adjustment Account	-	-	-	-	-	-
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	(2,023)	(865)	-	-	-	2,888
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.	(290)	-	-	-	-	290
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	(12)	(4)	-	-	-	16
TOTAL ADJUSTMENTS	(5,278)	30,468	(3,567)	(1,604)	38	(20,057)

7. EARMARKED RESERVES

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

	Balance 31			Balance 31			Balance 31
	March 2013 £000	Transfers Out £000	Transfers In £000	March 2014 £000	Transfers Out £000	Transfers In £000	March 2015 £000
Housing Repairs Reserve	3,508	(5,953)	5,200	2,755	(6,264)	5,000	1,491
District Development Fund	3,581	(1,904)	2,171	3,848	(2,110)	1,861	3,599
Invest to Save Reserve	-	-	-	-	-	500	500
Self Financing Reserve	3,180	-	3,180	6,360	-	3,180	9,540
Pension Deficit Reserve	66	(66)	-	-	-	-	-
Deferred Revenue Income	479	(21)	-	458	(20)	-	438
Insurance Reserve	1,130	(81)	-	1,049	-	20	1,069
Service Enhancement Fund (HRA)	170	(608)	550	112	(837)	904	179
Building Control	21	-	-	21	-	60	81
On Street Parking	28	-	-	28	(12)	-	16
Museum Fund	18	-	8	26	(18)	45	53
All Weather Pitch	-	-	-	-	-	17	17
O2 Mast Fund	-	-	-	-	(22)	70	48
Rental Loans	-	-	191	191	(23)	-	168
Small Loans Fund	5	-	-	5	-	1	6
Total Earmarked Reserves	12,186	(8,633)	11,300	14,853	(9,306)	11,658	17,205

8. OTHER OPERATING EXPENDITURE

	31 March	
	2015 £000	2014 £000
Parish Council Precepts	3,077	2,990
Parish Support Grants	281	320
Payments to the Government Housing Receipts Pool	751	685
(Gains)/losses on the disposal of non-current assets	(1,928)	(2,047)
Total	2,181	1,948

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	31 March	
	2015 £000	2014 £000
Total Net Surplus from Trading Operations (Note 29)	(2,620)	(2,640)
Interest payable and similar charges	5,564	5,542
Pensions interest cost	2,453	3,009
Interest receivable and similar income	(446)	(431)
Changes in Fair Values of Investment Properties	233	(470)
Changes in Value of Deferred Capital Receipts	(82)	(127)
Reversal of Investment Impairment	(100)	(169)
Total	5,002	4,714

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	31 March	
	2015 £000	2014 £000
Council Tax income	(10,829)	(10,567)
Non Domestic Rate income and expenditure	(2,488)	(2,519)
Non-ring fenced government grants	(6,151)	(6,251)
Capital grants and other contributions	(1,110)	0
Total	(20,578)	(19,337)

11. PROPERTY PLANT AND EQUIPMENT

	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 2014	485,794	43,520	15,981	18,689	2,822	796	1,688	569,290
Restated		(210)	61	-	-	-	-	(149)
Additions	12,383	860	587	497		-	1,288	15,615
Disposals	(3,309)	-	(2,999)	-	-	-	(30)	(6,338)
Reclassified in year	(683)	(824)	-	(152)	-	(700)	1,548	(811)
Revaluations Credited to the CIES	16,529	649	-	-	-	-	-	17,178
Revaluation Credited to the Revaluation reserve	15,450	11,933	-	-	-	557	-	27,940
Accumulated Depreciation & Impairment written off on revaluation	(12,573)	(2,590)	-	-	-	(7)	-	(15,170)
Gross Book Value 31 March 2015	513,591	53,338	13,630	19,034	2,822	646	4,494	607,555
Depreciation 31 March 2014	-	(2,113)	(7,016)	(5,676)	-	(8)	-	(14,813)
Restated	-	11		-	-	-	-	11
Reclassified	1	(23)		22	-	-		-
Depreciation in Year	(12,655)	(919)	(1,513)	(505)	-	-	-	(15,592)
Depreciation on Assets Sold	82	-	1,461	-	-	-	-	1,543
Accumulated Depreciation & Impairment written off on revaluation	12,573	2,590	-	-	-	8	-	15,171
Depreciation 31 March 2015	1	(454)	(7,068)	(6,159)	-	-	-	(13,680)
Net Book Value 31 March 2015	513,592	52,884	6,562	12,875	2,822	646	4,494	593,875

	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)	(269)	(365)		-	-	-	(661)
1 April 2013	459,821	43,265	15,034	18,263	2,822	837	1,217	541,259
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	230	-	-	-	817	365	4,397
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 Depreciation	-	74	385	-	-	-	-	459
1 April 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							Total
	Council Dwellings and Garages	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	WIP Assets	
	£000	£000	£000	£000	£000	£000	£000	
Carried at historical cost	40	351	13,631	19,033	2,822	-	2,058	37,935
Valued at fair value as at:								
28 February 2015	513,552	42,435	-	-	-	81	1,040	557,108
31 March 2014		9,027	-	-	-	-	1,246	10,273
31 March 2013	-	275	-	-	-	540	-	815
31 March 2012	-	1,250	-	-	-	25	150	1,425
Total Cost or Valuation	513,592	53,338	13,631	19,033	2,822	646	4,494	607,556

The Council dwellings and garages valuation has been carried out by District Valuer Rachel Covill, MRICS, and other assets by the Council's Principal Valuer and Estates Surveyor. The valuation date for 2014/15 is 28 February, previously this was 31 March of the year to which the accounts relate. As part of this years revaluation the valuer has re-assessed the proportion of value in the Land element and concluded that it should remain unchanged at 35%. The valuer has also provided assurance that the valuation has not changed significantly between 28 February and the year end.

The useful lives of both dwellings and the components within have been reviewed during 2014/15. The useful life of the buildings has been assessed at 60 years with the average life of components at 26 years.

Type of Asset	Estimated Useful Life
Council Dwellings and Garages	15 to 60
Other land and buildings	20 to 50
Infrastructure assets	15 to 40
Community assets	Indeterminable
Vehicles, plant, furniture and equipment	5 to 20

12. 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	
	2015 £000	2014 £000
Rental income from investment property	4,177	4,109
Direct operating expenses arising from investment property	(349)	(268)
Net gain/(loss)	3,828	3,841

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 2015. The reduction 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 been diminishing over recent years and fewer traders and members of the public attend. A reduced rent was agreed with the operator and as a result the valuation fell. The acquisition relates to the purchase of the long leasehold interest in 2-18 Torrington Drive, Loughton.

	31 March	
	2015 £000	2014 £000
Balance as at 31 March	39,754	39,242
Reclassified		26
Balance as at 1 April	39,754	39,268
Reclassified in year	(39)	(34)
Acquisition	3,524	-
Construction	28	50
Net gains/(losses) from fair value adjustments	(233)	470
Balance at end of the year	43,034	39,754

13. LONG TERM DEBTORS

	31 March	
	2015 £000	2014 £000
Mortgages	5	13
Capital Advances (B3 Living)	493	493
Rents to Mortgages	1,575	1,493
Other Local Authorities - Transferred Debt	351	377
Home Assist Loans	143	77
Place Loans	75	-
Net Carrying Amount at end of year	2,642	2,453

14. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long term		Current	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Financial liabilities at amortised cost				
Borrowing	185,456	185,456	-	
Trade Creditors	-	-	6,076	5,277
Total financial liabilities	185,456	185,456	6,076	5,277
Loans and receivables				
Investments	5,001	10,004	37,088	33,911
Debtors	2,642	2,453	5,583	5,866
Cash	-	-	11,209	10,308
	7,643	12,457	53,880	50,085
Available for Sale	-	-	15,000	5,030
Total financial assets	7,643	12,457	68,880	55,115

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 £15m 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 investments. 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.

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 were impaired in line with CIPFA's LAAP Bulletin 82 which was issued to provide guidance relating specifically to this situation. As at 31 March 2015 94% of the investment had been returned with a further dividend of 4% due to be paid in August 2015. £100,000 has been included as income in the CIES for this.

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:	
	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000
Interest expense	(5,564)	(5,542)	-	-
Impairment (losses) / gains	-	-	-	-
Interest payable and similar charges	(5,564)	(5,542)	-	-
Interest income	-	-	446	431
Interest and investment income	-	-	446	431
Net gain/(loss) for the year	(5,564)	(5,542)	446	431

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 2015 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.

	31 March 2015		31 March 2014	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
<u>Financial liabilities</u>				
Borrowing	185,501	223,847	185,501	187,940
Long-term creditors	-	-	-	-
Total Financial Liabilities	185,501	223,847	185,501	187,940
<u>Financial assets</u>				
Investments	42,089	42,089	43,914	43,914
Long-term debtors	2,642	2,642	2,453	2,453
Total Financial Assets	44,731	44,731	46,367	46,367

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 £5,001,000 (£10,004,000 at 31 March 2014) classed as investments in excess of one year. This relates to an investment totalling £5m made to another local authority and £1,000 other long term investments. It is assumed that the carrying amount shown in the balance sheet is approximate to the fair value.

15. DEBTORS AND PREPAYMENTS

	31 March	
	2015 £000	2014 £000
Amounts falling due in one year		
Government Departments	793	990
Other Local Authorities	692	1,067
Council Tax arrears	543	278
NDR arrears	327	243
Housing Rent arrears	422	473
Sundry debtors	2,281	2,426
Prepayments	110	176
Total Debtors	5,168	5,653

Council Tax and 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. In 2014/15 there was a net creditor for both Council Tax and Business Rates.

16. CASH AND CASH EQUIVALENTS

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

	31 March	
	2015 £000	2014 £000
Cash	48	147
Bank current accounts	11,161	10,161
Short-term deposits with money market funds	15,000	5,030
Total Cash and Cash Equivalents	26,209	15,338

The 'Short-term deposits' relates to £15m deposits made to a number of different Money Market Funds. 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 put in buys 1 unit, which is re-priced back to £1 at the end of each day.

17. CREDITORS

	31 March	
	2015 £000	2014 £000
Government Departments and Other Local Authorities	5,177	1,940
Council Tax	240	220
Non Domestic Rates	325	136
Housing rents	251	309
Sundry creditors	4,454	4,422
Accruals and deferred income	2,699	1,916
Total Creditors	13,146	8,943

Included within creditors is £3,000 (£3,000 at 31 March 2014) relating to Waltham Abbey Tourist Information Centre. This falls within the definition of a related party. Council Tax and Business Rates prepayments shown above relate only to the Council's proportion of the total debt. The remainder is shown as being due to Government Departments and Other Local Authorities. This is shown net of arrears, Collection Fund balance and, in the case of Business Rates, Provision for Appeals. There was a net creditor in relation to Council tax and Business rates at the end of 2014/15.

18. PROVISIONS

An outstanding legal case provision of £51,000 is included as at 31 March 2015. Agreement between the parties was reached regarding proceedings brought by property search companies for the refund of fees paid by them to the Council. The settlement, in the sum of £105,000 including interest, was reached during 2014/15 and an estimate of £40,000 for costs was also provided, therefore an amount of £145,000 has been included within creditors. There was some concern that the claimants still intended to advance a claim for damages against authorities for anti competitive behaviour, however it was agreed not to pursue this as part of the settlement agreement. There is still some doubt around the exact value of liability for costs which is why the unused amount previously set aside has been retained as a provision.

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 £3.26 million of which £1.31 million relates to this Council.

19. USABLE AND UNUSABLE RESERVES

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

	31 March	
	2015 £000	2014 £000
Revaluation Reserve	38,938	12,587
Capital Adjustment Account	413,744	397,913
Pensions Reserve	(69,929)	(57,820)
Deferred Capital Receipts Reserve	1,580	1,504
Collection Fund Adjustment Account	(132)	(275)
Accumulated Absences Account	(226)	(163)
Total Unusable Reserves	383,975	353,746

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	
	2015 £000	2014 £000
Balance as at 1 April	12,587	7,934
Revaluations during the year	27,940	4,534
Depreciation adjustment	(236)	122
Disposals/Restatements	(1,353)	(3)
Balance at 31 March	38,938	12,587

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.

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		
	2015		2014
	£000	£000	£000
Balance at 1 April		397,913	374,915
Reversal of items relating to capital expenditure debited or credited to the CIES			
Charges for depreciation and impairment of non-current assets	(15,592)		(15,495)
Revaluation gains/(losses) on Property, Plant and Equipment	17,178		29,868
Amortisation of intangible assets	(186)		(227)
Revenue expenditure funded from capital under statute			(134)
Amounts for non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	(6,286)	(4,886)	(3,842)
Adjusting Amounts written out of the Revaluation Reserve		1,589	(134)
		394,616	384,951
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	5,402		1,644
Use of the Major Repairs Reserve to finance new capital expenditure	7,526		6,145
Capital grants credited to the CIES that have been applied to capital financing	1,149		480
Capital expenditure charged against the General Fund and HRA balances	5,421	19,498	4,223
Asset Restatements		(137)	-
Movement in the market value of Investment Properties debited or credited to the CIES		(233)	470
Balance at 31 March		413,744	397,913

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	
	2015 £000	2014 £000
Balance at 1 April	(57,820)	(75,357)
Remeasurements of the net defined liability/(asset)	(10,210)	20,425
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(6,101)	(6,855)
Employers pensions contributions and direct payments to pensioners payable in the year	4,202	3,967
Balance at 31 March	(69,929)	(57,820)

20. CASH FLOW STATEMENT - OPERATING ACTIVITIES

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

	31 March	
	2015 £000	2014 £000
Depreciation	15,592	15,495
Amortisation	186	227
Impairment and upward revaluations	(17,041)	(30,090)
Increase / (Decrease) in Creditors	413	1,333
(Increase) / Decrease in Interest and Dividend Debtors	29	(111)
(Increase) / Decrease in Debtors	1,414	(748)
(Increase) / Decrease in Inventories	34	61
Pension Liability	1,899	2,888
Carrying amount of non-current assets sold	6,286	3,842
Other non-cash items charged to the net surplus or deficit on the provision of services	825	202
Total	9,637	(6,901)

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

	31 March	
	2015 £000	2014 £000
Any other items for which the cash effects are investing or financing cash flows	(572)	(855)
Proceeds from the sale of property and equipment, investment property and intangible assets	(8,378)	(6,015)
Total	(8,950)	(6,870)

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

	31 March	
	2015 £000	2014 £000
Interest received	464	320
Interest charge for the year	(5,565)	(5,542)
Other operating activities	21,563	19,113
Total	16,462	13,891

21. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	31 March	
	2015 £000	2014 £000
Purchase of property, plant and equipment, investment property and intangible assets	(15,688)	(12,919)
Purchase of short-term and long-term investments	(68,427)	(99,638)
Other payments for Investing Activities	(201)	(1,228)
Proceeds from sale of property, plant and equipment, investment property and intangible assets	8,384	5,948
Proceeds from short-term and long term investments	69,801	96,120
Other receipts from investing activities	1,137	1,530
Net cash flows from investing activities	(4,994)	(10,187)

22. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31 March	
	2015 £000	2014 £000
Billing Authorities - Council Tax and NNDR adjustments	(597)	1,728
Net cash flows from financing activities	(597)	1,728

23. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The Council changed its Directorate structure from 1 April 2014 and as a consequence the internal reporting requirements also changed. The figures for 2013/14 are presented under the former structure. The 2014/15 figures are based on the current structure.

	2014/15						Total £000
	Communities	Governance	Neighbourhoods	Chief Executive	Resources	Housing Revenue Account	
	£000	£000	£000	£000	£000	£000	
Fees, charges & other service income	(1,074)	(5,076)	(5,082)	-	(503)	(34,604)	(46,339)
Gain on Revaluation			-	-	-	(16,531)	(16,531)
Government Grants	(390)	(59)	(25)	-	(38,055)	-	(38,529)
Total Income	(1,464)	(5,135)	(5,107)	-	(38,558)	(51,135)	(101,399)
Employee Expenses	1,922	1,477	2,394	34	2,034	3,208	11,069
Other Service Expenses	1,680	1,228	9,667	(335)	716	9,372	22,329
Support Service Recharges	1,146	2,780	2,582	1,432	1,329	2,643	11,912
Asset Charges	115	261	1,023	-	12	13,015	14,426
Benefit Payments	-	-	-	-	36,631	-	36,631
Total Operating Expenditure	4,863	5,746	15,666	1,131	40,722	28,238	96,367
Net Cost Of Services	3,399	611	10,559	1,131	2,164	(22,897)	(5,032)

	2013/14								Total £000
	Corporate Support Services	Deputy Chief Executive	Environmental & Street Scene	Finance & ICT	Housing	Office of the Chief Executive	Planning & Economic Development	Housing Revenue Account	
	£000	£000	£000	£000	£000	£000	£000	£000	
Fees, charges & other service income	(3,863)	(614)	(5,053)	(179)	(880)	(99)	(1,119)	(34,246)	(46,053)
Gain on Revaluation	-	-	-	-	-	-	-	(30,544)	(30,544)
Government Grants	-	-	-	(39,243)	-	(23)	(5)	-	(39,271)
Total Income	(3,863)	(614)	(5,053)	(39,422)	(880)	(122)	(1,124)	(64,790)	(115,868)
Employee Expenses	637	963	1,600	2,141	614	202	1,644	3,159	10,960
Other Service Expenses	728	730	9,515	804	608	170	574	9,795	22,924
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	14,826	41,570	1,562	2,792	4,041	28,695	98,040
Net Cost Of Services	(1,753)	1,830	9,773	2,148	682	2,670	2,917	(36,095)	(17,828)

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

	2014/15 £000	2013/14 £000
Net Expenditure in the Directorate Analysis	(5,032)	(17,828)
Services and Support Services not in analysis	32	201
Amounts included in the Analysis not included in the Net Cost of Service	2,620	2,640
Cost of Services in CIES	(2,380)	(14,987)

Reconciliation to Subjective Analysis

	2014/15						
	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	(46,339)	-	-	4,410	(41,929)	(4,410)	(46,339)
Gain on Revaluation	(16,531)	-	-	-	(16,531)	-	(16,531)
Interest and Investment Income	-	-	-	-	-	(446)	(446)
Income from Council Tax	-	-	-	-	-	(10,829)	(10,829)
Government Grants and Contributions	(38,529)	-	-	-	(38,529)	(9,749)	(48,278)
Total Income	(101,399)	-	-	4,410	(96,989)	(25,434)	(122,423)
Employee Expenses	11,069	32	-	(653)	10,449	3,106	13,554
Other Service Expenses	58,960	-	-	(490)	58,470	490	58,960
Support Service Recharges	11,912	-	-	(598)	11,313	598	11,912
Asset Charges	14,426	-	-	(50)	14,376	183	14,559
Interest Payments	-	-	-	-	-	5,564	5,564
Precepts and Levies	-	-	-	-	-	3,357	3,357
Payments to Housing Capital Receipts Pool	-	-	-	-	-	751	751
(Gain)/Loss on Disposal of Fixed Assets	-	-	-	-	-	(1,927)	(1,927)
Rents to mortgages valuation increase	-	-	-	-	-	(82)	(82)
Total Expenditure	96,367	32	-	(1,790)	94,609	12,039	106,648
Surplus/(Deficit) on the provision of services	(5,032)	32	-	6,200	(2,380)	(13,395)	(15,775)

Reconciliation to Subjective Analysis

	2013/14						
	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
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(46,053)	-	-	4,408	(41,645)	(4,359)	(46,004)
Gain on Revaluation	(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	(115,868)	-	-	4,408	(111,460)	(24,127)	(135,587)
Employee Expenses	10,960	201	-	(636)	10,525	3,645	14,170
Other Service Expenses	60,194	-	-	(525)	59,669	530	60,199
Support Service Recharges	11,646	-	-	(566)	11,080	512	11,592
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)
HRA self financing	-	-	-	-	-	-	-
Rents to mortgages valuation increase	-	-	-	-	-	(127)	(127)
Total Expenditure	98,040	201	-	(1,768)	96,473	11,452	107,925
Surplus/(Deficit) on the provision of services	(17,828)	201	-	2,640	(14,987)	(12,675)	(27,662)

24. 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.

	2014/15 Expenditure £000	2014/15 Income £000	2014/15 Surplus/Deficit £000
Industrial Estates	139	(1,266)	(1,127)
Commercial Properties	427	(2,166)	(1,739)
Fleet Operations	480	(456)	24
North Weald Centre	967	(745)	222
Total Surplus	2,013	(4,633)	(2,620)
2013/14	1,768	(4,408)	(2,640)

25. MEMBER ALLOWANCES

Member allowances and expenses are shown below. Further details of these allowances are available on page 60.

	2014/15 £000	2013/14 £000
Allowances	309	291
Expenses	7	24
Total	316	315

26. OFFICER REMUNERATION

	2014/15			
	Salary (Including fees & Allowances)	Benefits in Kind	Pension Contributions	Total Remuneration including pension contributions.
	£	£	£	£
Chief Executive	112,000	1,407	17,808	131,215
Director of Neighbourhoods	92,118	2,704	14,646	109,468
Director of Communities	90,273	1,284	14,333	105,890
Director of Resources	90,955	2,276	14,461	107,692
Director of Governance	91,974	1,256	14,623	107,853

	2013/14			
	Salary (Including fees & Allowances)	Benefits in Kind	Pension Contributions	Total Remuneration including pension contributions.
	£	£	£	£
Chief Executive	112,000	1,397	14,560	127,957
Deputy Chief Executive/Director of Neighbourhoods	89,803	2,951	11,674	104,428
Director of Housing	78,944	1,234	10,263	90,441
Director of Planning & Economic Development	78,697	525	10,231	89,453
Director of Finance & ICT	79,094	3,041	10,282	92,417
Director of Environment & Street Scene	78,798	1,239	10,244	90,281
Director of Corporate Support Services	78,158	1,239	10,161	89,558
Assistant to the Chief Executive	64,148	1,239	8,332	73,719

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 15.9%.

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	2014/15 Number of Employees	2013/14 Number of Employees
£50,000 - £54,999	9	9
£55,000 - £59,999	7	5
£60,000 - £64,999	2	2
£65,000 - £69,999	0	1
£70,000 - £74,999	0	0
£75,000 - £79,999	0	2
£80,000 - £84,999	0	3
£85,000 - £89,999	0	0
£90,000 - £94,999	4	1
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	1	1
Total	23	24

Senior Officers where emoluments - salary is £150,000 or more per year.

No Senior Officer fell under this category in 2013/14 or 2014/15.

Termination Benefits

Exit Package Cost Band (including special payments)	2014/15			Total Cost of Exit Packages in each band
	Number of Compulsory Redundancies	Number of Other Departures	Total number of Exit Packages	
£0- £20,000	3	4	7	52,222
£20,000 - £40,000			-	
£40,001 - £60,000		2	2	94,202
£60,001 - £80,000		1	1	66,325
Total cost included in bandings and in the CIES				212,749

27. EXTERNAL AUDIT FEES

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

	2014/15 £000	2013/14 £000
Fees payable to BDO LLP with regard to external audit services carried out by the appointed auditor for the year.	86	85
Fees payable to BDO LLP for the certification of grant claims and returns for the year.	25	28
Rebate of fees from Audit Commission	(9)	(11)
Total	102	102

28. GRANTS AND CONTRIBUTIONS

The Council credited the following grants and contributions to the CIES in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non-Specific Grant Income		
Revenue Support Grant	3,410	4,373
New Homes Bonus	1,854	1,310
S31 Small business rate Relief	757	446
Council Tax Freeze grant	83	82
Community Projects	16	17
Other	31	23
Total	6,151	6,251

	2014/15 £000	2013/14 £000
Credited to Services		
Department for Work and Pensions	37,651	38,577
Department for Communities and Local Government	819	587
Essex County Council	866	422
Essex Police Authority	44	23
Town and Parish councils	37	-
Hughmark Continental	-	16
Broxbourne Borough Council	48	48
Cabinet office	116	-
Arts Council	-	54
Lottery Fund	33	35
Harlow Health Works Project	60	59
Contributions to Affordable Housing	-	412
Other grants and contributions received	54	84
Total	39,728	40,317

29. 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 23 on reporting for resource allocation decisions.

Members & Officers

Members and Officers of the Council have direct control over the council's financial and operating policies. The total of members allowances paid in 2014/15 is shown in Note 25. During 2014/15 expenditure totalling £435,900 (£333,480 in 2013/14) was paid to, and income totalling £61,190 (£77,490 in 2013/14) was received from, organisations in which 26 members and 1 Officer (27 members and 0 Officers in 2013/14) had connections. Included in the expenditure amount is a creditor of £3,000 (£3,000 in 2013/14). The nature of the expenditure was primarily grants and contributions to organisations of £353,700, subscriptions of £12,990, rent of £26,000 and £43,210 of other items with which members had declared interests, with varying levels of involvement.

30. 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.

	2015 £000	2014 £000
<i>Opening Capital Financing Requirement</i>	184,672	184,672
Capital Investment		
Property, Plant and Equipment	15,615	11,773
Investment Properties	3,552	50
Revenue Expenditure Funded from Capital Under Statute	-	134
Private Sector Housing Loans	61	205
Intangible Assets	270	154
Sources of Finance		
Capital Receipts	(5,402)	(1,644)
Government grants and other contributions	(1,149)	(304)
Major Repairs Reserve	(7,526)	(6,145)
Direct revenue contributions	(5,421)	(4,223)
Closing Capital Financing Requirement	184,672	184,672

31. LEASES

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

Assets Leased to Third Parties	2014/15 £000	2013/14 £000
The total of future minimum lease payments due within 1 year are:		
Land & Buildings		
Shops	1,958	1,655
Industrial & Commercial	1,054	1,032
Other	310	924
Total Rental Receivable	3,322	3,611

The timing of total future minimum lease payments are:

	31 March 2015		31 March 2014	
	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	6,474	8,593	5,293	4,231
Industrial & Commercial	4,068	52,597	3,968	50,732
Other	1,077	4,249	2,751	6,940
Total	11,619	65,439	12,012	61,903

Gross Amount of Assets held for use in operating leases.

	31 March	
	2015 £000	2014 £000
Land & Buildings		
Shops	20,116	16,437
Industrial & Commercial	13,355	12,997
Other	9,562	10,320
Total Assets	43,033	39,754

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

32. 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 2015. 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 2014/15 so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure.

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

Comprehensive Income and Expenditure Statement

	2014/15 £000	2013/14 £000
Service Cost	3,601	3,845
Net interest charged	2,453	3,009
Administration Expenses	47	15
Net charge made to the CIES	6,101	6,869

Re-measurements in other comprehensive income

	2014/15 £000	2013/14 £000
Return on Fund assets in excess of interest	9,550	4,470
Other actuarial gains/(losses) on assets	-	(1,442)
Change in financial assumptions	(19,841)	3,662
Change in demographic assumptions	-	10,884
Experience gain/(loss) on defined benefit obligation	81	2,851
Remeasurement of the net assets/(defined liability)	(10,210)	20,425

Pension Assets and Liabilities Recognised in the Balance Sheet

	2014/15 £000	2013/14 £000
Present value of the funded obligation	180,932	155,414
Present value of the unfunded obligation	4,086	4,101
Fair value of scheme assets	(115,089)	(101,695)
Net Liability in the Balance Sheet	69,929	57,820

Reconciliation of the fair value of the Scheme Liabilities

	Unfunded Liabilities		All Funded/Unfunded Liabilities: Local Government Pension Scheme	
	2015 £000	2014 £000	2015 £000	2014 £000
Net pensions liability at 1 April	(4,101)	(4,526)	(159,515)	(170,417)
Movements in the current year				
Current service cost	-	-	(3,572)	(3,659)
Interest cost	(173)	(179)	(6,915)	(6,901)
Change in financial assumptions	(224)	-	(19,841)	3,662
Change in demographic assumptions	-	-	-	10,884
Experience gain	81	-	81	2,851
Estimated benefits paid	-	-	5,479	4,859
Employers' contributions payable to scheme	-	335	-	-
Past service cost including curtailments	-	-	(29)	(186)
Contributions by scheme participants	-	-	(1,037)	(943)
Unfunded pension payments	331	-	331	335
Actuarial gain/(loss)	-	269	-	-
Net pensions liability at 31 March	(4,086)	(4,101)	(185,018)	(159,515)

Reconciliation of fair value of the Scheme Assets:

	2015 £000	2014 £000
Fair value of the plan assets at 1 April	101,695	95,060
Interest on assets	4,462	3,892
Return on assets less interest	9,550	4,470
Total Actuarial gains/(losses)	-	(1,442)
Administration Expenses	(47)	(15)
Employer contributions including unfunded	4,202	3,981
Contributions by scheme participants	1,037	943
Benefits paid	(5,810)	(5,194)
Fair value of the plan assets at 31 March	115,089	101,695

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 £9.5million (£4.47 million for 2013/14). The weighted average duration of the defined benefit obligation for scheme members is 17 Years (17 years in 2013/14).

Scheme History

	2014/15 £000	2013/14 £000	2012/13 £000	2011/12 £000	2010/11 £000
Present Value of Liabilities	(185,018)	(159,515)	(170,417)	(150,823)	(130,136)
Fair Value of Assets	115,089	101,695	95,060	85,198	83,812
Surplus/(deficit) in the scheme	(69,929)	(57,820)	(75,357)	(65,625)	(46,324)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £69.9 million in the balance sheet has decreased the reported net worth of the Council by 16% (14% 2013/14).

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 2016 is £3.79 million. The Service Cost is expected to be £4.23 million for the year to 31 March 2016.

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 Waddingham, 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:

Long term expected rate of return of assets in the scheme:

	2014/15 %	2013/14 %
Equity investments	5.40	6.10
Government bonds	2.30	3.00
Other bonds	3.00	4.10
Property	4.40	5.10
Cash\Liquidity	2.00	0.50
Alternative assets	3.00	6.10

Mortality Assumptions

Longevity at 65 for current pensioners in years:

	2014/15	2013/14
Men	22.80	22.70
Women	25.20	25.10

Longevity at 65 for future pensioners in years:

	2014/15	2013/14
Men	25.10	24.90
Women	27.60	27.40

	2014/15	2013/14
Rate of Inflation RPI	3.10%	3.50%
Rate of Inflation CPI	2.20%	2.70%
Rate of Increase in Salaries	4.00%	4.50%
Rate of Increase in pensions	2.20%	2.70%
Rate for discounting scheme liabilities	3.20%	4.40%

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

	As at 31 March 2015		As at 31 March 2014	
	£000	%	£000	%
Equities	77,421	67	67,803	67
Government Bonds	5,057	4	8,096	8
Other Bonds	11,016	10	8,096	8
Property	12,500	11	11,132	11
Cash/Liquidity	2,523	2	2,024	2
Alternative Assets	6,572	6	4,048	4
Total	115,089	100	101,199	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 2015	Sensitivity 1	Sensitivity 2	Sensitivity 3
	£000s	£000s	£000s
<u>Adjustment to discount rate</u>	+0.1% p.a.	0.0% p.a.	-0.1% p.a.
Present value of total obligation	181,962	185,018	188,128
Projected service cost	4,149	4,234	4,321
<u>Adjustment to long term salary increase</u>			
Present value of total obligation	185,316	185,018	184,721
Projected service cost	4,236	4,234	4,232
<u>Adjustment to pension increases and deferred revaluation</u>			
Present value of total obligation	187,858	185,018	182,226
Projected service cost	4,320	4,234	4,150
<u>Adjustment to mortality age rating</u>	+1year	none	-1year
Present value of total obligation	178,561	185,018	191,533
Projected service cost	4,090	4,234	4,379

33. 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 2014/15 this was agreed at Full Council on 20 February 2014). 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 emphasises 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.

Credit Risk

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 2015, 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.

	Credit rating criteria met on 31	Balance invested as at 31 March 2015					Total £000
		Up to 1 month £000	Between 1 and 3 months £000	Between 4 and 6 months £000	Between 7 and 12 months £000	Greater than 12 months £000	
Banks UK	YES		20,000	5,000			25,000
Banks UK	NO						0
Banks non-UK	NO						0
Total Banks		0	20,000	5,000	0	0	25,000
Building Societies	YES		6,000	1,000			7,000
Local Authorities				5,000		5,000	10,000
Money Market Funds	YES	25,500					25,500
Total		25,500	26,000	11,000	0	5,000	67,500

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 2015 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 March states that a further dividend can be expected in August 2015 bringing the recovery rate to at least 98% of the original investment

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 2015 £000	Default risk judged as at 31 March 2015 %	Bad debt provision for 2014/15 £000
Sundry Debtors	5,583	45.5	2,540
Housing Arrears	1,016	56.8	577
Total	6,599		3,117

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 2015 was as follows:

		31 March 2015 £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	90,000	48.53
	Over 25 but not over 30	63,656	34.32
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 2015, 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:

Increase in interest payable on variable rate borrowing	£000 318
Increase in interest receivable on variable rate investments	(150)
Impact on Surplus or Deficit on the Provision of Services	168
Share of overall impact debited/(credited) to HRA	168

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.

34. CAPITAL COMMITMENTS

There were no significant commitments at the year end.

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

	Note	2014/15 £000	2013/14 £000
INCOME			
Dwelling Rents (Gross)	3	(31,585)	(30,885)
Non Dwelling Rents		(835)	(870)
Charges for Services and Facilities		(1,661)	(1,985)
Leaseholder Contributions		(179)	(170)
Revaluation of Fixed Assets	1	(16,531)	(30,544)
TOTAL INCOME		(50,791)	(64,454)
EXPENDITURE			
Repairs and maintenance	4	6,350	6,053
Supervision and Management		7,193	7,169
Rents, Rates, Taxes and Insurance		482	542
Revenue Expenditure funded from Capital under Statute		179	170
Depreciation & Amortisation	2/8/9	12,943	13,110
Revaluation of Fixed Assets	1	-	632
Debt Management		60	51
Provision for Bad / Doubtful Debts		62	16
TOTAL EXPENDITURE		27,269	27,743
NET COST OF SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME & EXPENDITURE STATEMENT		(23,522)	(36,711)
HRA services share of Corporate & Democratic Core		572	572
HRA share of other services		53	44
NET COST (INCOME) OF HRA SERVICES		(22,897)	(36,095)
HRA SHARE OF THE INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		(22,897)	(36,095)
Capital Grants and Contributions		(611)	-
Gain on sale of HRA non-current assets		(1,768)	(2,236)
Interest Payable and Similar Charges		5,558	5,526
Interest and Investment Income		(521)	(375)
Valuation increase Rent to Mortgages		(82)	(127)
Pensions Interest/Return on Assets		785	963
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES		(19,536)	(32,344)

MOVEMENT ON HOUSING REVENUE ACCOUNT STATEMENT

The Housing Revenue Income and Expenditure Statement shows the Council's 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	2014/15 £000	2013/14 £000
INCREASE/DECREASE IN THE HOUSING REVENUE ACCOUNT BALANCE			
(Surplus)/Deficit for the year on the Housing Revenue Account Income and Expenditure Statement		(19,536)	(32,344)
Adjustments between accounting basis and funding basis under statute (including to or from reserves)	10	17,949	30,468
Transfers to Earmarked Reserves	10	1,983	2,285
(Increase) or decrease in the Housing Revenue Account balance		396	409
Housing Revenue Account surplus brought forward		(2,966)	(3,375)
Housing Revenue Account surplus carried forward		(2,570)	(2,966)

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	Total £000
	Land £000	Dwellings £000	Garages £000	Vehicles & Equipment £000	Other Land & Buildings £000	Other £000	Investment Properties £000	
Gross Book Value								
1 April 2014	170,709	311,337	3,748	3,258	1,162	3,931	143	494,288
Restated	-	-	-	(56)	-	-	-	56
Additions	-	12,383	-	73	-	1,386	-	13,842
Disposals	(1,158)	(2,151)	-	(10)	-	-	-	(3,319)
Reclassified in Year	(242)	(440)	-	-	58	(226)	-	(850)
Revaluations Credited to the CIES	5,719	10,810	-	-	2	-	-	16,531
Revaluation Credited to the Revaluation reserve	5,622	9,011	817	-	239	550	-	16,239
Accumulated Depreciation Written Off	-	(12,439)	(134)	-	(2)	-	-	(12,575)
Gross Book Value	180,650	328,511	4,431	3,265	1,459	5,641	143	524,100
1 April 2014	-	-	-	(1,650)	(14)	(472)	-	(2,136)
Restated	-	-	-	52	-	-	-	52
Accumulated Depreciation Written Off	-	12,439	134	-	1	-	-	12,574
Reclassified	-	1	-	-	(1)	-	-	-
Depreciation in Year	-	(12,522)	(134)	(247)	(11)	(60)	-	(12,974)
Depreciation on Assets Sold	-	83	-	10	-	-	-	93
Depreciation								
31 March 2015	-	1	-	(1,835)	(25)	(532)	-	(2,391)
Net Book Value								
31 March 2015	180,650	328,512	4,431	1,430	1,434	5,109	143	521,709
Net Book Value								
1 April 2014	170,709	311,338	3,748	1,423	1,137	3,399	143	491,897

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 possession is £1,228,150,500, based on stock figures as at 31 March 2015 and values as at 1 April 2014. 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 6,459 (6,530 in 2013/14) dwellings during 2014/15. 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.

		2014/15	2013/14
Stock as at 1 April		6,483	6,556
Less	Sales	(46)	(53)
	Stock Transfers / Conversions	(3)	(20)
	Reinstated Properties	-	(1)
Add	New Properties	1	1
Stock as at 31 March		6,435	6,483
Number of:			
Houses and Bungalows		3,467	3,489
Flats and Maisonettes		2,958	2,984
Other		10	10
		6,435	6,483

3. GROSS DWELLING RENT INCOME

During 2014/15 0.95% (0.87% in 2013/14) of all lettable dwellings were vacant. Average rents were £95.66 per week, an increase of £4.70 or 5.2% over the previous year. 50% (52% in 2013/14) of all Council tenants received some help through rent rebates in 2014/15. Rent arrears decreased to £1,015,801 (£1,094,262 in 2013/14), which represents 3.2% (3.5% in 2013/14) of gross dwelling rent income. The provision for bad and doubtful debts on these arrears amounted to £594,075 (£621,478 in 2013/14). Amounts written off during the year totalled £89,855 (£129,980 in 2013/14). 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:

	2014/15		2013/14	
	£000	£000	£000	£000
Balance as at 1 April		(2,755)		(3,508)
Contribution from the HRA	(5,000)		(5,200)	
Other Income	(86)		(100)	
Total Income		(5,086)		(5,300)
Responsive & Void Repairs	4,061		3,884	
Planned Maintenance	2,185		2,093	
Other	104		76	
Total Expenditure		6,350		6,053
Balance as at 31 March		(1,491)		(2,755)

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 18).

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 2014/15; 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 £5,722,130 in respect of HRA capital receipts during 2014/15. This arose as a result of the sale of council houses (£5,030,330), sale of Leader Lodge (£652,001), receipt of a deposit in respect of a further house sale (£10,000), repayment of discounts (£18,075), sale of vehicles (£5,600) and principal repayments on mortgages (£6,124). Of this the Council used £297,785 for the housebuilding project and £59,800 for the administration of the sales which left £4,613,555 to fund other capital projects and pay the central government pool an amount of £750,990.

7. CAPITAL EXPENDITURE

The HRA incurred the following capital expenditure.

Capital Expenditure on:	£000	Financed by:	£000
Council Dwellings	11,727	Revenue	5,200
House Building and developments	1,245	Major Repairs Reserve	7,526
Disabled Adaptations	410	Capital Receipts	512
Plant, Vehicles and Equipment	73	Other Contributions	612
Intangibles	8		
Environmental Works	387		
	13,850		13,850

8. MAJOR REPAIRS RESERVE

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 transitional 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:

	2014/15		2013/14	
	£000	£000	£000	£000
Balance as at 1 April		(11,359)		(9,755)
Depreciation transferred from the HRA		(12,932)		(13,098)
Used to fund Capital Expenditure on Council Dwellings	7,526		6,145	
Transferred to the HRA	5,611		5,349	
Total Expenditure		13,137		11,494
Balance as at 31 March		(11,154)		(11,359)

9. DEPRECIATION

Depreciation is charged on Housing Revenue Account assets in accordance with IAS 16. Depreciation is 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. The difference between the figure shown on the face of the HRA and note 8 above relates to £11,000 amortisation of intangible assets. (See also note 1, page 49)

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

	2014/15 £000	2013/14 £000
AMOUNTS TO BE EXCLUDED		
Transfer from Major Repairs Reserve and other depreciation reversals and impairments	(5,645)	(5,393)
Upward revaluation of Council Dwellings and Garages	16,531	29,930
Revenue expenditure funded from Capital under statute	(179)	(170)
Valuation changes Rents to Mortgages	82	127
Gain/(loss) on disposal of HRA fixed assets	1,768	2,236
Flexi / Leave Accruals	(22)	(4)
HRA share of contributions to/ (from) pensions reserve	(1,920)	(2,139)
	10,615	24,587
AMOUNTS TO BE INCLUDED		
Leaseholder Contributions	179	170
Employers contributions payable to the pension fund	1,344	1,274
Capital Expenditure funded by the HRA	5,200	4,200
Capital Contributions Applied	611	237
	7,334	5,881
Net Increase or (Decrease) before Transfers to/from Reserves	17,949	30,468
TRANSFERS (TO)\FROM EARMARKED RESERVES		
Housing Repairs Fund	(1,264)	(753)
Self Financing Reserve	3,180	3,180
Service Enhancement Fund	67	(58)
Insurance Fund	-	(84)
	1,983	2,285
	19,932	32,753

11. 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.

12. TRANSFER TO SELF FINANCING RESERVE/SERVICE ENHANCEMENT FUND

There are two HRA earmarked reserves that 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. The balance on the Reserve as at 31 March 2015 was £9.54m. 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 2014/15 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 £67,000.

THE COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

		Council Tax	Non Domestic Rates	Collection Fund Total	Council Tax	Non Domestic Rates	Collection Fund Total
INCOME	Note	2014/15 £000	2014/15 £000	2014/15 £000	2013/14 £000	2013/14 £000	2013/14 £000
Council Tax	1	(77,659)	-	(77,659)	(76,662)	-	(76,662)
Non Domestic Rates	2	-	(34,476)	(34,476)	-	(32,979)	(32,979)
TOTAL INCOME		(77,659)	(34,476)	(112,135)	(76,662)	(32,979)	(109,641)
EXPENDITURE							
Precepts and Demands:							
Essex County Council		55,076	3,039	58,115	54,521	2,871	57,392
Essex Police		7,312		7,312	7,098		7,098
Essex Fire Authority		3,366	338	3,704	3,332	319	3,651
Epping Forest District Council		10,617	13,507	24,124	10,453	12,759	23,212
Distribution of Estimated Collection Fund Surplus/(Deficit).							
	3						
Essex County Council		225	(129)	96	57	-	57
Essex Police		29	-	29	7	-	7
Essex Fire Authority		14	(14)	-	4	-	4
Epping Forest District Council		43	(572)	(529)	11	-	11
Non Domestic Rate							
Payment to Central Government		-	16,883	16,883	-	15,949	15,949
Repayment of Deficit		-	(715)	(715)	-	-	-
Transitional Protection		-	8	8	-	42	42
Cost of Collection Allowance		-	173	173	-	171	171
Provision for Appeals			1,931	1,931		1,486	1,486
Provision for Non Payment		669	262	931	280	(30)	250
Write Offs		(877)	(173)	(1,050)	159	397	556
TOTAL EXPENDITURE		76,474	34,538	111,012	75,922	33,964	109,886
DEFICIT / (SURPLUS) FOR YEAR		(1,185)	62	(1,123)	(740)	985	245
BALANCE BROUGHT FORWARD		(855)	985	130	(115)	-	(115)
BALANCE CARRIED FORWARD		(2,040)	1,047	(993)	(855)	985	130

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: 50,679 for 2014/15, 50,169 for 2013/14). The basic amount of Council Tax for a Band D property (£1,446.21 for 2014/15, £1,443.42 for 2013/14) 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	2	5/9	1
Band A	1,609	1,395	2/3	930
Band B	4,792	3,989	7/9	3,103
Band C	11,180	10,018	8/9	8,905
Band D	13,569	12,569	1	12,569
Band E	9,249	8,684	1 2/9	10,614
Band F	6,632	6,307	1 4/9	9,110
Band G	5,722	5,508	1 2/3	9,180
Band H	1,108	1,080	2	2,160
Total Band D				56,571
Less Band D equivalents entitled to Council Tax Support				5,015
Total Band D equivalents				51,556
Less Adjustment for Collection Rate				876
Council Tax Base				50,679

The income of £77,658,884 for 2014/15 (£76,662,113 for 2013/14) is receivable from the following sources.

	2014/15 £000	2013/14 £000
Billed to Council tax payers	77,758	76,804
Council Tax Benefits paid/(clawed back)	(99)	(142)
	77,659	76,662

2. NON DOMESTIC RATES

Non Domestic Rates are organised on a national basis. The Government specifies an amount, 47.1p (small business) and 48.2p (others) in 2014/15, (46.2p (small business) 47.1p (others) in 2013/14) 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 2014/15 this Council paid a tariff of £10,038,000 (£9,846,000 in 2013/14) 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.

The total non-domestic rateable value at the year-end was £86,715,049 (£86,726,349 in 2013/14).

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.

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 Council's 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 ended 31 March 2015 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 2014/15 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	A standard committee report format that includes specific consideration of all legal, financial, professional and technical considerations
11	A Medium Term Financial Strategy which informs service planning and budget setting,
12	A compliments and complaints procedure
13	A risk-based approach to internal audit, emphasising the need for sound control and good value
14	A robust whistle blowing policy and process, refreshed in 2014-15, along with supporting documents outlining the Council's zero tolerance approach to fraud and corruption, which include anti bribery and anti money laundering policies
15	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 development throughout 2014/15 of a framework to support counter fraud and corruption and processes and procedures to enable action to prevent, detect and investigate fraud, which will culminate in the creation of a Corporate Fraud Investigation Team as from 1 April 2015.

- 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 letter and other review reports;
- Significant governance issues from previous years;
- Significant governance Issues from 2014/15.

In the Annual Governance Statement for 2013/14 we reported two significant governance issues relating to ICT Procurement and Car Parking Income. The ICT Procurement issue had been resolved by the time that statement was published while the Car Parking Income was partly resolved but further work was required.

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	<p>Car Parking Income</p> <p>In 2013/14 it was reported in the Annual Governance Statement that 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. During 2014/15 this problem was resolved but following the contracting out of cash collection by NEPP a similar problem was identified in the information provided by the cash collection contractor.</p>	<p>This issue was addressed by management and by the internal audit sections of the Councils which are members of the NEPP following a meeting with the cash collection contractor. The introduction of new ticket machines will greatly improve the monitoring of the pay and display income received. The installation of these new machines is scheduled to start early in 2015/16</p>
2	<p>Housing rent reconciliations</p> <p>A Limited Assurance audit report was issued for Housing Rent Collection and Arrears, due to the Rental Income reconciliation and Council Stock reconciliation had not been completed for 2013/14.</p>	<p>Staff from both the Communities and Resources Directorates had worked together to resolve the issue; the Council Stock reconciliation had been completed by the time the final report was issued, and the Rental Income reconciliation had been completed by 7 August 2014. Rental Income reconciliations are now carried out on a monthly basis.</p>
3	<p>Contract Standing Orders</p> <p>A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders.</p>	<p>Contract Standing Orders have been developed over time and can be difficult to follow, therefore, a Contract Standing Orders Working Party, chaired by the Director of Communities, has been set up to undertake a fundamental review of the Council’s Contract Standing Orders. The group is making substantial progress and the new Contract Standing Orders (subject to Member approval) will provide a more flexible approach and more responsive to the current and future procurement needs of the Council and will be widely communicated across the organisation.</p>
4	<p>Sundry Debtors</p> <p>Internal audit reviews in 2014/15 also identified weaknesses in debt recovery processes, especially for debts below £500</p>	<p>In light of concerns, the Corporate Debt Working Group, chaired by the Assistant Director Revenues, continues to oversee the implementation of recommendations made to the Management Board in February 2015.</p>

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 £316,274 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	7,600	W.S.BREARE-HALL	10,174
P.SMITH	818	T.O.COCHRANE	477
D.J.STALLAN	10,675	J.HART	477
D.J.JACOBS	550	Y.R.KNIGHT	5,762
A.G.GRIGG	9,941	S.I.WATSON	3,400
S.W.MURRAY	5,550	L.T.LEONARD	537
J.M.WHITEHOUSE	3,400	R.COHEN	477
M.A.MCEWEN	3,400	S.JONES	5,762
J.KNAPMAN	3,400	R.KELLY	250
C.L.WHITBREAD	18,902	K.AVEY	750
J.H.WHITEHOUSE	3,497	P.KESKA	3,400
U.M.GADSBY	3,400	A.MITCHELL	3,400
P.GODE	3,400	G.WALLER	11,023
M.SARTIN	7,457	H.BRADY	3,552
J.M.HART	6,678	G.CHAMBERS	5,132
J.LEA	5,550	A.J.CHURCH	5,132
C.P.POND	3,595	L.GIRLING	3,400
B.P.SANDLER	5,762	H.KANE	8,656
S.A.STAVROU	10,548	H.MANN	3,482
K.ANGOLD-STEPHENS	4,130	G.SHEILL	3,400
K.S.CHANA	3,400	T.THOMAS	3,717
G.MOHINDRA	3,400	N.WRIGHT	3,400
P.J.SPENCER	599	K.M.ADAMS	1,752
L.A.WAGLAND	3,400	R.GLOZIER	2,199
J.A.WYATT	824	D.COOPER	250
B.A.ROLFE CHAIRMAN	3,400	R.BUTLER	3,400
R.BASSETT	10,953	A.JARVIS	500
A.WATTS	5,550	C.C.POND	2,911
H.ULKUN	4,637	R.JENNINGS	3,011
E.A.WEBSTER	7,382	L.MEAD	2,911
A.L.BOYCE	11,238	C.ROBERTS	2,911
J.PHILIP	9,074	D.DORRELL	2,911
D.J.WIXLEY	3,548	S.NEVILLE	2,911
S.A.LYE	250	B.SURTEES	3,296
R.THOMPSON	500	H.KAUFFMAN	2,911
D.JACKMAN	250	E.WESTON	2,911
A.LION	9,074		
Total	195,732	Total	120,542
		Grand Total	316,274

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.

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 other authorities (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.

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 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.

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.

PROPERTY, PLANT AND EQUIPMENT

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.

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

An 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 until received in the form either of cash or of other assets, or a reliable estimate of the cash realisation 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.

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.

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.