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Shropshire Council

Date: Thursday, 17 September 2015

Time: 10.30 am

Venue: Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

Contact: Michelle Dulson, Committee Officer
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AUDIT COMMITTEE

TO FOLLOW REPORT (S)

9 Audited Annual Statement of Accounts 2014/15

(Pages 1 - 186)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is to follow

Contact: James Walton 01743 255011

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Committee and date	Item
Audit Committee 17 September 2015 Council 24 September 2015	Public

AUDITED ANNUAL STATEMENT OF ACCOUNTS 2014/15

Responsible Officer James Walton
Email: james.walton@shropshire.gov.uk Tel: (01743) 255011

1. Summary

1.1 This covering report and attached Annual Statement of Accounts, present to Members the final audited outturn position for the financial year 2014/15.

2. Recommendations

2.1 Members are asked to:

A. Consider and approve the 2014/15 Statement of Accounts and that the Chairman of the Council signs them (in accordance with the requirements of the Accounts and Audit Regulations 2011).

B. Agree that the Head of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 30th September 2015.

C. Agree that the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. Details of the potential risks affecting the balances and financial health of the authority are considered within the Statement of Accounts.

4. Financial Implications

4.1. This report considers the overall financial position of the Authority in the form of the Council's Statement of Accounts. The accounts consider the level of assets controlled and owned by the Authority, and the level of balances of held.

5. Background

5.1 The Accounts and Audit Regulations 2011 state that members are required to approve the annual accounts after, rather than before, the findings of the audit are known. The formal date for approval and publication of the accounts is 30 September.

5.2 A copy of the 2014/15 Statement of Accounts is attached at Appendix 1. The Council's external auditors, Grant Thornton, have audited the accounts during July and August. The audit of the accounts is substantially complete and the Auditor has indicated that an unqualified audit opinion will be issued on the accounts, subject to the successful completion of the outstanding matters.

5.3 The Accounts and Audit Regulations 2011 also require that the Statement of Accounts is accompanied by the Council's Annual Governance Statement which details the processes and procedures in place to enable the council to carry out its functions effectively. The Annual Governance Statement was approved by the Audit Committee on 25 June 2015 and is attached at Appendix 2.

6. External Audit Opinion

6.1 Grant Thornton are expected to provide an unqualified audit opinion on the Statement of Accounts and therefore will report as follows.

> "In our opinion the financial statements give a true and fair view of the financial position of Shropshire Council as at 31 March 2015 and of its expenditure and income for the year then ended; give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

7. Changes from the Draft Statement of Accounts Certified by the Head of Finance, Governance & Assurance on 30 June 2015

7.1 There have been no material changes identified during the audit, however there have been a number of additional disclosures required and minor changes made, all with the agreement of Grant Thornton. The changes are listed below:

a) Movement of the balance held in relation to the Foundation School brought on balance sheet from the revaluation reserve to the capital adjustment account. As these are both included in Unusable Reserves, this has no impact on the balance sheet or other primary statements.

b) Additional cross references or minor typographical amendments have been included across the Statement of Accounts.

7.2 The audit of the Pension Fund accounts is running parallel to the audit of the Council's accounts and there are audit amendments anticipated to the Pension Fund Accounts that will need to be reflected in the Council's statement. The changes proposed relate to additional disclosures and presentational adjustments with no amendments proposed to the prime statements. Once these amendments have been finalised within the Pension Fund accounts, these will be amended in the final version of the Statement of Accounts prior to publication on 30th September 2015.

8. Letter of Representation

8.1 The Council is required to produce a letter of representation for the external auditors which provides assurance that the information submitted within the accounts is accurate and that all material information has been disclosed to the auditors. External audit will only sign off the accounts once this letter has been received.

8.2 For Shropshire Council, this letter is produced in consultation with the external auditor, signed by the Head of Finance, Governance and Assurance and the Chairman of the Audit Committee and issued prior to the publication date of 30th September 2015.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Annual Statement of Accounts 2014/15. Audit Committee 25 June 2015 CIPFA's Code of Practice (Code) on Local Authority Accounting CIPFA/SOLACE guidance on the Annual Governance Statement Revenue and Capital Budget 2014/15
Cabinet Member (Portfolio Holder) All
Local Member All
Appendices 1. Audited Statement of Accounts 2014/15 2. Annual Governance Statement

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Statement of Accounts

2014-2015

ANNUAL STATEMENT OF ACCOUNTS 2014/15

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2011, and other statutory provisions.

The statement includes:

Further information about the Council's Accounts can be obtained from the Finance Department at the Shirehall.

For details please contact James Walton on (01743) 255011, or Cheryl Williams on (01743) 258937.

James Walton
Head of Finance, Governance & Assurance

Section 1

Explanatory Foreword

The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

For 2014/15 the following changes have been made within the Code to reflect changes in accounting practices and accounting standards. The key changes affecting the Council's statement of accounts are detailed below:

- Group accounts – new accounting standards have been released in relation to the basis of consolidation entities within a Council's group accounts. This has led to a re-evaluation of the definitions of control and classification of entities to be consolidated within the group boundary.
- Accounting for local authority maintained schools – new guidance has been released from CIPFA on the accounting treatment of local authority maintained schools, and consideration of the categories of schools assets in terms of whether the assets should be held on or off the Council's balance sheet.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **An Explanatory Foreword** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2014/15.
- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Chief Financial Officer concerning the Council's financial affairs and the actual Statement of Accounts.
- **The Audit Opinion and Certificate** – this is provided by the external auditor following the completion of the annual audit.
- **The Core Financial Statements,** comprising:

- **The Movement in Reserves Statement –** this shows the movement in the year on the different reserves held by the Council which is analysed into 'usable reserves' and other reserves.

- **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

- **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council's financial position as at 31 March 2015. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.

- **The Cash Flow Statement** – this consolidated statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.

- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements and include the Council's accounting policies.

- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the Council is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.

- **The Pension Fund Accounts and Disclosure Notes** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council's own finances. The accounts summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2014/15 and assets and liabilities as at 31 March 2015.

- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.

- **The Collection Fund –** This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

Financial Report

This section of the Statement of Accounts for 2014/15 sets out:

- The revenue outturn for 2014/15
- The capital programme for 2014/15 – 2017/18
- The capital outturn for 2014/15
- A note on the Council's Borrowing Position
- A note on the Investment Strategy of the Council
- A note on the Pensions Liability within the Statement of Accounts
- Current and future prospects

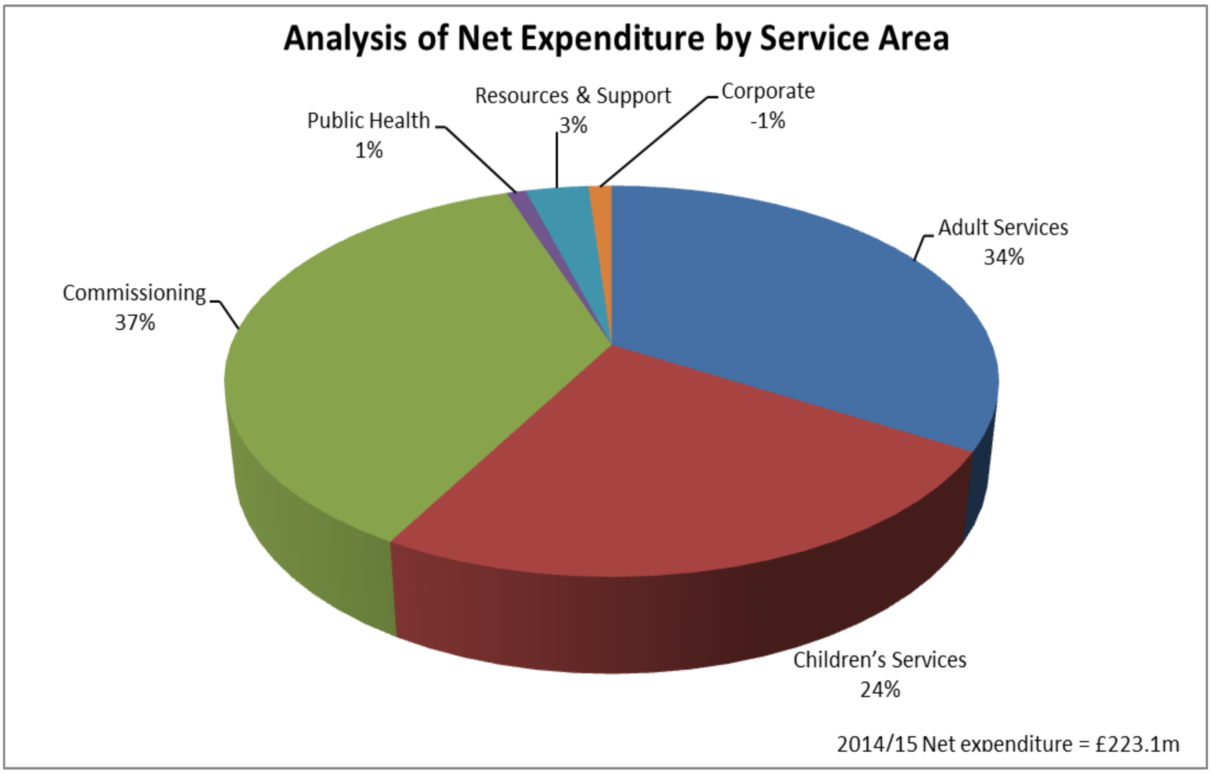
Revenue Outturn for 2014/15

Revenue budgets are monitored and reported regularly in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising. Budget monitoring reports during the course of the year have shown the following position:

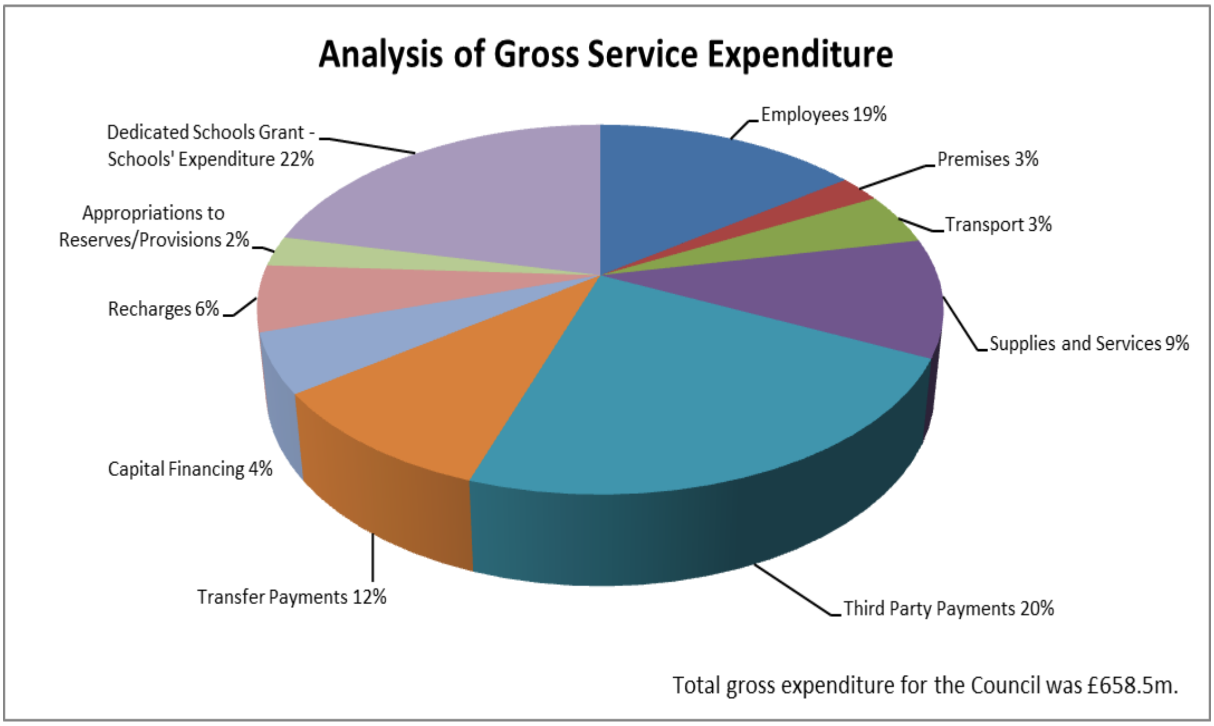
Over/(Under)spend Projected	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Outturn £000
Adult Services	1,836	2,055	4,940	4,791
Children's Services	1,006	993	755	566
Commissioning	2,019	535	(615)	(376)
Public Health	17	(24)	0	(85)
Resources & Support	848	731	557	(772)
Corporate	(2,501)	(2,687)	(5,266)	(4,424)
TOTAL	**3,225**	**1,603**	**371**	**(300)**

The final outturn position for each Service Area is shown in the table below which compares actual net expenditure with the approved budget. Further details of the outturn position for each directorate is shown in the Revenue Outturn report which is presented to Cabinet and Full Council.

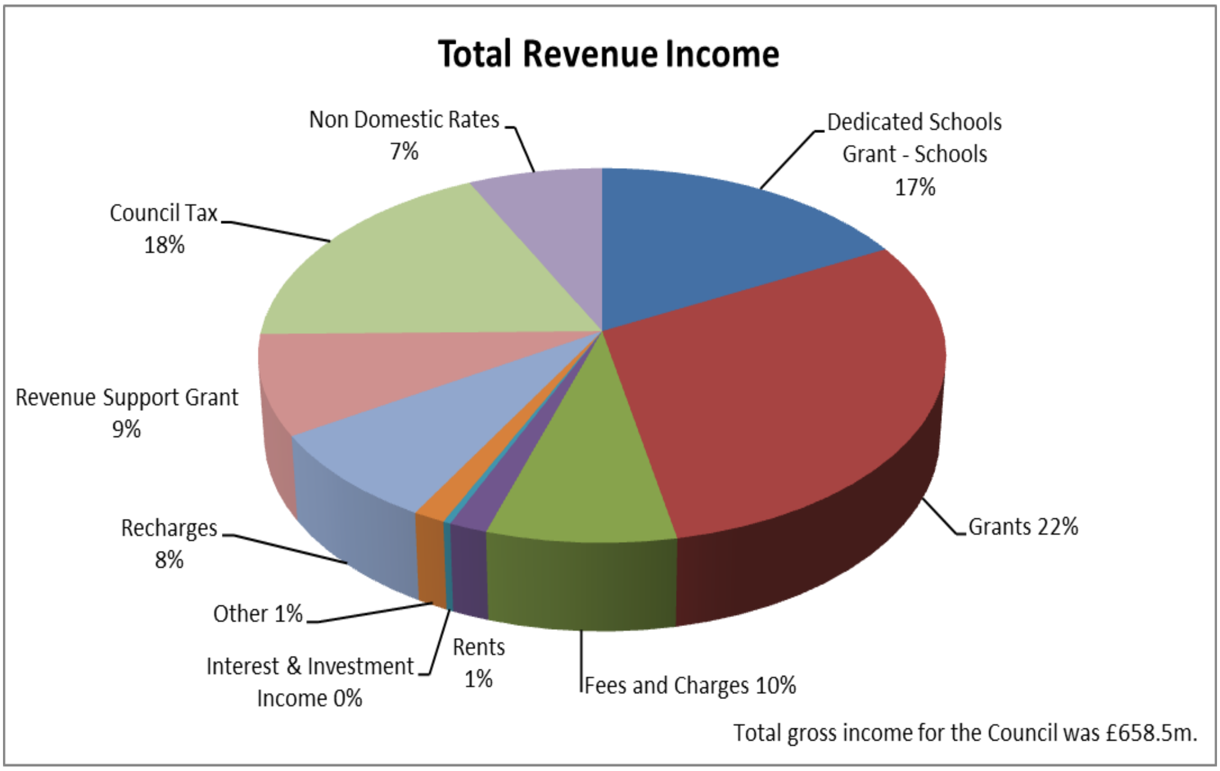
	Final Budget £000	Actual Outturn £000	Over/ (Under) £000
Adult Services	71,896	76,687	4,791
Children's Services	55,464	56,030	566
Commissioning	84,085	83,709	(376)
Public Health	2,273	2,188	(85)
Resources & Support	7,950	7,178	(772)
Corporate	1,777	(2,647)	(4,424)
TOTAL	**223,445**	**223,145**	**(300)**



The gross expenditure for the Council was £658.5m, which was spent on the following types of expenditure:



The total sources of income, including service income and income received centrally, is shown in the pie chart below.



The overall underspend of £0.300m against service area's budgets represents 0.05% of the original gross budget of £578m.

In addition, School balances, including invested sums, have decreased by £1.565m from the previous year. Schools' balances have to be ring-fenced for use by schools, and schools have the right to spend those balances at their discretion.

Further detail on the Council's service expenditure can be found within the Comprehensive Income & Expenditure Statement and Note 27 to the Accounts.

The Capital Programme 2014/15 to 2016/17

The Capital Strategy for the four years 2014/15 to 2016/17 details the capital schemes that the Council plans to deliver in that period.

The table below provides a summary of the capital budget for 2014/15 to 2016/17 as included in the 2014/15 Budget Book.

Service Area	2014/15 £000	2015/16 £000	2016/17 £000
General Fund			
Commissioning	33,395	8,152	3,500
Adult Services	1,420	315	0
Children's Services	13,173	1,710	1,795
Resources & Support	268	50	50
Total General Fund	**48,256**	**10,227**	**5,345**
Housing Revenue Account	10,091	3,287	0
Total Capital Programme	**58,347**	**13,514**	**5,345**

The Council can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding is Central Government Grants, most of which is for schools and for highways and transportation schemes. For each of these service areas, funding is allocated by the appropriate Government department in accordance with underlying data held.

The table below provides a summary of the capital financing for the capital budget as per the 2014/15 Budget Book.

Financing	2014/15 £000	2015/16 £000	2016/17 £000
Self Financed Prudential Borrowing	261	0	0
Capital Grants & Contributions	35,233	1,710	1,795
Revenue Contributions	2,805	311	0
Major Repairs Allowance	6,294	3,200	0
Corporate Resources (Capital Receipts/ Prudential Borrowing)	13,754	8,293	3,550
	58,347	**13,514**	**5,345**

Capital Outturn for 2014/15

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2014/15 as at outturn and slippage into the next financial year. Further details of the outturn position are provided in the Capital Outturn report presented to Cabinet and Full Council.

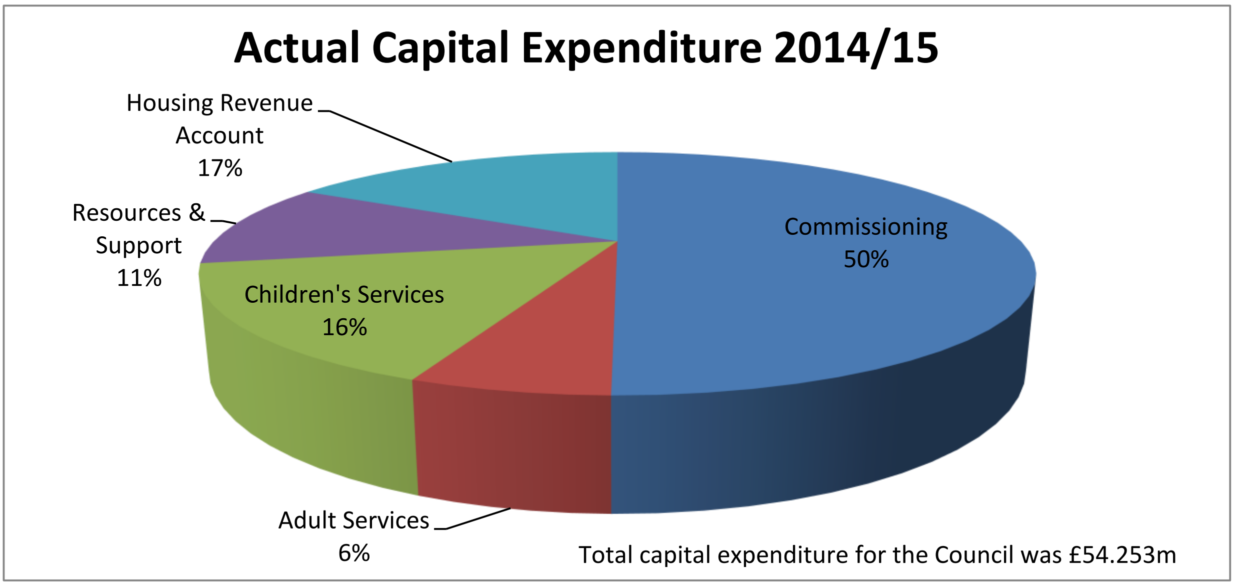
Service Area	Revised Budget 2014/15 £000	Actual Spend 2014/15 £000	Variance 2014/15 £000
General Fund			
Commissioning	33,553	27,225	(6,328)
Adult Services	4,303	3,292	(1,011)
Children's Services	10,949	8,562	(2,387)
Resources & Support	7,186	6,062	(1,124)
Total General Fund	**55,991**	**45,141**	**10,850**
Housing Revenue Account	10,442	9,112	(1,330)
Total Capital Programme	**66,433**	**54,253**	**(12,180)**

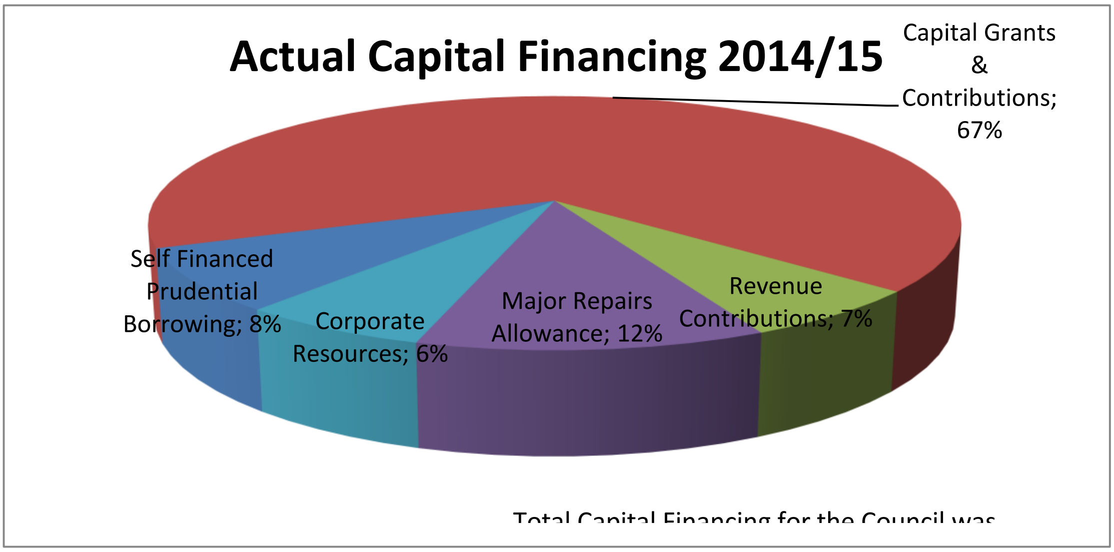
The table below provides a summary of the capital financing for the actual capital expenditure for 2014/15.

Financing	2014/15 £000
Self Financing Prudential Borrowing	4,328
Capital Grants & Contributions	36,487
Revenue Contributions	3,536
Major Repairs Allowance	6,392
Corporate Resources (Prudential Borrowing/Capital Receipts)	3,510
	54,253

The areas of most significant expenditure for schemes undertaken in 2014/15 are as follows:

	Expenditure 2014/15 £000	Scheme Total Budget £000
Commissioning		
Highways, Bridges & Street Lighting Infrastructure	14,962	Ongoing
Integrated Transport Plan	2,471	Ongoing
Highway Depots redevelopment	737	3,322
Shrewsbury Business Park Phase 2 Extension	500	1,797
Affordable Housing Schemes	780	Ongoing
Broadband	4,950	17,494
Adult Services		
Raven Site Development, Market Drayton	1,626	2,172
Disabled Facilities Grants	1,305	Ongoing
Children's Services		
Primary School Schemes	1,133	Ongoing
Basic Need Schemes	431	Ongoing
Primary School Amalgamation Programme	807	Ongoing
Secondary School Schemes	453	Ongoing
School Condition Schemes	2,944	Ongoing
Kettlemere Centre	820	1,015
Devolved Formula Capital & UIFSM - Allocated by schools	1,582	Ongoing
Resources & Support		
Mardol House Acquisition & Refit	4,328	7,800
Gypsy Sites	1,264	2,600
Housing Revenue Account		
Housing Major Repairs Programme	3,486	Ongoing
New Build Programme – Phase 1	5,565	7,395





Borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the reduction in the capital programme and slippage within the programme, there has been no additional borrowing required for current schemes.

Investments

The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy, outlines the Council's investment priorities as the security and liquidity of its capital.

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Capita suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Capita.

A list of counterparties with whom funds could be invested was compiled with reference to the credit ratings issued by the credit agencies Fitch, Moody's and Standard & Poor.

Further details of investment activities are provided within Note 17, which commences on page 63.

Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

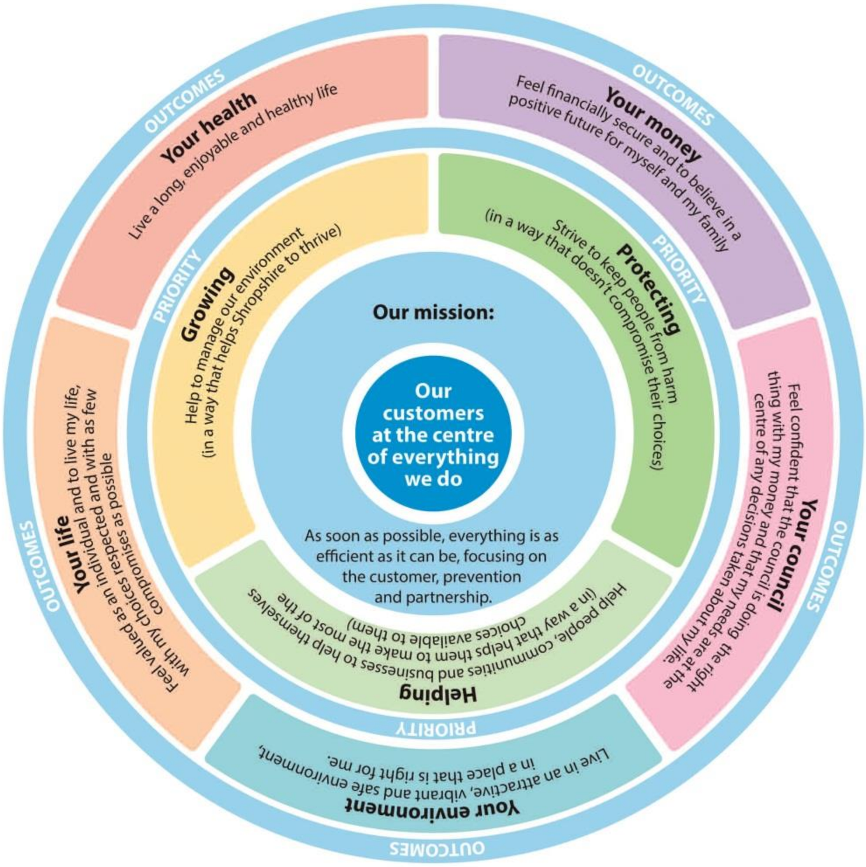
As at 1 April 2014, the Council's net pensions liability amounted to £297m. In comparison, the deficit amounts to £408m at 31 March 2015 due to a change in financial assumptions impacting on the asset and liability figures. Statutory requirements for funding the deficit means the financial position of the Council remains healthy, as the deficit will be met by increased contributions over the remaining working life of employees.

Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 21, and the change to the pension liability in 2014/15 is analysed in note 35 to the accounts.

Current and Future Prospects

As a council, we are focusing on delivering better outcomes for our customers. Everything we undertake should work towards fulfilling one or more of these outcomes, with an emphasis on ensuring that our priorities are delivered.

This is summarised below, and forms the backdrop for delivering the Council's Medium Term Financial Plan over the next three years.



The business plan and financial strategy agreed by members in February 2015 identified savings of £37.082m to be implemented in 2015/16, and a further £16.868m for 2016/17.

Budget pressures will continue to be identified and refined over the medium term. A full review of the medium term financial plan will be performed in 2015/16 and the current three year plan will be extended to cover the period 2016/17 – 2018/19. The following areas require further refinement (over the next twelve months) before consideration for inclusion in the 2016/17 budget:

- Impact of the new Government and the Comprehensive Spending Review expected to be announced towards the end of 2015.
- Consider how the Council could operate if no Revenue Support Grant was received.
- Impact of the introduction of the Care Bill and the Dilnot review for reforming social care funding and the effect of these changes on the Council's income and expenditure.
- Demographic Growth, particularly in services provided by Adult Services, post transformation of the service.
- The movement of schools to Academy status is expected to impact on Council funding and resources.
- The basis for recharging back-office costs to frontline services is currently being reviewed.

- The impact of reducing our asset base (generation of capital receipts) can have a negative impact on revenue funding if an asset currently provides an income stream to the Council.

The Council wholly owns a company (ip&e (Group) Ltd), as a vehicle for delivering a range of public services in Shropshire. Media Services transferred to ip&e (Group) Ltd in 2013/14 and the Programme Management Office and the Business Design Team transferred to the company on 1 April 2014. Help 2 Change and Fulcrum are transferring to ip&e (Group) Ltd in 2015/16 with the phased transfer of Inspire 2 Learn having been approved for 2015/16. Further work will also be carried out around potential other transfers of services to ip&e (Group) Ltd which include, for example, the Customer Service Centre. This work will consider the impact that any transfer has on the Council's financial position and will be determined over the course of this financial year.

Shropshire Council has continued with its policy of reducing the level of prudential borrowing for the capital programme by funding schemes by capital receipts instead. The level of capital receipts required over the period 2015/16 – 2016/17 is £29.5m and the council is continuing with its asset management strategy to identify whether these potential receipts can be generated.

Section 2

Statement of Responsibilities

STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required to:

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

Approved by Council

The council's Statement of Accounts for 2014/15 was formally approved at a meeting of the Council on 24 September 2015.

Malcolm Pate
Chairman of the Council
24 September 2015

Responsibilities of Head of Finance, Governance & Assurance

The Head of Finance, Governance & Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Head of Finance, Governance & Assurance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Head of Finance, Governance & Assurance has also:

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

Certificate of the Head of Finance, Governance & Assurance

I hereby certify that the Statement of Accounts present a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2015

James Walton
Head of Finance, Governance & Assurance
24 September 2015

Section 3

Audit Opinion & Certificate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the financial statements

We have audited the financial statements of Shropshire 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 Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Shropshire Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword and Group Accounts Introduction to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Shropshire Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the Explanatory Foreword and Group Accounts Introduction 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 report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

AUDIT OPINION AND CERTIFICATE

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 2014, as to whether the Authority has proper arrangements for:

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

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

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

Conclusion

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

Delay in certification of completion of the audit

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

Jon Roberts
Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza,
20 Colmore Circus,
Birmingham
B4 6AT

30 September 2015

Section 4

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance * £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2014	**20,019**	**35,119**	**2,545**	**3,722**	**2,786**	**64,191**	**455,699**	**519,890**
<u>Movement in reserves during 2014/15</u>								
Surplus or (deficit) on the provision of services	(43,734)	0	10,567	0	0	(33,167)	0	(33,167)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(95,664)	(95,664)
Total Comprehensive Income and Expenditure	**(43,734)**	**0**	**10,567**	**0**	**0**	**(33,167)**	**(95,664)**	**(128,831)**
Adjustments between accounting basis & funding basis under regulations (Note 6)	58,829	0	(10,036)	(2,087)	1,168	47,874	(47,874)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**15,095**	**0**	**531**	**(2,087)**	**1,168**	**14,707**	**(143,538)**	**(128,831)**
Transfers to/(from) Earmarked Reserves (Note 7)	(19,908)	19,908	0	0	0	0	0	0
Increase/(Decrease) in 2014/15	**(4,813)**	**19,908**	**531**	**(2,087)**	**1,168**	**14,707**	**(143,538)**	**(128,831)**
Balance at 31 March 2015	**15,206**	**55,027**	**3,076**	**1,635**	**3,954**	**78,898**	**312,161**	**391,059**

For 2014/15, School Balances have been included within Earmarked General Fund Reserves.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance * £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2013	**11,528**	**42,989**	**1,041**	**1,402**	**3,909**	**60,869**	**504,453**	**565,322**
<u>Movement in reserves during 2013/14</u>								
Surplus or (deficit) on the provision of services	(98,168)	0	(844)	0	0	(99,012)	0	(99,012)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	53,580	53,580
Total Comprehensive Income and Expenditure	**(98,168)**	**0**	**(844)**	**0**	**0**	**(99,012)**	**53,580**	**(45,432)**
Adjustments between accounting basis & funding basis under regulations (Note 6)	98,793	0	2,344	2,320	(1,123)	102,334	(102,334)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**625**	**0**	**1,500**	**2,320**	**(1,123)**	**3,322**	**(48,754)**	**(45,432)**
Transfers to/(from) Earmarked Reserves (Note 7)	7,866	(7,870)	4	0	0	0	0	0
Increase/(Decrease) in 2013/14	**8,491**	**(7,870)**	**1,504**	**2,320**	**(1,123)**	**3,322**	**(48,754)**	**(45,432)**
Balance at 31 March 2014	**20,019***	**35,119**	**2,545**	**3,722**	**2,786**	**64,191**	**455,699**	**519,890**

* Includes General Fund Balances of £14.497m and School Balances of £5.522m.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2013/14				2014/15		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
			Expenditure on Continuing Services (Note 27)			
106,718	(30,535)	76,183	Adult Social Care	102,718	(30,552)	72,166
10,687	(4,595)	6,092	Central Services	8,348	(2,999)	5,349
240,391	(184,852)	55,539	Children's and Education Services	228,346	(174,065)	54,281
30,049	(9,063)	20,986	Cultural and Related Services	22,640	(8,335)	14,305
32,811	(5,500)	27,311	Environmental and Regulatory Services	37,321	(5,691)	31,630
41,760	(11,608)	30,152	Highways and Transport Services	38,301	(10,201)	28,100
15,642	(17,237)	(1,595)	Local Authority Housing (HRA)	5,012	(17,709)	(12,697)
81,701	(75,728)	5,973	Other Housing Services	82,589	(77,981)	4,608
16,037	(8,453)	7,584	Planning Services	20,657	(15,253)	5,404
10,409	(10,316)	93	Public Health	10,488	(11,103)	(615)
5,078	0	5,078	Corporate and Democratic Core	4,575	0	4,575
(1,608)	0	(1,608)	Non Distributed Costs	(485)	0	(485)
589,675	**(357,887)**	**231,788**	**Net Cost of Services**	**560,510**	**(353,889)**	**206,621**
		106,374	Other Operating Expenditure (Note 8)			70,519
		33,024	Financing and Investment Income and Expenditure (Note 9)			23,699
		(272,174)	Taxation and Non Specific Grant Income (Note 10)			(267,672)
		99,012	**(Surplus) or Deficit on the Provision of Services**			**33,167**
		2,093	(Surplus) or Deficit on Revaluation of Non Current Assets			(9,354)
		3,999	Impairment Losses on Non Current Assets Charged to the Revaluation Reserve			3,223
		(59,672)	Remeasurement of the Net Defined Benefit Liability			101,795
		(53,580)	**Other Comprehensive Income and Expenditure**			**95,664**
		45,432	**Total Comprehensive Income and Expenditure**			**128,831**

BALANCE SHEET

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

31 March 2014		31 March 2015	
£000		£000	£000
	Non Current Assets		
1,062,212	Property, Plant & Equipment (Note 11)	995,904	
2,475	Heritage Assets	2,592	
28,878	Investment Property (Note 12)	47,673	
776	Intangible Assets	432	
1,519	Assets Held for Sale	599	
1,095,860	**Total Non Current Assets**		**1,047,200**
400	Long Term Investment (Note 16)	400	
3,139	Long Term Debtors (Note 16)	7,240	
1,099,399	**Total Long Term Assets**		**1,054,840**
	Current Assets		
0	Current Held for Sale Investment Properties (Note 12)	125	
0	Assets Held for Sale	3,635	
39,100	Short Term Investments (Note 16)	41,730	
966	Inventories	994	
68,715	Short Term Debtors (Note 18)	72,260	
70,785	Cash & Cash Equivalents (Notes 16 & 19)	68,343	
179,566	**Total Current Assets**		**187,087**
1,278,965	**Total Assets**		**1,241,927**
	Current Liabilities		
(17,586)	Bank Overdraft (Notes 16 & 19)	(10,131)	
(7,397)	Short Term Borrowing (Note 16)	(11,117)	
(54,465)	Short Term Creditors (Note 20)	(51,883)	
(4,492)	Provisions	(3,585)	
(10,628)	Grants Receipts in Advance - Revenue (Note 33)	(6,042)	
(1,040)	Grants Receipts in Advance - Capital (Note 33)	(70)	
(95,608)	**Total Current Liabilities**		**(82,828)**
1,183,357	**Total Assets Less Current Liabilities**		**1,159,099**
	Long Term Liabilities		
(719)	Long Term Creditors (Note 16)	(707)	
(337,768)	Long Term Borrowing (Note 16)	(328,968)	
(22,685)	Other Long Term Liabilities (Note 15)	(22,676)	
(297,394)	Pensions Liability (Note 35)	(407,792)	
(4,901)	Provisions	(7,897)	
(663,467)	**Total Long Term Liabilities**		**(768,040)**
519,890	**Net Assets**		**391,059**
	Financed by:		
64,191	Usable Reserves (Note 21)	78,898	
455,699	Unusable Reserves (Note 22)	312,161	
519,890	**Total Reserves**		**391,059**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

2013/14	Revenue Activities	2014/15	
£000		£000	£000
99,012	Net (surplus) or deficit on the provision of services	33,167	
(144,532)	Adjust net surplus or deficit on the provision of services for non cash movements	(95,024)	
67,684	Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities	45,258	
22,164	**Net cash flows from Operating Activities (Notes 23 & 24)**		**(16,599)**
(8,821)	Investing Activities (Note 25)	6,298	
11,338	Financing Activities (Note 26)	5,288	
24,681	**Net (increase) or decrease in cash and cash equivalents**		**(5,013)**
77,880	Cash and cash equivalents at the beginning of the reporting period		53,199
53,199	**Cash and cash equivalents at the end of the reporting period (Note 19)**		**58,212**

Section 5

Notes to the Core Financial Statements

1. Accounting Policies

1.1..General

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

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

1.2 Accruals of Expenditure and Income

Revenue transactions are recorded on an accruals basis in accordance with proper accounting practices. In particular:

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

1.3. Cash and Cash Equivalents

Cash is defined for the purpose of this statement, as cash in hand and deposits with financial institutions repayable on demand without penalty on notice. Cash equivalents are short term, highly liquid investments, normally with a maturity of 90 days or less, that are readily convertible to known amounts of cash.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

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

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

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

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

1.5. Non Current Assets - Intangible

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the Council (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually up to five years.

1.6. Non Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Recognition
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

Initial Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at fair value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
Operational	
Council Dwellings	Existing Use Value – Social Housing (EUV-SH)
Land & Buildings	Existing Use Value (EUV) – in accordance with UKPS 1.3 of the RICS Valuation Standards. Depreciated Replacement Cost (DRC) – for specialist properties where there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold.
Vehicles, Plant & Equipment	Depreciated Historic Cost (HC)
Infrastructure	Historic Cost (HC)
Community Assets	Historic Cost (HC)
Non-operational	
Surplus Assets	Existing Use Value (EUV) or Depreciated Replacement Cost (DRC) applying the same assumptions relating to the level of usage, etc. as those of the most recent valuation as an operational asset
Assets Under Construction	Historic Cost (HC)

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. When new material assets are acquired/constructed or assets substantially enhanced, the asset will be valued in the financial year in which the asset becomes operational. When an asset is revalued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Housing Revenue Account Council Dwellings are subject to an annual review of value in line with regional data provided by the Office for National Statistics (ONS).

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 1.9), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset and they have substantially different economic lives, they are recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010. Significant assets for this purpose are properties with a capital value of £2.5m or over, where depreciation is £100,000 per annum or over, or any component that represents 25% of the total capital value.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount, an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (based on Agreement – Section 11(6) of the Local Government Act 2003) of receipts relating to dwellings disposed of under the Right to Buy Scheme are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a 'housing pooled capital receipt' is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance in the Movement in Reserves Statement.

Where a component of an asset is replaced or restored, the carrying amount of the old component is derecognised, based on the cost of the new component indexed back to the last valuation date. Where the new expenditure is deemed to also enhance the component of the original asset e.g. energy efficiency schemes the carrying amount of the old component is reduced further based on an assessment of the level of enhancement.

1.7. Investment Properties

An Investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.8. Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of.

1.9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset’s carrying amount during the period, that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter in Surplus or Deficit on the Provision of Services.

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

1.10. Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with the exception of:

- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method, with the exception of Council Dwellings for which the depreciation charge is based on the Major Repairs Allowance for the year as this is considered to be a reasonable estimate of depreciation.

On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

1.11. Charges to Revenue for Non Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used on assets used by the service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible assets attributable to the service.

Depreciation, amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings and other properties, which are real charges to the HRA since the Major Repairs Allowance constitutes a reasonable estimate of depreciation for HRA dwellings.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 1.15 (The Redemption of Debt). Depreciation, amortisation and revaluation/impairment losses are therefore replaced by revenue provision transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 1.10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement on Reserves Statement.

1.12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and shown as a reconciling item in the Movement in Reserves Statement.

1.13. Heritage Assets

Tangible Heritage Assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. Intangible heritage assets are intangible assets with cultural, environmental, or historical significance.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, due to the unique nature of Heritage Assets, some of the measurement rules are relaxed in relation to the categories of Heritage Assets held as detailed below. This is due to the lack of valuation information and the disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.

- **Outdoor Statues/Monuments/Historic Building Remains**

The Council has a small number of assets relating to Outdoor Statues/ Monuments/ Historic Building Remains. These assets are reported on the balance sheet, but valuation of these assets is not practical due to the unique nature and lack of comparable market values. These assets are held on the balance sheet at depreciated historic cost, where this is available. Where historic cost information is not available due to the age of the asset, the assets are held at nil value.

The Council's Historical Environment Team, including the Shropshire Archaeology Service manage the Council's historic environment and archaeological sites. The Council does not consider that reliable cost or valuation information can be obtained for the assets held under the Historic Environment and Archaeology Service and the majority would fall into the de-minimus category. This is because of the unique nature of the assets held and lack of comparable market values. It is also recognised that the cost of obtaining this information outweighs any benefits. Consequently, the Council does not recognise these assets on the balance sheet, other than those included under Statues/Monuments/Historic Building Remains.

- **Museum and Archives artefacts**

Museum Service

The Shropshire Museum Service runs a countywide service which collects, documents, preserves, exhibits and interprets the material remains of Shropshire's natural and human history for public benefit. The service operates six museums and a museum resource centre.

Principal collections held by the Museum Service include:

- Agricultural
- Archaeology (including Prehistory, Roman, Medieval, Post-Medieval and Foreign)
- Archives
- Biology
- Costume & Textiles
- Decorative & Applied Arts
- Ethnography
- Fine Art
- Geological
- Numismatics
- Social History

The acquisition priorities vary between the principal collections based on existing gaps in the collection and the capabilities and resources available to the service to adequately store, conserve and display collections.

The Museum Service exercises due diligence and makes every effort not to acquire, whether by purchase, gift, bequest or exchange, any object or specimen unless the governing body can acquire a valid title to the item.

By definition, the Museum Service has a long-term purpose and should possess permanent collections in relation to its stated objectives. As a consequence there is a strong presumption against the disposal of any items in the museum's collection. In the event of the Museum Service closing the collections would be offered to other museum authorities and neither the collections nor individual items within them would be sold to generate income.

Complete holdings are not valued, as items are generally unique and full valuation would be extremely expensive; however, some significant items have a market valuation at purchase or insurance valuation. As a consequence only those items for which the Museum Service holds an existing valuation (above a de-minimus threshold of £5,000) are recognised in the balance sheet. These principally consist of fine art paintings and items of decorative art. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Any new acquisitions will be recognised at purchase price valuation. Assets are not subject to a revaluation cycle, with revaluations only undertaken where required by the Museum Service.

Archives

The Shropshire archives and local studies service preserves and make accessible documents, books, maps, photographs, plans and drawings relating to Shropshire past and present. Not all material is owned by the Council, with a significant proportion on deposit from record owners. No reliable cost or valuation information is held for holdings, with items generally unique and valuation would be considered to be extremely expensive. Consequently the Council does not recognise these assets on the balance sheet.

Shropshire Archives has an Acquisition and Disposal policy. Shropshire Archives will acquire material for the study of all aspects of Shropshire past and present. Material will be acquired by transfer, gift, purchase or deposit. Shropshire Archives will only acquire material if the responsible officer is satisfied that the vendor, donor or depositor has a valid title to the material and will not acquire material if it cannot provide adequate storage or professional care for it. There is a strong presumption against the disposal by sale of any material in Shropshire Archives ownership. If materials are to be sold they should first be offered to other appropriate public collecting institutions. All monies received by Shropshire Archives from the sale of material shall be used for the benefit of the Service's collections.

Heritage Assets – Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance other capital expenditure or to repay debt. At the balance sheet date, the Council may opt to set aside capital receipts in-hand within the Capital Adjustment Account to reduce the Capital Financing Requirement and the Minimum Revenue Provision (MRP) charge for the following financial year.

1.15. The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory "Minimum Revenue Provision" (MRP) requirements. For supported borrowing MRP is 4% p.a. of the adjusted (by the *A adjustment*) Capital Financing Requirement. For unsupported borrowing under the Prudential system MRP is calculated over the estimated life of the asset for which the borrowing is undertaken. This amount is transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

For HRA debt there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA.

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Where the Council has made capital loans to third parties financed from the Councils balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

1.16. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term;

2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised;

3) the lease term is for the major part of the economic life of the asset;

4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

<u>The Council as Lessee</u>

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Council’s Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are assessed as to whether they are operating or finance leases.

<u>The Council as Lessor</u>

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.17. Government Grants and Contributions

<u>Revenue Grants</u>

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. If there are outstanding conditions on the grant income the income is held on the Balance Sheet as a Government debtor/creditor. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

<u>Capital Grants</u>

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Council has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL) with effect from 1 January 2012. The levy applies to planning applications for the following types of development:

- The formation of one or more new dwellings, (including holiday lets), either through conversion or new build, regardless of size (unless it is 'affordable housing'); or
- The establishment of new residential floor space (including extensions and replacements) of 100sqm or above.

The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects. This will largely be capital expenditure and includes roads and other transport schemes, flood defences, schools and other education facilities, medical facilities, sporting and recreation facilities and open spaces. Five percent of CIL charges will be used to meet the administrative costs of operating the levy.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the Council CIL instalment policy, following commencement date of the chargeable development in accordance with the accounting policy for government grants and contributions set out above.

The only exception for this is CIL monies received on developments where the CIL Liability Notice has been issued after 25th April 2013. On these receipts 15% of gross receipt or 25% in areas with a statutory Neighbourhood Plan in place; is treated as the Neighbourhood Fund element. The Neighbourhood Fund is the portion of CIL provided directly to Town and Parish Councils to be used for the provision, improvement, replacement, operation or maintenance of infrastructure or anything else which is concerned with addressing the demands that development places on an area.

1.18. Financial Assets

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued interest receivable at the year end. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial statements, instead Note 16 to the Core Financial Statements provides details about these soft loans.

1.19. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

1.21. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation.

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefits is not required, the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but any material liabilities will be disclosed in a separate note to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if it is probable that there will be an inflow of economic benefits or service potential and the sum is material to the accounts.

1.22. Inventories

Inventories and stock are valued at the lower of cost price or net realisable value.

1.23. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of

Practice 2014/15. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

1.24. Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IFRS10 – Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS12 – Disclosure of Interest in Other Entities, IAS 27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting. Subsidiaries and joint ventures have been consolidated within the Council's accounts on a cost basis, and accounting policies have been aligned between the Council and the companies consolidated in the Group.

1.25. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure. All VAT receivable is excluded from income.

1.26. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave, termination benefits and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement relating to the Spring Term. An accrual has been calculated for other staff based on the amount of untaken leave as at 31 March.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. The cost of these are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure statement.

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The NHS Pensions Scheme, administered by NHS Pensions;
- The Local Government Pensions Scheme, administered by Shropshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However, the arrangements for the Teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the two schemes in the year.

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

- The liabilities of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% (based on the indicative rate of return on high quality corporate bonds of appropriate duration)
- The assets of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and

Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Shropshire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

1.28. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

1.29. Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document. The Council is deemed to control the services provided under these two PFI schemes, and as ownership of property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the QICS scheme, the liability was written down by an initial capital contribution of £2.5m. At the commencement of the Waste contract the Council made various existing waste infrastructure assets available to the contractor. Under the Waste scheme, not all property, plant and equipment scheduled to be provided in the initial years of the contract has been provided and as a result part of the payments made to the scheme operator have been accounted for as a prepayment, with a corresponding entry also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **Finance cost** – an interest charge as a percentage (based on the Internal Rate of Return of the scheme) of the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out. On recognising the prepayment for lifecycle replacement costs a corresponding entry is also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

1.30. Accounting for Council Tax and Non Domestic Rates

The Council Tax income included in the Comprehensive Income & Expenditure Statement is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

As the collection of Council Tax for preceptors (the West Mercia Police and Crime Commissioner, and Shropshire & Wrekin Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Shropshire Council as the billing authority and to the preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

In relation to Non-Domestic Rates, Shropshire Council collects income due as an agency arrangement. As with council tax, the cash collected belongs proportionately to Shropshire Council as the billing authority, and to Central Government and Shropshire & Wrekin Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

1.31. Accounting for Local Authority Maintained Schools

All Local Authority Maintained Schools in the Council area are considered to be entities controlled by the Council. In order to simplify the consolidation process and avoid consolidating in Group Accounts a considerable number of separate, relatively small entities; the Council’s single entity financial statements include all the transactions of Local Authority Maintained Schools i.e. income, expenditure, assets, liabilities, reserves and cash flows of the schools.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

The Council recognises on balance sheet the non current assets of schools where the Council legally owns the assets or where the school is in the legal ownership of a non religious body, on the basis that they are the assets of the school and need to be consolidated in to the Council’s accounts.

Community schools are owned by the Council and therefore recognised on the balance sheet.

The majority of Voluntary Aided and Voluntary Controlled schools in the Council area are owned by the respective Diocese. There is currently no legal arrangement in place for the School/Council to use the Diocese owned schools. The School/Council uses the school building to provide education under the provisions of the School Standards and Framework Act 1998. On this basis the school assets are used under "mere" licences and the assets are not recognised on the Council’s balance sheet. The only exception to this is there are a small number of schools that should have transferred to Diocese under Education Legislation; but the legal transfer has not been completed. These are still recognised in the Council balance sheet with an additional note disclosing that they are due to transfer.

Foundation schools owned by the Diocese are not recognised on the Council balance sheet as the position is the same as Voluntary Aided and Voluntary Controlled. Where ownership lies with the school or the school’s Governing Body the School is recognised on the Council’s Balance Sheet. There are a small number of schools who have recently changed their status to Foundation as part of local area Education Trusts. As yet no legal transfers have taken place of school land and buildings. On the assumption that these trusts will constitute the Governing

Bodies of these schools, the schools are to remain on-balance sheet. This will be reviewed when the legal transfers are agreed in case the position is different.

Academy schools are not maintained schools controlled by the Council and as such are not accounted for in the Council's Accounts. Schools in Council ownership (Community Schools) which become Academies are provided to the Academy on a 125 year peppercorn lease. When schools transfer to Academy status the assets are written out of the balance sheet as at the date that the asset transfers. Additional notes are included in the accounts disclosing details of any schools where approval by the Department of Education to transfer the School to Academy has been granted, but the school has not transferred by the balance sheet date.

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions).

- IFRIC 21 Levies. This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy.

- Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification.

It is anticipated that the introduction of these standards will not have a material impact on the financial statements. The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the 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 critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty regarding future levels of funding for local government. The Council has undertaken the rigorous challenge of reviewing its spending and as a result has ensured appropriate savings are built into its medium term financial plans. The Council has determined that this uncertainty regarding future funding levels is not known in sufficient enough detail to provide an indication that its assets would be impaired or services reduced significantly. Any action to reduce spending would be taken in a planned and systematic way to reduce the impact on service delivery.

- The Council takes judgements over the element of control in terms of deciding which assets should be on our balance sheet. One such judgement has been taken around Local Authority Maintained schools and particularly Voluntary Aided, Voluntary Controlled and Foundation schools that are not owned by the Council. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the school's land and buildings on its Balance Sheet where it legally owns the assets or the school Governing Body own the school. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

  The Council has completed an assessment of the different types of schools it controls within the Shropshire Council area to determine how these should be accounted for. The accounting treatment is detailed in the accounting policies (see 1.31).

- The Council is part of the Marches Local Enterprise Partnership (LEP) along with Herefordshire and Telford & Wrekin. The Council acts as accountable body for the LEP and therefore receives grant income on behalf of the LEP and processes expenditure in line with the grant schemes. The Council has concluded that the role of accountable body is to be deemed as an agent, and therefore the net grant held should not be accounted within the Council's accounts.

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

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

There is a risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2015:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of material adjustment in the year when the property is revalued.
Dwellings	The value of dwellings held on the balance sheet is subject to impairment due to an estimated increase or decrease in house prices. The Council accounting policy is to use ONS data as the basis for this estimate.	The valuation of dwellings may require a material adjustment in the following year if ONS data is not a reliable estimate.
NDR Appeals Provision	The provision set aside for Non Domestic Rate appeals is estimated based on the number of	There is a risk that successful appeals will be significantly more than the estimate leading

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	outstanding appeals as per the Valuation Office and then the percentage rateable value change of successful appeals is applied.	to an increased demand on the NDR collection fund in the year.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £19.601m.
Accruals	Estimates of known future expenses or income where amounts are not yet certain are accrued in the year that they relate to. The proportion of estimates within the accruals processed for debtors and creditors are: • Debtors 16% • Creditors 4%	The expense or the income could be either higher or lower than expected. A 10% increase in the estimates for debtors would result in an additional debtor of £0.104m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.095m.

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Finance, Governance & Assurance on 30 June 2015. Events taking place after this date are not reflected in the financial statement or notes.

At balance sheet date, Department of Education approval had been granted to four schools to convert to Academy School status in the 2015/16 financial year. The conversion dates are anticipated to be later in the year and therefore the approval for transfer is considered as a non adjusting event after the reporting 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	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:						
Charges for depreciation and impairment of non current assets	34,741	334	4,305	0	0	(39,380)
Revaluation losses on Property Plant and Equipment	10,082	(7,717)	0	0	0	(2,365)
Movement in the market value of Investment Properties	(17,734)	0	0	0	0	17,734
Amortisation of intangible assets	365	0	0	0	0	(365)
Capital grants and contributions applied	(34,861)	(922)	0	0	0	35,783
Revenue expenditure funded from capital under statute	12,351	0	0	0	0	(12,351)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	66,932	1,595	0	0	0	(68,527)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment	(15,055)	0	0	0	0	15,055
Capital expenditure charged against the General Fund and HRA balances	(1,886)	(1,650)	0	0	0	3,536
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(1,872)	0	0	0	1,872	0
Application of grants to capital financing transferred to CAA	0	0	0	0	(704)	704
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,180)	(1,712)	0	4,978	0	(86)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(4,435)	0	4,435
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	36	0	(36)	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	539	0	0	(539)	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	32	0	(32)

2014/15	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustment primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(6,392)	0	0	6,392
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(297)	0	0	0	0	297
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 35)	28,732	0	0	0	0	(28,732)
Employer's pension contributions and direct payments to pensioners payable in the year	(20,129)	0	0	0	0	20,129
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	106	0	0	0	0	(106)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(6)	0	0	0	0	6
Total Adjustments	**58,828**	**(10,036)**	**(2,087)**	**0**	**1,168**	**(47,873)**

2013/14 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:						
Charges for depreciation and impairment of non current assets	29,985	170	4,215	0	0	(34,370)
Revaluation losses on Property Plant and Equipment	5,945	3,219	0	0	0	(9,164)
Movement in the market value of Investment Properties	(1,163)	(73)	0	0	0	1,236
Amortisation of intangible assets	420	0	0	0	0	(420)
Capital grants and contributions applied	(28,628)	(850)	0	0	0	29,478
Income in relation to donated assets	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	6,996	0	0	0	0	(6,996)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	105,844	2,038	0	0	0	(107,882)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:						
Statutory provision for the financing of capital investment	(17,681)	0	0	0	0	17,681
Capital expenditure charged against the General Fund and HRA balances	(2,061)	(379)	0	0	0	2,440
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(533)	0	0	0	533	0
Application of grants to capital financing transferred to CAA	0	0	0	0	(1,656)	1,656
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,135)	(1,805)	0	8,029	0	(89)
Use of the Capital Receipts Reserve towards new expenditure	0	0	0	(7,567)	0	7,567
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	34	0	(34)	0	0

2013/14 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	458	0	0	(458)	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	30	0	(30)
Adjustment primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(1,895)	0	0	1,895
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(301)	(1)	0	0	0	302
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 35)	32,223	0	0	0	0	(32,223)
Employer's pension contributions and direct payments to pensioners payable in the year	(24,674)	0	0	0	0	24,674
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(661)	0	0	0	0	661
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,241)	(9)	0	0	0	1,250
Total Adjustments	**98,793**	**2,344**	**2,320**	**0**	**(1,123)**	**(102,334)**

7. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2014/15.

	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations	4,543	(13,155)	25,673	17,061	(3,135)	5,567	19,493
Insurance Reserves	2,584	(1)	95	2,678	0	324	3,002
Reserves of trading and business units	143	(12)	0	131	0	169	300
Reserves retained for service departmental use	33,646	(26,176)	6,160	13,630	(5,474)	18,183	26,339
School Balances	2,073	(802)	348	1,619	(5,512)	9,786	5,893
Total	**42,989**	**(40,146)**	**32,276**	**35,119**	**(14,121)**	**34,029**	**55,027**

RESERVES

Sums set aside for major schemes, such as capital developments, or to fund major reorganisations – includes redundancy reserve, and specific reserves to fund capital and major projects including the university and other service transformation within the Council.

Insurance Reserves – includes fire liability and motor insurance reserves to fund the Council's future self insurance liabilities.

Reserves of trading and business units – includes any balance carried forward in relation to Shire Services to help smooth trading profits and losses over future years.

Reserves retained for service departmental use – includes a number of specific earmarked reserves for known service expenditure in future years. Significant balances include an IT expenditure reserve and a reserve including unringfenced revenue grants that have not been spent.

School Balances – includes unspent balances of budgets delegated to individual schools.

A breakdown of all specific earmarked reserve balances is shown in the 2014/15 Revenue Outturn report.

8. OTHER OPERATING EXPENDITURE

	2014/15 £000	2013/14 £000
Parish Council Precepts	5,908	5,567
Levies	118	120
Payments to the Government Housing Capital Receipts Pool	539	458
(Gains)/losses on the disposal of non current assets*	63,670	99,976
(Gains)/losses on change in valuation of non-current assets	284	253
	70,519	**106,374**

* Losses on disposal include the transfer of schools to Academy which has resulted in a significant asset value being written out of the balance sheet. Further details are provided at Note 11.

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014/15 £000	2013/14 £000
Interest payable and similar charges	19,734	19,355
Net interest on the net defined benefit liability	12,439	13,919
Interest receivable and similar income	(1,815)	(1,829)
(Income) and expenditure in relation to investment properties and changes in their fair value	(18,559)	(2,332)
(Surpluses)/deficits on Trading Activities	11,899	3,911
	23,699	**33,024**

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	2014/15 £000	2013/14 £000
Council tax income	(126,097)	(123,791)
Non domestic rates	(45,018)	(45,655)
Non ringfenced government grants	(67,734)	(77,356)
Capital grants and contributions	(28,823)	(25,372)
	(267,672)	**(272,174)**

11. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non current assets held by the Council during 2014/15.

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra-structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2014	**155,499**	**618,008**	**22,691**	**419,988**	**4,356**	**2,133**	**8,210**	**1,230,885**	**42,560**
Additions	8,187	5,720	1,054	17,942	78	0	4,254	**37,235**	195
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	3,206	0	0	0	68	0	**3,274**	(2,774)

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra-structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,730	(14,453)	0	0	0	(20)	(12)	**(6,755)**	(5,593)
Derecognition - disposals	(1,198)	(62,733)	(975)	0	0	0	0	**(64,906)**	0
Derecognition - other	0	(6,295)	(6,682)	(156)	(851)	0	(31)	**(14,015)**	(851)
Assets reclassified (to)/from Held for Sale	(829)	(2,705)	0	0	0	0	0	**(3,534)**	0
Other movements in cost or valuation	1,111	(12,995)	1	1,073	0	556	(6,120)	**(16,374)**	(10)
At 31 March 2015	**170,500**	**527,753**	**16,089**	**438,847**	**3,583**	**2,737**	**6,301**	**1,165,810**	**33,527**
Depreciation and Impairments									
At 1 April 2014	**(4,375)**	**(41,575)**	**(13,818)**	**(108,082)**	**(646)**	**(160)**	**(17)**	**(168,673)**	**(7,952)**
Depreciation charge for 2014/15	(4,295)	(11,345)	(2,946)	(11,239)	(174)	(70)	0	**(30,069)**	(1,621)
Depreciation written out to the Revaluation Reserve	0	6,017	0	0	0	63	0	**6,080**	139
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	4,456	0	0	0	0	0	**4,456**	1,820
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(3,219)	0	0	0	(4)	0	**(3,223)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(333)	(8,639)	0	0	0	(51)	0	**(9,023)**	0
Derecognition - disposals	33	5,260	456	0	0	0	0	**5,749**	0
Derecognition - other	0	406	6,655	128	15	0	0	**7,204**	810
Other movements in depreciation and impairment	0	17,509	0	0	0	67	17	**17,593**	10
At 31 March 2015	**(8,970)**	**(31,130)**	**(9,653)**	**(119,193)**	**(805)**	**(155)**	**0**	**(169,906)**	**(6,794)**
NBV at 31 March 2015	**161,530**	**496,623**	**6,436**	**319,654**	**2,778**	**2,582**	**6,301**	**995,904**	**26,733**
NBV at 31 March 2014	**151,124**	**576,433**	**8,873**	**311,906**	**3,710**	**1,973**	**8,193**	**1,062,212**	**34,608**

The comparative movements in 2013/14 were as detailed below:

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra-structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2013	**176,371**	**733,112**	**29,539**	**404,760**	**5,090**	**432**	**7,881**	**1,357,185**	**44,948**
Additions	2,163	8,269	1,056	15,320	152	0	6,426	**33,386**	32
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(342)	(9,203)	0	0	0	(18)	0	**(9,563)**	(2)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(17,340)	(6,028)	0	0	0	(124)	0	**(23,492)**	0
Derecognition - disposals	(1,144)	(98,931)	(2,078)	0	0	0	0	**(102,153)**	0
Derecognition - other	(883)	(4,176)	(5,826)	(92)	(886)	(141)	(53)	**(12,057)**	(2,574)
Assets reclassified (to)/from Held for Sale	0	(285)	0	0	0	0	830	**545**	0
Other movements in cost or valuation	(3,326)	(4,750)	0	0	0	1,984	(6,874)	**(12,966)**	156
At 31 March 2014	**155,499**	**618,008**	**22,691**	**419,988**	**4,356**	**2,133**	**8,210**	**1,230,885**	**42,560**
Depreciation and Impairments									
At 1 April 2013	**(17,532)**	**(45,694)**	**(16,837)**	**(97,460)**	**(929)**	**(57)**	**0**	**(178,509)**	**(8,217)**
Depreciation charge for 2013/14	(4,205)	(13,545)	(4,023)	(10,629)	(239)	(45)	0	**(32,686)**	(2,153)
Depreciation written out to the Revaluation Reserve	186	7,285	0	0	0	0	0	**7,471**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	14,121	450	0	0	0	10	0	**14,581**	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(3,594)	0	0	0	(405)	0	**(3,999)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(170)	(1,111)	0	0	0	(348)	0	**(1,629)**	0
Derecognition - disposals	0	5,525	1,215	0	0	0	0	**6,740**	0
Derecognition - other	0	421	5,827	7	522	17	0	**6,794**	2,574
Other movements in depreciation and impairment	3,225	8,688	0	0	0	668	(17)	**12,564**	(156)
At 31 March 2014	**(4,375)**	**(41,575)**	**(13,818)**	**(108,082)**	**(646)**	**(160)**	**(17)**	**(168,673)**	**(7,952)**
NBV at 31 March 2014	**151,124**	**576,433**	**8,873**	**311,906**	**3,710**	**1,973**	**8,193**	**1,062,212**	**34,608**
NBV at 31 March 2013	**158,839**	**687,418**	**12,702**	**307,300**	**4,161**	**375**	**7,881**	**1,178,676**	**36,731**

Local Authority Maintained Schools

Included in the above balances for other land and buildings are all or a significant part of 10 primary schools for which plans are being finalised with the Diocese or for which instructions have been issued, but full ownership has not yet transferred to the Diocese. This detailed work is necessary because in many circumstances the schools are now physically different and it is necessary to ensure that the transfers relate purely to the school function and not other uses which may now be on site. There is a legal obligation to transfer ownership under Education legislation (Education Act 1946 or Schools Standards and Framework 1998).

Work commenced on the first transfers in 2008/09, and further schools were identified in 2011/12, mainly as a result of Primary School Amalgamations, which resulted in the change of the category of a number of schools. These schools will be removed from the Council's balance sheet on completion of the legal transfer. The total net book value for these schools as at the balance sheet date is £20.2m.

In addition there are a number of primary schools where a small part of the site is required to transfer from the Council to the Diocese, these are mainly as a result of extensions to schools which have been built across land still in Shropshire Council ownership (e.g. former playing field land). Work is ongoing to legally transfer these further sections and they are not included in the Council's balance sheet.

Two Secondary schools are listed as Voluntary Controlled schools on the Department of Education list. Under the School Standards and Framework Act 1998 ('the 1998 Act') the school buildings and hard standing should be transferred to the trustees of the school. These should also be transferred to their governing bodies, and are still to be actioned, but may be overtaken by any plans to transfer these schools to Academy status. The total net book value for these schools as at the balance sheet date is £21.2m.

Academy Schools
In 2014/15 seven further schools became Academies. The School land and premises are now leased by the Council to the Academy school on a 125 year peppercorn rent. On this basis the school is now listed in the Council's fixed asset register at nil value. The value written out of the Council balance sheet in 2014/15 for these schools was £51.1m.

At balance sheet date, Department of Education approval had been granted to three schools to convert to Academy status, but their conversion dates are not until later in 2015/16.

Assets Transferred to Other Bodies
In 2014/15 the Council transferred The Shropshire Hills Discovery Centre to South Shropshire Housing Association and SCAT Leisure facilities to SCAT. As the functions of these assets have transferred, the Council gains no value from these on an existing use basis and the assets have been written out of the balance sheet in 2014/15 with a net book value of £6.33m.

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council Dwelling – Major Repairs Allowance has been used as an estimate of depreciation.
- Other Land and Buildings – average 10 to 60 years range.
- Vehicles, Plant, Furniture & Equipment – average 5 years.
- Infrastructure – average 40 years.

Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment or to provide grant funding to other bodies for a capital purpose in 2015/16 and future years budgeted to cost £25.528m. Similar commitments at 31 March 2014 were £35.242m. The major commitments were:

- Rural Broadband - £12.435m.
- Highways & Transport schemes - £5.354m.
- Gypsy Sites - £0.595m.
- HRA Major Repairs Programme - £4.688m.
- HRA New Build Programme - £0.330m.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Vehicles, plant, furniture and equipment are held on historic cost basis. The significant assumptions applied in estimating the fair values are:

- That the property is free from any undisclosed onerous burdens, outgoings or restrictions and that good title can be shown.
- That the land and property is not contaminated (including Radon Gas).
- The property and its values are unaffected by any matters which could be revealed by local search or inspection of any register and that the use and occupation of the asset are lawful.
- In valuing the property, plant and machinery have been excluded unless forming part of the structure and normally valued with the building.
- The report does not take account of any liability for taxation which may arise on disposal whether actual or notional, e.g. Capital Gains Tax, or transaction costs, e.g. Stamp Duty.
- Details concerning “title” have been taken from the Council’s Terrier.
- Where there are user rights these have not been considered as having a value because of the inability to transfer such rights.
- The property has not been discussed with the Planning Authorities and therefore certain assumptions in respect of planning issues have been made in determining values. The assumptions made are based on information on file available to the Valuer when undertaking the Valuation.

Valuations of Non Current Assets carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment. The valuations are carried out by the Council's internal valuation unit. The basis of valuation is set out in the Statement of Accounting Policies. All values are stated on a net present value basis.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at Historical Cost	0	702	6,436	0	7,138
Valued at Fair Value as at:					
01 Apr 14	1,900	158,070	0	954	160,924
01-Apr-13	159,630	94,652	0	1,253	255,535
01-Apr-12	0	82,286	0	173	82,459
01-Apr-11	0	59,887	0	202	60,089
01-Apr-10	0	101,026	0	0	101,026
Total Cost or Valuation	**161,530**	**496,623**	**6,436**	**2,582**	**667,171**

In addition the Council has also instructed its valuers to undertake a review of all assets held in the other land and buildings category to ensure that the carrying value of assets as valued in previous years is not materially different from their fair value. All other asset classes are unaffected.

In order to perform this exercise the other land and building category was split into the sub-categories with the relevant values detailed in the table below:

	2014/15 £000	2013/14 £000
Schools, Children's Services and other Education Facilities	245,548	289,507
Culture & Heritage Buildings	61,100	59,983
Leisure & Recreation	50,184	61,656
Highways & Car Parks	44,877	47,410
Social Services	28,898	35,831
Administrative Offices	22,818	35,904
Waste Management Site	14,378	14,759
Business / Commercial Sites (including Markets)	14,370	15,173
Housing Services (including Gypsy Sites)	6,463	6,137
Small Holdings	6,165	6,254
Other	1,822	3,819
Total	**496,623**	**576,433**

12. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2013/14 £000
Rental income & service charges from investment property	(964)	(1,263)
Direct operating expenses arising from investment property	139	168
Net (gain)/loss	**(825)**	**(1,095)**

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

The following table summarises the movement in the fair value of investment properties over the year:

	Long term		Current	
	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000
Balance at start of the year	28,878	31,695	0	0
Additions:				
- Purchases	4,500	0	0	0
Disposals:	(2,022)	(4,290)	0	0
Net gains/losses from fair value adjustments	17,759	1,236	(25)	0
Transfers:				
- To/from Property, Plant and Equipment	(1,292)	237	0	0
- To/from Current/Long term	(150)	0	150	0
Balance at end of the year	**47,673**	**28,878**	**125**	**0**

13. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2014/15 £000	2013/14 £000
Opening Capital Financing Requirement (including PFI & Finance Lease)	**338,035**	**356,449**
Adjustment for loans for capital purposes not previously included in CFR	**0**	**1,565**
Adjusted Opening Capital Financing Requirement (including PFI & Finance Lease)	**338,035**	**358,014**
Capital investment		
Property, Plant and Equipment	37,357	33,406
Investment Properties	4,500	0
Intangible Assets	16	211
Revenue Expenditure Funded from Capital under Statute	12,351	6,996
Capital Loans	4,255	125

	2014/15 £000	2013/14 £000
Sources of finance		
Capital receipts	(4,435)	(7,567)
Capital grants and other contributions	(36,487)	(31,134)
Direct Revenue Financing (Including MRA)	(9,928)	(4,334)
Minimum Revenue Provision	(15,055)	(17,682)
Closing Capital Financing Requirement (including PFI & Finance Lease)	**330,609**	**338,035**
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund	246,044	250,139
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA	84,595	84,594
Closing Capital Financing Requirement – PFI & Finance Lease	(30)	3,302
	330,609	**338,035**
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	(9,951)	(10,453)
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	5,856	(4,316)
Assets acquired under finance leases	(23)	(37)
Assets acquired under PFI contracts	(3,308)	(5,173)
Increase/(decrease) in Capital Financing Requirement	**(7,426)**	**(19,979)**

14. PRIVATE FINANCE INITIATIVE SCHEMES

The Council has two Private Finance Initiative (PFI) schemes: The Quality in Community Services (QICS) PFI, signed on 21 May 2005, and the Waste Services PFI contract, signed on 29 September 2007.

a. The Quality in Community Services PFI Project

On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings:

- Three Resource Centres
- A Nursing Home
- A Joint Service Centre
- An Intermediate Care Hub

The contract was a Private Finance Initiative under the Capital Finance Regulations. The Council was awarded a PFI credit of £20.400m.

b. The Waste Services PFI Project

On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years.

The contract is a Private Finance Initiative (PFI) contract and is part funded by £40.800m of PFI credits which are paid as an annual PFI grant.

There are two separable elements to the contract: a collection and recycling element and a waste treatment services element.

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

The value of assets held and liabilities resulting from the QICS and Waste PFI contract at each balance sheet date since the commencement of the contract and an analysis of the movements are shown below:

	QICS PFI		Waste PFI	
	Year Ended 31/03/15 £000	Year Ended 31/03/14 £000	Year Ended 31/03/15 £000	Year Ended 31/03/14 £000
Non Current Assets – Land & Buildings				
Balance Brought Forward	20,373	20,765	11,448	11,786
- Depreciation in Period	(269)	(392)	(339)	(338)
- Additions	0	0	66	2
- Revaluation	(6,407)	0	0	(2)
- Derecognition	0	0	(41)	0
Balance Carried Forward	13,697	20,373	11,134	11,448
Non Current Assets - Vehicles, Plant & Equipment				
Balance Brought Forward	0	0	2,786	4,179
- Depreciation in Period	0	0	(1,014)	(1,423)
- Additions	0	0	129	30
Balance Carried Forward	0	0	1,901	2,786
Prepayments				
Balance Brought Forward	0	0	19,383	14,268
- Planned Capital Expenditure	0	0	3,323	5,115
Balance Carried Forward	0	0	22,706	19,383
Finance Lease Liability				
Balance Brought Forward	(13,279)	(13,512)	(9,383)	(9,207)
- Additions	0	0	(195)	(32)
- Repayment of Principal	241	233	(60)	(144)
Balance Carried Forward	(13,038)	(13,279)	(9,638)	(9,383)

Details of Payments due to be made under PFI contracts

Year	Service Charges * (£000)	Principal (£000)	Interest # (£000)	Total Unitary Charge Payment (£000)
Amounts Falling Due Within One Year	22,874	5,247	11,117	39,238
Amounts Falling Due Within 2 - 5 Years	85,048	15,441	47,146	147,635
Amounts Falling Due Within 6 - 10 Years	121,890	13,827	53,919	189,636
Amounts Falling Due Within 11 - 15 Years	136,812	26,212	49,452	212,476
Amounts Falling Due Within 16 - 20 Years	144,478	40,417	30,700	215,595
Amounts Falling Due Within 21 - 24 Years	4,108	2,097	406	6,611

* comprised of operating costs and lifecycle costs
# comprised of finance lease interest and contingent rental

15. LEASES

Authority as a Lessee

Finance Leases

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. The Council pays an annual unitary charge (in monthly instalments) to the contractor for the assets and services provided under each PFI contract. This annual unitary charge is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

The Council previously held a lease for salt domes however the lease has now come to an end and so is no longer included in the finance lease figures for 2014/15.

The assets acquired under these leases are carried as Buildings and Vehicles, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2015 £000	31 March 2014 £000
Buildings	24,831	31,821
Vehicles, Plant and Equipment (salt domes)	0	22
Vehicles, Plant and Equipment (PFI)	1,902	2,787
Total	**26,733**	**34,630**

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

	31 March 2015 £000	31 March 2014 £000
Finance lease liabilities (NPV of minimum lease payments)	103,241	85,394
Finance costs payable in future years	192,740	199,852
Minimum lease payments	**295,981**	**285,246**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Not later than one year	16,364	3,022	5,247	725
Later than one year and not later than five years	62,588	48,323	15,441	357
Later than five years	217,030	233,901	82,553	84,313
	295,981	**285,246**	**103,241**	**85,395**

The finance lease liabilities recognised on the balance sheet as "Deferred Liabilities" totals £22.676m. The analysis of the deferred liability is detailed below. Further details of the QICS and Waste PFI lease values are detailed in Note 14 Private Finance Initiative Schemes.

	QICS £000	Waste £000	Total £000
Lease liability (due within 1 year)	(216)	(5,031)	(5,247)
Lease liability (due after 1 year)	(12,822)	(4,607)	(17,429)
	(13,038)	**(9,638)**	**(22,676)**

<u>Operating Leases</u>

The Council has acquired vehicles and equipment by entering into operating leases, with typical lease lengths of three to seven years. The Council also has a number of land and buildings that are held under operating leases.

The minimum lease payments due for the following financial year under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2015 £000	31 March 2014 £000
Expiring not later than one year	102	591
Expiring later than one year and not later than five years	671	370
Expiring later than five years	624	882
	1,397	**1,843**

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2015 £000	31 March 2014 £000
Lease payments	2,077	2,092
Sub Lease receivable	0	(47)
	2,077	**2,045**

Authority as Lessor

Operating Leases
The Council leases out property under operating leases for a variety of purposes, including:

- For the provision of community services.
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- For income generation as Investment Properties.

The minimum lease payments due under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2015 £000	31 March 2014 £000
Expiring not later than one year	139	189
Expiring later than one year and not later than five years	708	537
Expiring later than five years	1,288	1,297
	2,136	**2,023**

16. 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
Investments:				
Loans and receivables	400	400	110,073	109,885
Total investments	**400**	**400**	**110,073**	**109,885**
Debtors:				
Loans and receivables	7,240	3,139	0	0
Financial assets carried at contract amounts	0	0	46,049	40,002
Total Debtors	**7,240**	**3,139**	**46,049**	**40,002**
Borrowing:				
Financial liabilities at amortised cost	(328,968)	(337,768)	(11,117)	(7,397)
Total Borrowings	**(328,968)**	**(337,768)**	**(11,117)**	**(7,397)**

	Long term		Current	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Other Long Term Liabilities:				
PFI and finance lease liabilities	(22,676)	(22,685)	0	0
Total Other Long Term Liabilities	**(22,676)**	**(22,685)**	**0**	**0**
Creditors:				
Financial liabilities carried at contract amount	(707)	(719)	(45,218)	(50,113)
Cash overdrawn	0	0	(10,131)	(17,586)
Total Creditors	**(707)**	**(719)**	**(55,349)**	**(67,699)**

The debtors figure included in the balance sheet includes payments in advance from individuals and organisations which are not considered to be financial instruments, therefore these prepayments have been excluded above. Similarly the creditors figure also includes receipts in advance which are not a financial instrument, therefore these have been excluded above. A reconciliation of the Financial Instrument figures to the Balance Sheet is provided below:

	31 March 2015 £000	31 March 2014 £000
Debtors:		
Financial assets carried at contract amounts as per Financial Instruments	46,049	40,002
Payments In Advance	26,211	28,713
Total Debtors as per Balance Sheet	**72,260**	**68,715**
Creditors:		
Financial liabilities carried at contract amount as per Financial Instruments	(45,218)	(50,113)
Receipts In Advance	(6,665)	(4,352)
Total Creditors as per Balance Sheet	**(51,883)**	**(54,465)**

Soft Loans

Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT to be used to provide small business loans. As at the balance sheet date a total of £0.550m has been loaned to MRRT.

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is based on the PWLB rate at point at which the loan payment is made to MRRT plus 0.5% for the Council’s transactional costs.

Other Soft Loans

Following a review in this area it has been identified that interest free loans with a nominal value of £1.892m are advanced to clients receiving residential/nursing care who following assessment are required to pay the full cost of their care. As all of the clients funds are tied up in the property they own, a legal charge is made against the property and when the property is sold the outstanding debts are cleared and the legal charge removed.

In addition, clients who are required to make adaptations to their homes to maintain their independence are also given interest free loans, the nominal value of these loans is £0.335m. A legal charge is again placed against the property and when the property is sold the amount of the loan is repaid and the legal charge removed.

The deferred charges loans are part of the Charging Residential Accommodation Guide (CRAG) assessment and the adaptation loans are part of Disabled Facilities Grant legislation, which means they are part of national agreements. These loans are not part of the Councils internal policies and therefore are not classified as soft loans.

Income, Expense, Gains and Losses

	2014/15			2013/14		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	19,734	0	19,734	19,355	0	19,355
Total expense in Surplus or Deficit on the Provision of Services	**19,734**	**0**	**19,734**	**19,355**	**0**	**19,355**
Interest income	0	(1,815)	(1,815)	0	(856)	(856)
Interest income accrued on impaired financial assets	0	0	0	0	2	2
Total income in Surplus or Deficit on the Provision of Services	**0**	**(1,815)**	**(1,815)**	**0**	**(854)**	**(854)**
Net (gain)/loss for the year	**19,734**	**(1,815)**	**17,919**	**19,355**	**(854)**	**18,501**

Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2015 of 1.11% to 3.13% for loans from the PWLB, 3.19% to 3.33% for Market Loans and 0.25% to 0.84% for loans and receivables, based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2015 Carrying amount £000	31 March 2015 Fair value £000	31 March 2014 Carrying amount £000	31 March 2014 Fair value £000
Financial liabilities	49,200	60,055	49,200	45,582
Long term creditors	288,568	354,998	293,568	309,758
PFI liabilities	22,676	40,358	22,661	53,906

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders below current market rates.

	31 March 2015 Carrying amount £000	31 March 2015 Fair value £000	31 March 2014 Carrying amount £000	31 March 2014 Fair value £000
Loans and receivables:				
Cash	35,900	35,900	73,070	73,070
Fixed Term Deposits	74,000	74,208	36,650	36,850
Long term debtors	7,240	7,240	3,139	3,139
Long term investments	400	400	400	400

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses;
- By approving annually in advance prudential and treasury indicators for the following three years;
- By approving an investment strategy for the forthcoming year.

To avoid the Council suffering loss as a result of its treasury management activities a number of risk management procedures have been put in place.

These procedures are based on the concept that firstly security of principal is paramount, secondly that there is a need to maintain liquidity and finally earning a rate of return commensurate with the first two concepts.

Credit Risk Exposure

Credit and counterparty risk is the failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness.

As a holder of public funds, Shropshire Council regards it a prime objective of its treasury management activities to be the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Council ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Council's creditworthiness policy which is approved as part of the Annual Investment Strategy. The Council's lending list is reviewed continuously in conjunction with its treasury advisor and formally updated monthly. Additions to, and deletions from, the list are approved by the Section 151 Officer.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rating the maximum amount is currently limited to £30.000m.

The analysis below summarises the Council's potential maximum exposure to credit risk, based on the experience of default, adjusted to reflect current market conditions.

	Amount deposited at 31 March 2015 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2015 %	Estimated maximum exposure to default and uncollectability at 31 March 2015 %	Estimated maximum exposure at 31 March 2014 £000
	A	B	C	(AxC)	
Loans and receivables held with counterparties having a default rating of:					
AA	29,900	0.02	0.02	0.00	0.00
A	51,000	0.09	0.09	0.00	0.00
Other Local Authorities	29,000	0.00	0.00	0.00	0.00
Debtors (Customers)	26,658	Local Experience	Local Experience	Local Experience	Local Experience

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council generally allows its customers 30 days credit. Of the £26.658m outstanding from customers £11.561m is past its due date for payment. This amount past due date is analysed by age as follows:

Age of Debt	2014/15 £000	2013/14 £000
Less than 3 months overdue	2,236	4,490
3 to 6 months overdue	2,546	1,522
6 months to 1 year overdue	2,715	1,262
More than 1 year overdue	4,064	3,603
	11,561	**10,877**

Liquidity Risk Exposure

Liquidity risk is the risk that cash is not available when required. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council therefore has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected circumstances.

As the Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board and money markets for access to longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. The Council's strategy therefore is to ensure that no more than 15% of loans mature in any one financial year.

In addition, all of the Council's short term liquidity requirements can be satisfied through short term borrowing and bank overdraft facilities.

The maturity analysis of financial liabilities is as follows:

Age of Debt	2014/15 £000	2013/14 £000
Less than 1 year	8,861	5,061
Between 1 and 2 years	5,000	8,859
Between 2 and 5 years	16,400	17,400
Between 5 and 10 years	22,100	25,500
More than ten years	285,468	286,068
	337,829	**342,888**

Interest Rate Risk

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council minimises this risk by seeking expert advice on forecasts on interest rates from its Treasury Management consultants, and agreeing with them the strategy for the forthcoming year for the investment and debt portfolios. Movement of actual interest rates against these expectations is monitored continuously with advice from our treasury advisor.

The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. Interest rate exposure limits and other prudential limits are set through this

Strategy. The limit for variable rate debt is 50% of the total debt portfolio however the Council works to a more prudent level and maximises its exposure to 25%. As borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

As at 31 March 2015 the Council's total outstanding debt (excluding accrued interest) amounted to £337.829m of which none of these loans were at stepped interest rates. Out of this balance £288.568m relates to fixed rate Public Works Loan Board (PWLB) loans, £49.200m relates to Lenders Option Borrower Option (LOBO) market loans, £0.061m relates to temporary loans for voluntary groups. As the LOBO loans have a call option where the lender can increase the rate of the loan at predetermined dates these loans are classified as variable rate loans. If the lender increases the interest rate on the LOBO loans at the predetermined date then the Council has the option to repay the loan in full thereby offering the potential for the Council to avoid this increase in interest payable.

The majority of the Council's investments are fixed rate deposits however, investments in Call Accounts are classified as variable rate investments. As at the end of March 2015, £35.900m was held in a Call Account.

Price Risk

The Council, excluding the pension fund, does not invest in equity shares or bonds, therefore is not exposed to losses arising from movements in share/bond prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies therefore the exposure to loss arising from movements in exchange rates is zero.

18. DEBTORS

These are sums of money due to the Council but unpaid at 31 March 2015.

	31 March 2015 £000	31 March 2014 £000
Central Government Bodies	7,358	5,636
Other Local Authorities	1,782	633
NHS Bodies	11,869	4,446
Public Corporations and Trading Funds	2	1
Other Entities and Individuals	28,543	38,616
Waste PFI Prepayments	22,706	19,383
	72,260	**68,715**

19. CASH AND CASH EQUIVALENTS

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

	31 March 2015 £000	31 March 2014 £000
Bank current accounts	30,900	53,070
Short term deposits with building societies	37,443	17,715
Total Cash and Cash Equivalents	**68,343**	**70,785**
Bank Overdraft	(10,131)	(17,586)
Cash Overdrawn	**(10,131)**	**(17,586)**

20. CREDITORS

These are amounts owed by the Council for work done, goods received or services rendered which had not been paid by 31 March 2015.

	31 March 2015 £000	31 March 2014 £000
Central Government Bodies	(5,695)	(5,999)
Other Local Authorities	(3,625)	(2,761)
NHS Bodies	(3,240)	(1,671)
Public Corporations and Trading Funds	(5)	0
Other Entities and Individuals	(39,318)	(44,034)
	(51,883)	**(54,465)**

21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

	31 March 2015 £000	31 March 2014 £000
Usable Capital Receipts Reserve	0	0
Major Repairs Reserve	1,635	3,722
Reserves	55,027	35,119
Capital Grants Unapplied Account	3,954	2,786
HRA Balance	3,076	2,545
General Fund Balance	15,206	20,019
Total Usable Reserves	**78,898**	**64,191**

22. UNUSABLE RESERVES

	31 March 2015 £000	31 March 2014 £000
Revaluation Reserve	121,439	137,177
Capital Adjustment Account	605,297	622,864
Financial Instruments Adjustment Account	(5,603)	(5,900)
Deferred Capital Receipts Reserve	772	804
Pensions Reserve	(407,792)	(297,394)
Collection Fund Adjustment Account	1,259	1,365
Accumulated Absences Account	(3,211)	(3,217)
Total Unusable Reserves	**312,161**	**455,699**

Revaluation Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	**137,177**	**165,661**
Upward revaluation of assets	14,544	7,736
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(8,414)	(13,828)
Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services	**6,130**	**(6,092)**
Difference between fair value depreciation and historical depreciation	(3,254)	(3,833)
Accumulated gains on assets sold or scrapped	(15,814)	(18,508)
Other transfers to the Capital Adjustment Account	(2,800)	(51)
Amount written off to the Capital Adjustment Account	**(21,868)**	**(22,392)**
Balance at 31 March	**121,439**	**137,177**

Capital Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	**622,864**	**697,440**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(39,380)	(34,370)
- Revaluation losses on Property, Plant and Equipment	(2,366)	(9,164)
- Amortisation of intangible assets	(365)	(420)
- Revenue expenditure funded from capital under statute	(12,351)	(6,996)
- Amounts of non current assets written off on disposal or sale as part of the gain/loss of disposal to the Comprehensive Income and Expenditure Statement	(68,612)	(107,971)
	(123,074)	**(158,921)**
Adjusting amounts written out of the Revaluation Reserve	**21,868**	**22,392**
Net written out amount of the cost of non current assets consumed in the year	**(101,206)**	**(136,529)**
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	4,435	7,567
- Use of the Major Repairs Reserve to finance new capital expenditure	6,392	1,894

	2014/15 £000	2013/14 £000
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	35,783	29,478
- Application of grants to capital financing from the Capital Grants Unapplied Account	704	1,656
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,055	17,682
- Capital expenditure charged against the General Fund and HRA balances	3,536	2,440
	65,905	**60,717**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**17,734**	**1,236**
Balance at 31 March	**605,297**	**622,864**

Financial Instruments Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	**(5,900)**	**(6,202)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements.	315	315
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(18)	(13)
Balance at 31 March	**(5,603)**	**(5,900)**

Pensions Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	**(297,394)**	**(349,517)**
Actuarial gains or (losses) on pensions assets and liabilities	(101,795)	59,672
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(28,732)	(32,223)
Employer’s pension contributions and direct payments to pensioners payable in the year	20,129	24,674
Balance at 31 March	**(407,792)**	**(297,394)**

Deferred Capital Receipts Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	**804**	**834**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	(32)	(30)
Write off of Deferred Capital Receipt Debt	0	0
Balance at 31 March	**772**	**804**

Collection Fund Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	**1,365**	**704**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(106)	661
Balance at 31 March	**1,259**	**1,365**

Accumulated Absences Account

	2014/15 £000	2013/14 £000
Balance at 1 April	**(3,217)**	**(4,467)**
Settlement or cancellation of accrual made at the end of the preceding year	3,217	4,467
Amounts accrued at the end of the current year	(3,211)	(3,217)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**6**	**1,250**
Balance at 31 March	**(3,211)**	**(3,217)**

23. CASH FLOW STATEMENT – RECONCILIATION OF NET SURPLUS / DEFICIT TO THE MOVEMENT ON REVENUE ACTIVITIES

	2014/15 £000	2013/14 £000
Surplus/(Deficit) for year per Comprehensive Income & Expenditure Statement	**(33,167)**	**(99,012)**
Adjust net surplus or deficit on the provision of services for non cash movements:		
Depreciation	39,379	34,370
Impairment and downward valuations	2,365	9,164
Amortisation	365	420
Impairment losses on loans & advances debited to surplus or deficit on the provision of services in year	23	0
Reductions in fair value of non PWLB Loans	0	12
Soft Loans – Interest adjustment	0	5
Adjustments for effective interest rates	2	0
Increase/(Decrease) in Interest Creditors	(27)	(31)
Increase/(Decrease) in Creditors	(5,315)	1,458
(Increase)/Decrease in Interest and Dividend Debtors	1	295
(Increase)/Decrease in Debtors	(3,226)	(13,980)
(Increase)/Decrease in Inventories	(28)	(256)
Pension Liability	8,603	7,549
Contributions to/(from) Provisions	2,089	(1,119)
Carrying amount of non current assets sold	68,527	107,881
Movement in Investment Property Values	(17,734)	(1,236)
	95,024	**144,532**
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities:		
Carrying amount of short and long term investment sold	(2,625)	(29,645)

	2014/15 £000	2013/14 £000
Capital Grants credited to surplus or deficit on the provision of services	(37,655)	(30,010)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,978)	(8,029)
	(45,258)	**(67,684)**
Net Cash Flows from Operating Activities	**16,599**	**(22,164)**

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2014/15 £000	2013/14 £000
Interest received	(1,816)	(1,149)
Interest paid	19,736	19,381

25. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2014/15 £000	2013/14 £000
Purchase of property, plant and equipment, investment property and intangible assets	43,828	30,900
Other payments for investing activities	4,361	184
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(32)	(787)
Other receipts from investing activities*	(41,859)	(39,118)
Net cash flows from investing activities	**6,298**	**(8,821)**

* This includes capital grants received in year.

26. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2014/15 £000	2013/14 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	204	126
Repayments of short and long term borrowing	5,071	10,029
Other payments for financing activities*	13	1,183
Net cash flows from financing activities	**5,288**	**11,338**

* Represents change in value of NNDR debtor/creditor

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

The income and expenditure of the Council's principal service areas recorded in the budget reports for the year is as follows:

Service Area Income and Expenditure 2014/15	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Fees, charges and other services income	(35,268)	(26,259)	(44,080)	(2,284)	(66,128)	(174,019)
Government grants	(226)	(159,396)	(3,786)	(10,063)	(87,851)	(261,322)
Total Income	**(35,494)**	**(185,655)**	**(47,866)**	**(12,347)**	**(153,979)**	**(435,341)**
Employee expenses	16,205	26,589	23,317	2,617	29,447	98,175
Other service expenses	93,332	208,865	102,263	10,766	107,001	522,227
Support service recharges	4,110	6,187	7,391	1,034	19,362	38,084
Total Expenditure	**113,647**	**241,641**	**132,971**	**14,417**	**155,810**	**658,486**
Net Expenditure	**78,153**	**55,986**	**85,105**	**2,070**	**1,831**	**223,145**

Service Area Income and Expenditure 2013/14	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Fees, charges and other services income	(30,872)	(29,148)	(47,121)	(2,284)	(65,628)	(175,053)
Government grants	(114)	(161,775)	(3,906)	(9,098)	(87,141)	(262,034)
Total Income	**(30,986)**	**(190,923)**	**(51,027)**	**(11,382)**	**(152,769)**	**(437,087)**
Employee expenses	19,146	30,456	30,433	1,924	39,459	121,418
Other service expenses	80,278	213,536	108,550	9,826	99,126	511,316
Support service recharges	3,752	6,424	8,186	846	16,287	35,495
Total Expenditure	**103,176**	**250,416**	**147,169**	**12,596**	**154,872**	**668,229**
Net Expenditure	**72,190**	**59,493**	**96,142**	**1,214**	**2,103**	**231,142**

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

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

	2014/15 £000	2013/14) £000
Net expenditure in the Service Area Analysis	223,145	231,142
Net expenditure of services and support services not included in the Analysis	(186,679)	(156,573)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(10,567)	843
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	7,268	23,599
Cost of Services in Comprehensive Income and Expenditure Statement	**33,167**	**99,011**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of service areas' income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(171,965)	(17,730)	3,852	0	(185,843)
Interest and investment income	(2,054)	(40)	279	0	(1,815)
Income from council tax	0	0	0	(126,097)	(126,097)
Government grants and contributions	(261,322)	(922)	(3,852)	(130,131)	(396,227)
Total Income	**(435,341)**	**(18,692)**	**279**	**(256,228)**	**(709,982)**
Employee expenses	98,175	0	(6)	0	98,169
Other service expenses	487,852	8,104	(6,190)	(919)	488,847
Support Service recharges	38,084	185	0	0	38,269
Depreciation, amortisation and impairment	0	(3,092)	30,703	0	27,611
Interest Payments	34,257	2,995	(17,518)	0	19,734
Precepts & Levies	118	0	0	5,908	6,026
Payments to Housing Capital Receipts Pool	0	0	0	539	539
Gain or Loss on Disposal of Non Current Assets	0	(67)	0	64,021	63,954
Total expenditure	**658,486**	**8,125**	**6,989**	**69,549**	**743,149**
(Surplus) or deficit on the provision of services	**223,145**	**(10,567)**	**7,268**	**(186,679)**	**33,167**

2013/14 comparative figures	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(172,800)	(17,250)	6,978	0	(183,072)
Interest and investment income	(2,253)	(30)	1,429	0	(854)
Income from council tax	0	0	0	(123,791)	(123,791)
Government grants and contributions	(262,034)	(850)	(6,978)	(137,630)	(407,492)
Total Income	**(437,087)**	**(18,130)**	**1,429**	**(261,421)**	**(715,209)**
Employee expenses	121,418	2,834	(1,241)	0	123,011

2013/14 comparative figures	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Other service expenses	473,177	5,130	7,496	(886)	484,917
Support Service recharges	35,495	174	0	0	35,669
Depreciation, amortisation and impairment	0	7,605	37,545	0	45,150
Interest Payments	38,019	2,964	(21,629)	0	19,354
Precepts & Levies	120	0	0	5,567	5,687
Payments to Housing Capital Receipts Pool	0	0	0	458	458
Gain or Loss on Disposal of Non Current Assets	0	266	0	99,709	99,975
Total expenditure	**668,229**	**18,973**	**22,171**	**104,848**	**814,221**
(Surplus) or deficit on the provision of services	**231,142**	**843**	**23,600**	**(156,573)**	**99,012**

28. TRADING OPERATIONS

The Council has 19 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units with a turnover of greater than £5m in 2014/15 are as follows:

		2014/15		2013/14	
		£000	£000	£000	£000
Shire Services operates as a trading organisation within the Council, delivering catering and cleaning services. Shire Services provides catering services to schools in Shropshire, Worcestershire, Herefordshire, Telford and North Wales, as well as to a range of non-school sites in Shropshire. Cleaning services are provided to schools and other Council premises in Shropshire, including the Area Headquarters.	Turnover Expenditure **(Surplus)/ Deficit**	(15,134) 15,437	 **303**	(14,563) 15,123	 **560**
Shropshire County Training has operated as a trading organisation within the Council since 1 September 2004. The principal activity of County Training is the provision of training to enable people of all abilities to gain skills and qualifications required to meet the needs of the local labour market and so help employers to benefit from a better trained or more experienced work force and also to support unemployed people into sustained employment.	Turnover Expenditure **(Surplus)/ Deficit**	(6,998) 7,412	 **414**	(7,739) 8,236	 **497**
The consolidated results of the other 17 of the Council's 19 trading units are	Turnover Expenditure **(Surplus)/ Deficit**	(37,650) 48,832	 **11,182**	(41,218) 44,072	 **2,854**
Net Surplus on Trading Activities			**11,899**		**3,911**

29. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the council during the year.

	2014/15 £000	2013/14 £000
Basic Allowances	851	850
Special Responsibility Allowances	286	287
Expenses	68	77
Total	**1,205**	**1,214**

30. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

Post Holder Information (Post Title & Name)		Salary	Expense Allowances	Total excl. pension contributions	Employers # pension contributions	Total incl. pension contributions
Chief Executive	2014/15	£99,981	£0	£99,981	£13,497	£113,478
	2013/14	£99,486	£0	£99,486	£11,640	£111,126
Director of Adult Services	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Children's Services	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Commissioning	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Public Health	2014/15	£98,453	£0	£98,453	£13,783	£112,236
	2013/14	£98,453	£0	£98,453	£13,783	£112,236
Director of Resources and Support *	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of People (left May 2013)	2014/15	£0	£0	£0	£0	£0
	2013/14	£18,711	£0	£18,711	£2,189	£20,900
Head of Legal and Democratic Services, Monitoring Officer	2014/15	£96,620	£0	£96,620	£13,044	£109,664
	2013/14	£96,214	£0	£96,214	£11,257	£107,471
Head of Finance, Governance & Assurance, S151 Officer	2014/15	£95,400	£0	£95,400	£12,879	£108,279
	2013/14	£95,000	£0	£95,000	£11,115	£106,115

The Council's pension contributions have now been split between a standard percentage contribution and a lump sum for the Council. As a result the standard percentage per person has decreased and the lump sum payment cannot be allocated to specific individuals.

* An element of the total remuneration paid to the Director of Resources & Support was recharged to ip&e Ltd (£27,524) to reflect the secondment arrangement during 2014/15.

The numbers of officers whose remuneration exceeded £50,000 is analysed into bands of £5,000 as follows. The remuneration disclosed below includes salary costs, expense allowances and claims for reimbursement of expenses:

Salaried Remuneration Band £000	2014/15 No. of Employees	2013/14 No. of Employees
50,000 - 54,999	86	111
55,000 - 59,999	34	41
60,000 - 64,999	26	22
65,000 - 69,999	11	5

Salaried Remuneration Band £000	2014/15 No. of Employees	2013/14 No. of Employees
70,000 - 74,999	2	2
75,000 - 79,999	5	7
80,000 - 84,999	12	11
85,000 - 89,999	4	4
90,000 - 94,999	1	0
95,000 - 99,999	7	8
100,000 - 104,999	1	1
105,000 - 109,999	1	1

The numbers of exit packages with total cost per band and total cost of the exit packages, including redundancy payments, pension strain and unpaid leave are set out in the table below. The figures disclosed include exit packages for schools and the Council.

	No. of compulsory redundancies		No. of other departures agreed		Total no of exit packages by cost band		Total cost of exit packages in each band £000	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
£0 - £20,000	27	141	90	433	117	574	924	4,539
£20,001 - £40,000	2	8	23	99	25	107	701	2,970
£40,001 - £60,000	0	0	11	34	11	34	531	1,678
£60,001 - £80,000	0	1	10	13	10	14	701	976
£80,001 - £100,000	0	0	4	9	4	9	372	804
£100,001 - £200,000	0	1	4	6	4	7	453	784
	29	151	142	594	171	745	3,682	11,751

31. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2014/15 £000	2013/14 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	179	177
Fees payable to external audit for the certification of grant claims and returns	15	21
Fees payable in respect of other services provided by the external audit during the year	13	10
Total	**207**	**208**

32. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget. The Schools' Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG for 2014/15 are as follows:

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2014/15 before Academy recoupment	22,147	151,617	173,764
Academy figure recouped for 2014/15	0	(38,224)	(38,224)
Total DSG after Academy recoupment for 2014/15	**22,147**	**113,393**	**135,540**
Plus: Brought forward from 2013/14	1,480	183	1,663
Less: Carry forward to 2015/16 agreed in advance	(1,000)	0	(1,000)
Agreed budgeted distribution in 2014/15	**22,627**	**113,576**	**136,203**
In year adjustments	(767)	(235)	(1,002)
Final budgeted distribution in 2014/15	**21,860**	**113,341**	**135,201**
Less: Actual central expenditure	(27,579)	0	(27,579)
Less: Actual ISB deployed to schools	617	(617)	0
Early Years PVI included in ISB on S251	6,731	(6,731)	0
Plus: Local authority contribution for 2014/15	0	(106,412)	(106,412)
Carry forward to 2015/16	**1,629**	**(419)**	**1,210**

33. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(57,058)	(67,074)
Local Services Support Grant	(305)	(411)
New Homes Bonus	(5,913)	(4,581)
Council Tax Freeze Grant	(1,307)	(1,312)
Business Rates Relief Grant	(2,988)	(1,829)
LACSEG Repayment	0	(1,157)
Efficiency Support for Sparse Areas	(163)	(638)
Capitalisation Redistribution Provision Grant	0	(354)
Capital Grants & contributions	(28,823)	(25,372)
Total	**(96,557)**	**(102,728)**
Credited to Services		
DWP Housing Benefit	(69,060)	(69,062)
DWP Housing Benefit & Council Tax Benefit Admin Subsidy	(1,208)	(1,739)
CLG Waste PFI	(3,186)	(3,186)
CLG Social Services PFI	(1,523)	(1,523)
EFA Dedicated Schools Grant	(133,991)	(146,162)
EFA/DE Sixth Form funding	(3,080)	(4,552)
EFA Pupil Premium Grant	(7,191)	(5,307)
EFA Education Services Grant	(3,765)	(4,216)
EFA UFSM	(1,847)	0
EFA PE & Sports	(1,069)	(482)
DoH Public Health Grant	(9,843)	(8,948)
DfT Local Sustainable Transport	(977)	(968)
DfT Severe Weather	0	(1,129)
Other Grants	(8,158)	(7,197)
Capital Grants & contributions	(8,832)	(4,638)
Total	**(253,730)**	**(259,109)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 March 2015 £000	31 March 2014 £000
Grants Receipts in Advance (Capital Grants)		
Other Grants & Contributions	(70)	(1,040)
Total	**(70)**	**(1,040)**
Grants Receipts in Advance (Revenue Grants)		
EFA Dedicated Schools Grant	(2,210)	(1,776)
CLG Tackling Troubled Families	(593)	(377)
SEN Reform	(549)	0
Homelessness	(528)	(708)
Standards Fund	(290)	0
CLG Social Services PFI	(210)	(210)
Small Business Rate Relief Grant	(195)	0
Arts Council	(190)	(350)
EFA Pupil Premium Grant	(180)	(253)
DWP Housing Benefit Subsidy	0	(4,462)
Other Grants	(1,097)	(2,492)
Total	**(6,042)**	**(10,628)**

34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme is technically a defined benefits scheme. However the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15, the Council paid £7.946m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £8.820m and 14.1%. There were no contributions remaining payable at the year end.

Public Health employees previously employed by the NHS are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme.

In 2014/15, the Council paid £0.106m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.0% of pensionable pay. The figures for 2013/14 were £0.090m and 14.0%.

35. DEFINED BENEFIT PENSION SCHEMES

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

The Local Government Pension Scheme, administered by Shropshire Council is a funded defined benefit scheme. This means that the Council and employees pay contributions into a fund, which is invested in accordance with the Local Government Pension Scheme Regulations.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- current service cost	(18,016)	(21,069)
- past service gain/(cost)	(360)	(751)
- curtailment gain/(cost)	2,083	3,516
	(16,293)	**(18,304)**
Financing and Investment Income and Expenditure:		
- net interest expense	(12,439)	(13,919)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(28,732)**	**(32,223)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- return on plan assets	46,518	16,755
- experience (gain)/loss	0	12,018
- actuarial gains and (losses) arising on changes in demographic assumptions	(148,313)	(21,259)
- actuarial gains and (losses) arising on changes in financial assumptions	0	52,158
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(130,527)**	**27,449**
Movement in Reserves Statement		
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	28,732	32,223
Actual amount charged against the Fund Balances for pensions in the year:		
- employers' contributions payable to scheme	(20,129)	(24,674)

Assets and Liabilities Recognised in the Balance Sheet

	2014/15 £000	2013/14 £000
Present value of the defined benefit obligation	(1,114,833)	(943,710)
Fair value of plan assets	707,041	646,316
Net liability arising from defined benefit obligation	**(407,792)**	**(297,394)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Opening fair value of scheme assets at 1 April	646,316	610,131
Interest income	28,255	25,496
Remeasurement gain/(loss):		
Return on plan assets excluding the amount included in the net interest expense	46,518	16,755
Contributions from employer	20,129	24,674
Contributions from employees into the scheme	5,300	5,708
Benefits paid	(37,083)	(34,400)
Other	(2,394)	(2,048)
Closing fair value of scheme assets at 31 March	**707,041**	**646,316**

Reconciliation of Present Value of the Scheme Liabilities

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Opening balance at 1 April	(943,710)	(959,648)
Current Service Cost	(17,595)	(20,621)
Interest Cost	(40,694)	(39,415)
Contributions from scheme participants	(5,300)	(5,708)
Remeasurement gain/(loss):		
Actuarial gains/(losses) arising from changes in demographic assumptions	(148,313)	(21,259)
Actuarial gains/(losses) arising from changes in financial assumptions	0	52,158
Other	0	12,018
Past service costs	(360)	(751)
Losses/(gains) on curtailment	(1,484)	(5,187)
Liabilities assumed on entity combinations	0	0
Benefits paid	37,083	34,400
Liabilities extinguished on settlements	5,540	10,303
Closing balance at 31 March	**(1,114,833)**	**(943,710)**

Local Government Pension Scheme Assets

Assets in the Shropshire County Pension Fund consist of the following categories:

	2014/15 £000	2013/14 £000
Cash and cash equivalents	**21,989**	**15,834**
Equity investments:		
UK quoted	58,260	52,998
Global quoted	309,471	300,020
Sub-total equity	**367,731**	**353,018**
Bonds:		
UK Government fixed	0	517
UK Government indexed	78,482	64,244
Government	0	90,290
PIMCO (Global Investment grade credit)	51,685	0
PIMCO (Global Absolute return bond fund)	50,271	0
Sub-total bonds	**180,438**	**155,051**
Property:		
Property funds	28,989	25,659
Sub-total property	**28,989**	**25,659**
Alternatives:		
Private Equity	29,484	27,210
Infrastructure	4,525	5,106
Hedge Funds	73,885	64,438
Sub-total alternatives	**107,894**	**96,754**
Total assets	**707,041**	**646,316**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rate, salary levels and other variables.

The Council element of the Fund liabilities has been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries. Estimates for the Council element of the Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2014/15	2013/14
Long term expected rate of return on assets in the scheme:		
Equity investments	6.5%	7.0%
Government Bonds	2.2%	3.4%
Other Bonds	2.9%	4.3%
Property	5.9%	6.2%
Cash/Liquidity	0.5%	0.5%

	Local Government Pension Scheme 2014/15	2013/14
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.8 yrs	22.4 yrs
Women	26.1 yrs	25.1 yrs
Longevity at 65 for future pensioners:		
Men	26.0 yrs	24.2 yrs
Women	29.0 yrs	27.1 yrs
Rate of inflation	2.0%	2.4%
Rate of increase in salaries	3.5%	3.9%
Rate of increase in pensions	2.0%	2.4%
Rate for discounting scheme liabilities	3.2%	4.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme: Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,136,302	1,093,364
Rate of inflation (increase or decrease by 0.1%)	1,134,784	1,094,882
Rate of increase in salaries (increase or decrease by 0.1%)	1,118,429	1,111,237
Rate of increase in pensions (increase or decrease by 0.1%)	1,134,784	1,094,882
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,095,232	1,134,434

Techniques Employed to Manage Risk

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Further details of the market, credit and liquidity risk management are detailed in Note 18 of the Shropshire County Pension Fund Annual Report.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

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

The Council anticipated to pay £18.969m expected contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 18 years for 2014/15 (18 years 2013/14).

36. RELATED PARTIES

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

Central Government

Central Government has significant influence over the general operations of the Council, being responsible for the statutory framework within which the Council operates, provides the majority of its funding through the payment of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments appear in other parts of the Statement of Accounts.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Council's management team. All Council members and senior officers have been contacted, advising them of their obligations and asking for any declarations of related party transactions to be disclosed. Members are also asked to confirm that their entries in their Disclosure of Pecuniary Interests are correct.

The Council has made payments to a number of outside organisations on which it is represented by members. The total amount of payments to these bodies in 2014/15 was £31.773m compared with £20.474m for 2013/14.

Councillors are often members of other public or charitable organisations in their own capacity, or are employed by organisations that we process transactions with. These relationships are declared within the Members' register. The Council has made payments of

£4.790m to organisations where members are employed and £0.472m to organisations where members and senior officers occupy positions in their own capacity.

The Council also makes contract payments to bodies that members or senior officers may have a beneficial interest in. A total of £0.539m has been made in contract payments to such organisations.

Entities Controlled or Significantly Influenced by the Council
As administrator for the pension fund, the Council has control of the fund within the overall statutory framework. The Council received £0.849m from the pension fund for the costs of administration it provided in 2014/15 compared with £0.681m for 2013/14.

The Council also has group relationships with West Mercia Energy, Shropshire Towns & Rural Housing and IP&E Limited. Further detail on the type of relationship held with each company is considered in more detail under the Group Accounts section which begins on page 86.

37. CONTINGENT LIABILITIES

At 31 March 2015, the Council had the identified the following contingent liabilities:

There are a number of legal and insurance cases outstanding that may result in future costs for the Council. These include:

- A legal claim regarding a breach of contract on a land sale.
- A judicial review regarding a planning application.
- A claim around costs relating to a village green.
- Claims surrounding chancel repair liabilities.
- A judicial review relating to ShropshireLink.

The Council has provided guarantees to a number of Community Bodies that have been admitted to the Shropshire County Pension Fund, to fund any potential pension liabilities. The bodies who currently have employees who are active members of the scheme are MENCAP, Age Concern (£0.258m), ALC (£0.037m), Coverage Care (£1.438m), South Shropshire Leisure Ltd (£0.132m), South Shropshire Housing Association (£0.682m), HMM Arts (grouped with Shropshire Council) and Energize Shropshire Telford & Wrekin (Grouped with Shropshire). MENCAP no longer has active members, on closure they cleared their outstanding liabilities, they now have 6 pensioners and 2 deferred members. Age Concern has 9 active members, 21 pensioners and 13 deferred members; ALC has 2 active members, 1 pensioner and 1 deferred member. The guarantee for Coverage Care Ltd covers staff Tupe'd to them in a contract entered into 1 March 1997, they have 20 active members, 120 pensioners, 40 deferred members and 6 dependants. Coverage Care also entered into a further contract on 13 January 2013, in which the staff Tupe'd over from Shropshire Council, they have 37 active members, 7 deferred members and 4 pensioners. South Shropshire District Council offered a guarantee to South Shropshire Leisure Ltd and South Shropshire Housing Association which transferred to Shropshire Council on 1 April 2009. These Employers have jointly 29 active members, 15 pensioners, 24 deferred members and 2 dependant. HMM Arts has 1 active member, 3 deferred members and 1 pensioner .The guarantee for Energize Shropshire Telford & Wrekin covers staff Tupe'd to them on 1 January 2013, they have 2 active members. These do not therefore represent a significant potential liability for the Council. The Council has also provided guarantees to ip&e (Group) Ltd and Shropshire Towns & Rural Housing within the Shropshire County Pension Fund to fund any potential pension liabilities.

The Council has entered into four "Funding and Development Agreements" with a Development Trust for construction of supported living properties. Under these agreements the Development Trust has provided the Council with funding totalling £1.027m for the construction of a supported living property at each site. The contributions will be repayable if the properties cease to be used as supported living properties or the Council fails to conform to the stipulated conditions of the contract within a period of 30 years from when the properties are first occupied. The Council has also applied funding to a further site under construction at Market Drayton. Total funding anticipated for this scheme is £1.470m and the costs incurred to date of £1.116m have been included as a capital debtor in the balance sheet.

The Council has made a provision for NDR Appeals based upon its best estimates of the actual liability as at the year-end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

38. CONTINGENT ASSETS

The Council currently has a number of appeals lodged with HMRC with regard to VAT treatment which may result in a reimbursement to the Council of VAT paid over to the Government. The specific cases include a compound interest claim, claims for postal services, car parking, landfill and a cultural exemption. These claims for reimbursement are subject to legal cases being pursued nationally and if successful will provide legal precedent to be applied. Timescales on these cases are uncertain but should be progressed in the next 12-24 months.

39. TRUST ACCOUNTS

Funds held in Trust Accounts are not available for the Council's use. The Council supports the work of a number of trusts including:

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
Shropshire Youth Foundation	Supports the development of under 25 year old residents in Shropshire through their leisure time activities.	(24,143)	10,604	235,419	0
Shropshire Schools Jubilee Trust	General fund to support the learning needs of children and young people either living or studying in Shropshire.	(4,152)	1,160	147,630	0
Rosalie Inskip Music Trust	Supports excellence in music for young people living in Shropshire.	(9,892)	4,250	281,696	0
Priory Educational Trust	Charitable trust to support ex-pupils of Priory Boys School.	(1,073)	1,550	49,761	0
Lyneal Trust	A charity that offers canal and canal	(44,047)	44,741	461,893	(6,489)

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
	side holidays for people with disabilities, their family and friends.				
Sight Loss Shropshire	A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin	(49,261)	44,809	505,745	(3,725)

Accounts are prepared and published for these organisations, Shropshire Council is not the only trustee and turnover is not material.

Trusts deliver great benefit into the local community and make a valuable contribution but the Council itself does not derive benefit from them.

Section 6

Group Accounts

Introduction

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2014 to 31 March 2015. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies mean that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture. A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts. The transactions involved are not considered material to the Council's accounts however the Council has decided to provide a full disclosure in terms of bodies that it has a relationship with.

The single entity accounting policies detailed on pages 21-40 have been adopted and applied for group account purposes.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2015, with comparative figures for the previous financial year.

IP&E LIMITED

IP&E Limited is a trading company wholly owned by Shropshire Council. It has been established to provide public services on the council's behalf and will also be able to trade with other organisations. The company was incorporated on 30 May 2012.

IP&E Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. Figures have been consolidated based on the audited statement of accounts for 31st March 2015. For 2014/15 IP&E Limited had total income of £1.162m, total expenditure of £1.134m, assets of £0.415m and liabilities of £1.035m.

SHROPSHIRE TOWNS & RURAL HOUSING LIMITED

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013.

Shropshire Towns and Rural Housing Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27

(Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. For 2014/15 Shropshire Towns and Rural Housing Limited had total income of £17.294, total expenditure of £16.751m, assets of £3.397m and liabilities of £4.126m.

WEST MERCIA ENERGY

West Mercia Energy (WME) is a Purchasing Consortium that was established as a Joint Committee under s101 of the Local Government Act 1972. Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Telford & Wrekin Council.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 - Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

Shropshire's share of West Mercia Energy' balances is 26.0%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on audited statement of accounts for 31st March 2015. For 2014/15 West Mercia Energy had total income of £71.006m, total expenditure of £70.920m, assets of £16.323m and liabilities of £18.986m.

Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2014	**20,019**	**35,119**	**2,545**	**3,722**	**2,786**	**64,191**	**455,699**	**519,890**	**(568)**	**519,322**
Movement in reserves during 2014/15										
Surplus or (deficit) on the provision of services	(27,226)	0	10,567	0	0	(16,659)	0	(16,659)	(15,914)	(32,573)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(95,664)	(95,664)	(2,090)	(97,754)
Total Comprehensive Income and Expenditure	**(27,226)**	**0**	**10,567**	**0**	**0**	**(16,659)**	**(95,664)**	**(112,323)**	**(18,004)**	**(130,327)**
Adjustments between Group Accounts and authority accounts	(16,508)	0	0	0	0	(16,508)	0	(16,508)	16,529	21
Net Increase/Decrease before Transfers	**(43,734)**	**0**	**10,567**	**0**	**0**	**(33,167)**	**(95,664)**	**(128,831)**	**(1,475)**	**(130,306)**
Adjustments between accounting basis and funding basis under regulations	58,829	0	(10,036)	(2,087)	1,168	47,874	(47,874)	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**15,095**	**0**	**531**	**(2,087)**	**1,168**	**14,707**	**(143,538)**	**(128,831)**	**(1,475)**	**(130,306)**
Transfers to/from Earmarked Reserves	(19,908)	19,908	0	0	0	0	0	0	0	0
Increase/Decrease in 2014/15	**(4,813)**	**19,908**	**531**	**(2,087)**	**1,168**	**14,707**	**(143,538)**	**(128,831)**	**(1,475)**	**(130,306)**
Balance at 31 March 2015	**15,206**	**55,027**	**3,076**	**1,635**	**3,954**	**78,898**	**312,161**	**391,059**	**(2,043)**	**389,016**

(Restated)	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2013	**11,528**	**42,989**	**1,041**	**1,402**	**3,909**	**60,869**	**504,453**	**565,322**	**(759)**	**564,563**
Movement in reserves during 2013/14										
Opening Transactions with owner	(793)	0	0	0	0	(793)	0	(793)	0	(793)
Surplus or (deficit) on the provision of services	(88,043)	0	(844)	0	0	(88,887)	0	(88,887)	(9,956)	(98,843)
Other Comprehensive Income and Expenditure	0	0	0	0		0	53,580	53,580	781	54,361
Total Comprehensive Income and Expenditure	**(88,836)**	**0**	**(844)**	**0**	**0**	**(89,680)**	**53,580**	**(36,100)**	**(9,175)**	**(45,275)**
Adjustments between Group Accounts and authority accounts	(9,332)	0	0	0	0	(9,332)	0	(9,332)	9,366	34
Net Increase/Decrease before Transfers	**(98,168)**	**0**	**(844)**	**0**	**0**	**(99,012)**	**53,580**	**(45,432)**	**191**	**(45,241)**
Adjustments between accounting basis and funding basis under regulations	98,793	0	2,344	2,320	(1,123)	102,334	(102,334)	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves	**625**	**0**	**1,500**	**2,320**	**(1,123)**	**3,322**	**(48,754)**	**(45,432)**	**191**	**(45,241)**
Transfers to/from Earmarked Reserves	7,866	(7,870)	4	0	0	0	0	0	0	0
Increase/Decrease in 2013/14	**8,491**	**(7,870)**	**1,504**	**2,320**	**(1,123)**	**3,322**	**(48,754)**	**(45,432)**	**191**	**(45,241)**
Balance at 31 March 2014	**20,019**	**35,119**	**2,545**	**3,722**	**2,786**	**64,191**	**455,699**	**519,890**	**(568)**	**519,322**

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Purchase of goods and services from subsidiaries	16,508	0	0	0	16,508	0	16,508	(16,529)	(21)
Total adjustments between Group Accounts and authority accounts	**16,508**	**0**	**0**	**0**	**16,508**	**0**	**16,508**	**(16,529)**	**(21)**

The Group Comprehensive Income & Expenditure Statement

2013/14 (Restated) Group Expenditure £000		2014/15 SC Net Expenditure £000	Adjustments £000	Group Expenditure £000
	Expenditure on Continuing Services			
76,183	Adult Social Care	72,166	0	72,166
6,606	Central Services to the public	5,349	475	5,824
55,539	Children's and Education Services	54,281	0	54,281
20,986	Cultural and Related Services	14,305	0	14,305
27,311	Environmental and Regulatory Services	31,630	0	31,630
30,152	Highways and Transport Services	28,100	0	28,100
(1,831)	Local Authority Housing (HRA)	(12,697)	(553)	(13,250)
5,973	Other Housing Services	4,608	0	4,608
7,584	Planning Services	5,404	0	5,404
93	Public Health	(615)	0	(615)
5,078	Corporate and Democratic Core	4,575	0	4,575
(1,608)	Non Distributed Costs	(485)	0	(485)
232,066	**Net Cost of Services**	**206,621**	**(78)**	**206,543**
106,374	Other Operating Expenditure	70,519	0	70,519
33,098	Financing and Investment Income and Expenditure	23,699	18	23,717
(272,174)	Taxation and Non Specific Grant Income	(267,672)	0	(267,672)
99,364	**(Surplus)/Deficit on the provision of services**	**33,167**	**(60)**	**33,107**
(521)	Associates & Joint Ventures Accounted for on an equity basis	0	(534)	(534)
98,843	**Group (Surplus)/Deficit**	**33,167**	**(594)**	**32,573**
2,093	(Surplus) or deficit on revaluation of non-current assets	(9,354)	0	(9,354)
3,999	Impairment losses on Non Current Assets Charged to the Revaluation Reserve	3,223	0	3,223
(60,453)	Remeasurement of pension assets and liabilities	101,795	2,090	103,885
(54,361)	**Other Comprehensive Income and Expenditure**	**95,664**	**2,090**	**97,754**
44,482	**Total Comprehensive Income and Expenditure**	**128,831**	**1,496**	**130,327**

Group Balance Sheet at 31 March 2015

31 March 2014 (Restated) £000		SC £000	31 March 2015 Adjustments £000	Group £000
1,062,227	Property, Plant & Equipment	995,904	**8**	995,912
2,475	Heritage Assets	2,592	0	2,592
28,878	Investment Property	47,673	0	47,673
807	Intangible Assets	432	15	447
1,519	Assets Held for Sale	599	0	599
1,095,906	**Total Non Current Assets**	**1,047,200**	**23**	**1,047,223**
400	Long Term Investment	400	0	400
(385)	Investments in Associates and Joint Ventures	0	(693)	(693)
3,048	Long Term Debtors	7,240	(92)	7,147
1,098,969	**Total Long Term Assets**	**1,054,840**	**(762)**	**1,054,078**
	Current Assets			
0	Current Held for Sale Investment Properties	125	0	125
0	Assets Held for Sale	3,635	0	3,635
39,100	Short Term Investments	41,730	0	41,730
981	Inventories	994	22	1,016
68,158	Short Term Debtors	72,260	(723)	71,537
72,405	Cash & Cash Equivalents	68,343	2,734	71,077
180,644	**Total Current Assets**	**187,087**	**2,033**	**189,120**
1,279,613	**Total Assets**	**1,241,927**	**1,271**	**1,243,198**
	Current Liabilities			
(17,586)	Bank Overdraft	(10,131)	0	(10,131)
(7,397)	Short Term Borrowing	(11,117)	0	(11,117)
(55,186)	Short Term Creditors	(51,883)	(796)	(52,679)
(4,492)	Provisions	(3,585)	0	(3,585)
(10,628)	Grants Receipts in Advance - Revenue	(6,042)	0	(6,042)
(1,040)	Grants Receipts in Advance - Capital	(70)	0	(70)
(96,329)	**Total Current Liabilities**	**(82,828)**	**(796)**	**(83,624)**
1,183,284	**Total Assets Less Current Liabilities**	**1,159,099**	**475**	**1,159,574**
	Long Term Liabilities			
(719)	Long Term Creditors	(707)	0	(707)
(337,768)	Long Term Borrowing	(328,968)	0	(328,968)
(22,685)	Other Long Term Liabilities	(22,676)	0	(22,676)
(297,889)	Pensions Liability	(407,792)	(2,518)	(410,310)
(4,901)	Provisions	(7,897)	0	(7,897)
(663,962)	**Total Long Term Liabilities**	**(768,040)**	**(2,518)**	**(770,558)**
519,322	**Total Assets Less Liabilities**	**391,059**	**(2,043)**	**389,016**
	Financed by:			
65,112	Usable Reserves	78,898	1,210	80,108
454,210	Unusable Reserves	312,161	(3,253)	308,908
519,322	**Total Reserves**	**391,059**	**(2,043)**	**389,016**

Group Cash Flow Statement

2013/14 (Restated) Group £000	Revenue Activities	2014/15 SC £000	Adjustments £000	Group £000
98,843	Net (surplus) or deficit on the provision of services	33,167	(594)	32,573
(144,690)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(95,024)	(176)	(95,200)
66,744	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	45,258	131	45,389
20,897	**Net cash flows from operating activities**	**(16,599)**	**(639)**	**(17,238)**
(8,756)	Investing activities	6,298	0	6,298
10,920	Financing activities	5,288	(475)	4,813
23,061	**Net (increase) or decrease in cash and cash equivalents**	**(5,013)**	**(1,114)**	**(6,127)**
77,880	Cash and cash equivalents at the beginning of the reporting period	53,199	1,620	54,819
54,819	**Cash and cash equivalents at the end of the reporting period**	**58,212**	**2,734**	**60,946**

Notes to Group Accounts

G1. Consolidation of West Mercia Energy

Figures in respect of West Mercia Energy have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WME £000	SC Share (26.0%) £000
Turnover	(71,006)	(18,472)
Cost of Goods Sold and Operating Expenses	68,952	17,938
Interest and Investment Income	144	37
Net Operating Surplus	**(1,910)**	**(497)**
Distribution of Surplus to Member Authorities	1,824	475
NET SURPLUS FOR THE YEAR	**(86)**	**(22)**

G2. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£17.294m) and expenditure (£16.741m) of Shropshire Towns & Rural Housing Limited, giving a net income of £0.553m has been included within Local Authority Housing (HRA) in the Net Cost of Services. The inter-company transactions with Shropshire Council have been excluded from Local Authority Housing (HRA) (Income/Expenditure £16.731m).

G3. Consolidation of IP&E Ltd

The operating income (£1.162m) and expenditure (£1.124m) of IP&E Limited, giving a net income of £0.038m has been included within Surpluses/deficits on Trading Activities. The inter-company transactions with Shropshire Council have been excluded from Surpluses/deficits on Trading Activities (Income/Expenditure £0.875m).

G4. Investment included in Group Balance Sheet

	WME £000	SC Share (26.0%) £000
Assets		
Plant & Equipment	25	7
Short term debtors	10,714	2,787
Cash and cash equivalents	5,584	1,452
Total Assets	**16,323**	**4,246**
Liabilities		
Short term creditors	(13,625)	(3,544)
Other long term liabilities	(5,361)	(1,395)
Total Liabilities	**(18,986)**	**(4,939)**
Net Investments in Associates and Joint Ventures	**(2,663)**	**(693)**

Section 7

Pension Fund Accounts

ANNUAL REPORT AND ACCOUNT OF THE SHROPSHIRE COUNTY PENSION FUND

SHROPSHIRE FUND INFORMATION:

£173 Million	£1.512 Billion	14% Increase
Fund value increase over the year	Is the Fund value as at 31 March 2015	Outperforming benchmark by 1.4%

The Shropshire Fund benefited from positive investment returns in a number of asset classes. The strongest returns were experienced in Infrastructure where the Fund's investments increased in value by a notable 40% in the year. The Fund has also achieved strong returns in Global Equities managed by Investec and MFS which delivered an investment return of 21.2% and 19.6% respectively. Returns in Private Equity were also positive earning 18.6%. The Funds allocation to Index Linked Bonds increased by 21.1%. Hedge Funds delivered a return of 5.9% and Property 5.5%. None of the Fund's managers delivered negative returns over the last year.

The Pensions Committee determine the strategic asset allocation for the Fund. This outlines the proportion of assets that the Fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the Fund.

The Pensions Committee undertakes thorough monitoring of the Fund's investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities. In April 2014 the Fund reduced its allocation in global government bonds by 5% by terminating the contract with Strategic and increasing the allocation to absolute return bonds (2.5%) and investment grade credit corporate bonds (2.5%) managed by PIMCO due to the excess yields available compared to Government Bonds. There were no other Fund manager changes during the financial year.

During 2014/15, the Committee together with Officers and Aon Hewitt have been reviewing the Fund's investment strategy. This included building a greater understanding of the Fund's investment risk relative to its liabilities. A number of potential improvements to the investment strategy were reviewed and two recommendations have now been approved.

In March 2015, the 7.5% allocation to Investment Grade Bonds managed by PIMCO was reviewed. This was due to strong returns being generated since 2009 but the future outlook for Investment Grade Bonds now appears limited by low yields, low credit spreads and declining liquidity. All of this allocation is due to be replaced by more Unconstrained Bond Funds during 2015/16 which will provide further diversification within the Fund and improve the Fund's risk adjusted returns going forward. The defining feature of unconstrained strategies is the flexibility in their approach to asset allocation and security selection within the global bond universe, which can offer better returns and more downside protection.

It was also agreed at Pension Committee in March 2015 to commence the appointment process for a Liability Driven Investment (LDI) manager to replace the existing holding in Index Linked Gilts. The present value of the Fund's liabilities, as measured by the Fund's Actuary, will increase if long term gilt yields (interest rates) fall and if long term inflation rises. If this is not matched by a corresponding rise in the Fund's asset value then the overall funding level will fall. The current investment strategy has a 10% allocation to index-linked gilts which will move in a similar way to the liabilities as interest rates and inflation changes. By appointing an LDI manager it would enable the Fund to more efficiently match its assets to the interest rate and inflation movements of its liabilities by either increasing the level of liability matching while maintaining the allocation to growth assets or achieve the same level of liability matching while increasing the allocation to growth assets. It is expected that these appointments will provide further diversification of returns, improve the efficiency of the Fund's matching assets, specifically to match the movement of the Fund's liabilities caused by interest rates and inflation, independent of the allocation to return seeking assets and will help maintain the high standards expected from Shropshire's investment managers.

The Fund undergoes an independent actuarial valuation every 3 years. The latest actuarial valuation was conducted at the end of March 2013, identifying that the Fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 76%. The next actuarial valuation is being undertaken in March 2016 and the results will be known in November 2016.

As a local government pension scheme the Fund is able to take a long term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way. Whilst there is a lot written in the press about gold plated public sector pensions the reality is very different. The average pension paid from the Shropshire Fund last year was £4,400.

Since the LGPS changed to a Career Average Revalued Earnings Scheme (CARE) on the 1 April 2014, the Pension Administration Team have been working hard to ensure successful implementation of the new regulations for its Members and Employers. The introduction of the CARE scheme has brought with it additional data that employers must hold for its employees in the LGPS and significant work has been undertaken by the Pension Administration Team to communicate and support employers in the changes.

A series of training sessions were held throughout 2014/15 including an employer's meeting in January 2015 covering in detail the data requirements in the LGPS since the introduction of CARE. To help employers meet its responsibilities the Fund has invested in middleware to improve the flow of data between employers and the Fund.

Work has also been undertaken to ensure Scheme Members have been kept up to date with the latest LGPS news including how benefit accrual works in the CARE scheme and the changes in the Governance Regulations with the introduction of the Pensions Board.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2015

2013/14 £000		2014/15 £000
	Income	
	Contributions	
(45,077)	Employers (Note 8)	(44,657)
(13,660)	Employees (Note 8)	(14,134)
(3,213)	Transfers In from other pension funds (Notes 3, 8)	(4,339)
(61,950)	**Total Income**	**(63,130)**
	Expenditure	
	Benefits Payable	
47,094	Pensions (Note 8)	51,090
10,528	Commutation of pensions and lump sum retirement benefits (Note 8)	10,842
1,365	Lump Sums (Note 8)	1,202
8	Refund of contributions (Note 8)	81
3,299	Transfers to other funds (Note 3, 8)	4,312
62,294	**Total Expenditure**	**67,527**
344	**Net additions from dealings with scheme members**	**4,397**
11,688	**Management Expenses**	**13,764**
	Returns on Investments	
(19,823)	Investment Income (Note 3, 7, 14, 15)	(19,248)
(26,860)	(Gain)/loss on cash and currency hedging (Note 12, 13)	(16,767)
195	Taxes on Income (Note 6)	20
(70,022)	Profits and losses on disposal of investments and changes in value of investments (Note 11)	(155,698)
(116,510)	**Net (increase) / decrease in the net assets available for benefits during the year**	**(191,693)**
(104,478)	**(Surplus) / deficit on the pension fund for the year**	**(173,532)**
1,234,725	**Opening net assets of the scheme**	**1,339,203**
1,339,203	**Closing net assets of the scheme**	**1,512,735**

PENSION FUND ACCOUNTS

PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2015

31 March 2014 £000		31 March 2015 £000	%
	Investment Assets		
	Fixed Interest Securities		
61,798	Public Sector Bonds	0	0.00
207,853	Equities	228,604	15.11
	Pooled Investment Vehicles (Note 11a)		
131,773	Unitised Investment Vehicles	159,821	10.56
912,315	Other Managed Funds	1,082,132	71.53
	Derivative Contracts (Note 11a)		
16	Futures (Note 13)	0	0.00
637	Forward Foreign Exchange (Note 12)	0	0.00
	Cash Deposits		
4,916	Margin Balances	0	0.00
22,241	Deposits	39,915	2.64
2,650	Temporary Investments (Note 26)	3,380	0.22
1,344,199		**1,513,852**	**100.06**
	Investment Liabilities		
	Derivatives		
(10)	Futures (Note 13)	0	0.00
(5)	Forward Foreign Exchange (Note 12)	0	0.00
	Other Financial Liabilities		
(4,959)	Margin Balances	0	0.00
1,339,225	**Net Investment Assets**		
	Current Assets		
2,722	Contributions due from Employers (Note 19)	2,044	0.14
2,156	Other Current Assets (Note 19)	1,288	0.09
38	Cash Balances (Note 26)	20	0.00
	Current Liabilities		
(1,800)	Unpaid Benefits (Note 20)	(505)	(0.03)
(3,138)	Other Current Liabilities (Note 20)	(3,964)	(0.26)
1,339,203	**Net Assets of the Scheme - Available to Fund Benefits as at 31 March**	**1,512,735**	**100.00**

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015

1. DESCRIPTION OF FUND

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

It is a contributory defined pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 138 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

Shropshire County Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	99	126
Number of employees in the scheme		
Shropshire Council	7,166	7,376
Other employers	8,980	8,041
Total	**16,146**	**15,417**
Number of pensioners in the scheme		
Shropshire Council	4,686	4,476
Other employers	4,723	4,494
Total	**9,409**	**8,970**

Shropshire County Pension Fund	31 March 2015	31 March 2014
Number of deferred pensioners in the scheme		
Shropshire Council	7,265	6,857
Other employers	2,461	6,812
Total	**14,449**	**13,669**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was as at 31 March 2013. Currently, employer contribution rates range from 5.4% to 28.0% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 X final pensionable salary	Each year worked is worth 1/60 X final pensionable salary
Lump Sum	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set out by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 8). Individual transfers in/out are accounted when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8). Bulk (group) transfers are included for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and is therefore exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises and in 2014/15 this figure is £20,274.

Management expenses
The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated with several managers that an element of their fee will be performance related. Performance related fees were £3.928m in 2014/15 (2013/14 £3.639m). The cost of obtaining investment advice from consultants is also included in investment managers expenses.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15, £0.013m of fees is based on such estimates (2013/14 £0.006m).

Net Assets Statement

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the day the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- Market quoted investments are valued by the bid market price ruling on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial

statements published by the respective fund manager in accordance with the guidelines set out by the British Venture Capital Association.

- Investments in infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. If single priced they are valued at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of withholding tax.
- Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.
- The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.
- Shropshire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. Please see note 22 for further information.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers set out by the British Venture Capital Association.

The pension fund liability is calculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement as at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £64.3 million. There is a risk that this investment may be under or overstated in the accounts.
Hedge Funds	The fund of funds is valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £154.4 million. There is a risk that these investments may be under/over - overstated in the accounts.

6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2015 and when these accounts were authorised that require any adjustments to be made.

7. ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

2014/15	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contribution Received				
Employees	(5,306)	(2,269)	(6,559)	(14,134)
Employers	(18,732)	(7,154)	(18,771)	(44,657)
Transfers In	(1,143)	(2,012)	(1,185)	(4,339)
Total Income	**(25,180)**	**(11,435)**	**(26,515)**	**(63,130)**
Payments Made				
Pensions	31,725	5,806	13,559	51,090
Lump Sums	5,643	1,796	3,404	10,843
Death Benefits	454	129	618	1,201
Refunds	44	3	33	80
Transfers Out	1,730	762	1,821	4,313
Total Expenditure	**39,596**	**8,496**	**19,435**	**67,527**

2013/14 comparative figures	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contribution Received				
Employees	(5,652)	(2,021)	(5,987)	(13,660)
Employers	(22,600)	(6,030)	(16,447)	(45,077)
Transfers In	(716)	(1,027)	(1,470)	(3,213)
Total Income	**(28,968)**	**(9,078)**	**(23,904)**	**(61,950)**
Payments Made				
Pensions	29,362	5,367	12,365	47,094
Lump Sums	6,032	1,607	2,889	10,528
Death Benefits	683	68	614	1,365
Refunds	8	0	0	8
Transfers Out	1,794	378	1,127	3,299
Total Expenditure	**37,879**	**7,420**	**16,995**	**62,294**

This table breaks down the employers contributions amount of £44.657m from the above table.

	2014/15 £000	2013/14 £000
Employers normal contributions	30,860	28,583
Employers deficit contributions	10,639	10,088
Employers augmentation contributions	3,158	6,407
	44,657	**45,078**

8. MANAGEMENT EXPENSES

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £3.928m (2013/14 £3.639m) in respect of performance related fees paid to Fund investment managers. It also includes £1.245m in respect of transaction costs (2013/14 £1.0m). The £1.0m of transaction costs in 2013/14 was identified during a separate exercise, however, the 2013/14 accounts have not been restated.

	2014/15 £000	2013/14 £000
Administrative costs	785	949
Investment management expenses	12,451	9,720
Oversight and governance costs	528	1,019
	13,764	**11,688**

9. INVESTMENT INCOME

The table below analyses the investment income received by the Fund (mostly in the form of dividends) over the last 12 months. There has, again, been a reduction in equity dividends due to the restructure of the Fund in September 2013 when several equity manager contracts were terminated. This year is the first full year of this effect.

	2014/15 £000	2013/14 £000
Interest from Fixed Interest Securities	(422)	(1,029)
Dividends from equities	(6,229)	(10,797)
Income from pooled investment vehicles	(934)	(1,474)
Interest on cash deposits	(25)	(17)
Other	(8,233)	(6,506)
	(15,843)	**(19,823)**

10. TAXES ON INCOME

This table breaks down the taxes on income by asset class.

	2014/15 £000	2013/14 £000
Withholding tax – Fixed interest securities	0	1
Withholding tax - equities	8	170
Withholding tax - pooled	12	24
	20	**195**

11. INVESTMENT EXPENSES

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Funds behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled fund investments.

	2014/15 £000	2013/14 £000
Management Fees	12,359	10,344
Custody Fees	92	232
	12,451	**10,576**

12. ADMINISTRATION EXPENSES

The costs incurred by the Council in administering the Fund totalled £0.784 million for the year ended 31 March 2015 (2013/14 £0.938m). Due to the issue of the CIPFA guidance on management costs this table has been updated to show the costs included within administration which excludes some costs now categorised within oversight and governance.

	2014/15 £000	2013/14 £000
Employee costs	525	478
IT	129	316
Printing & Postage	60	60
Office Accommodation	22	6
Subscriptions	22	28
Other Costs	26	38
	784	**949**

13a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

Investment type 2014/15	Value as at 1 April £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Transition £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Fixed Interest Securities – Public Sector	61,798	3,643	(65,380)	0	0	(61)	0
Equities	207,853	89,382	(88,852)	0	0	20,221	228,604
Pooled Investment Vehicles – Unitised Investment Vehicles	131,773	0	0	0	0	28,048	159,821
Pooled Investment Vehicles – Other Managed Funds	912,315	116,035	(54,321)	0	0	108,102	1,082,132*
Derivative contracts	638	0	(21)	0	0	(617)	0
Sub total	**1,314,377**	**209,060**	**(208,574)**	**0**	**0**	**155,693**	**1,470,557**
Cash deposits – with Managers	22,241	0	0	0	17,669	5	39,915
Cash deposits – margin balances	(43)	0	0	0	43	0	0
Temporary Investments	2,650	0	0	0	730	0	3,380
Total	**1,339,225**	**209,060**	**(208,574)**	**0**	**18,442**	**155,698****	**1,513,852**

Investment type 2013/14 comparative figures	Value as at 1 April £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Transition £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Fixed Interest Securities – Public Sector	47,748	134,695	(116,470)	0	0	(4,175)	61,798
Equities	555,562	221,313	(255,412)	(345,709)	0	32,099	207,853
Pooled Investment Vehicles – Unitised Investment Vehicles	116,634	19,795	0	0	0	(4,656)	131,773

Investment type 2013/14 comparative figures	Value as at 1 April £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Transition £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Pooled Investment Vehicles – Other Managed Funds	457,168	478,434	(416,515)	345,709	0	47,519	912,315
Derivative contracts	1,424	0	13	0	0	(773)	638
Sub total	**1,178,536**	**854,237**	**(788,410)**	**0**	**0**	**70,014**	**1,314,377**
Cash deposits – with Managers	46,513	0	0	0	(24,280)	8	22,241
Cash deposits – margin balances	3,884	0	0	0	(3,927)	0	(43)
Temporary Investments	2,860	0	0	0	(210)	0	2,650
Total	**1,231,793**	**854,237**	**(788,410)**	**0**	**(28,417)**	**70,022**	**1,339,225**

*Within the Pooled Investment Vehicles - other managed funds total of £1082.132m are £218.741m of level 3 investments as at 31 March 2015. The value of the level 3 investments were £187.625m as at 1st April 2014 which increased to £218.741m as at 31 March 2015.

The increase in value is due to purchases of £32.662m, sales of £10.876m and change in market value of £9.330m.

** The total change in market value for 2014/15 as per the table above is £155.698m. This figure is made of up of profit on sales of £35.511m and also the difference between book cost and market value for the whole Fund which for 2014/15 was £120.187m

13b. ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVE CONTRACTS)

	2014/15 £000	2013/14 £000
Fixed Interest Securities		
UK		
Corporate quoted	213,878	131,170
Overseas		
Public sector quoted	0	61,798
Equities		
UK		
Quoted	114,066	109,673
Overseas		
Quoted	691,135	628,995
Pooled Funds – additional analysis		
UK		
Index Linked Bonds	159,821	131,773
Overseas		
Hedge Funds	154,404	130,277
Pooled property investments	62,970	51,999
Private Equity	64,337	57,348
Infrastructure	9,946	10,746
	1,470,557	**1,313,739**

14. ANALYSIS OF DERIVATIVES

Between November 2007 and September 2013 the Fund passively hedged 50% of all currency exposure to eliminate some of the risks over the longer term involved in holding an increased proportion of overseas investments. In 2013 a decision was made to terminate the contract with Northern Trust who provided this service due to the restructure of the Fund which took place on 30 September 2013.

From September 2013, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling.

15. CASH EQUITISATION

During 2013/14, following a review of the Fund structure, a decision was taken to terminate the Fund cash equitisation programme. This was designed to reduce risk by maintaining the Fund close to its strategic asset allocation and minimise the drag on investment performance caused by holding cash. This was completed using futures.

Following on from the restructure cash equitisation is no longer required as this is now managed within the Pension Fund team.

16. SECURITIES LENDING

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collaterised lending generated income of £0.050m in 2014/15 and this is included within investment income in the Pension Fund Account. At 31 March 2015 £8.240m worth of stock (approx 0.5% of the Fund) was on loan, for which the Fund was in receipt of £8.865m worth of collateral.

Although stock lending involves the transfer of title of those securities to the borrower, the lender's rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic interest in the securities transferred.

There are no liabilities associated with the loaned assets.

17a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2015			31 March 2014		
	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Fixed Interest Securities – Public Sector	0			61,798		
Equities	228,593			207,853		
Pooled Investment Vehicles – Unitised Investment Vehicles	159,821			131,773		
Pooled Investment Vehicles – Other Managed Funds	1,082,132			912,315		
Derivative contracts	0			653		
Cash		43,325			24,849	
Debtors		3,332			4,916	
Total Assets	**1,470,546**	**46,657**	**0**	**1,314,392**	**29,765**	**0**
Financial Liabilities						
Derivative contracts	0			(15)		
Creditors			(4,468)			(4,939)
Total Liabilities	**0**	**0**	**(4,468)**	**(15)**	**0**	**(4,939)**
Total	**1,470,546**	**46,657**	**(4,468)**	**1,314,377**	**29,765**	**(4,939)**

17b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2014/15 £000	2013/14 £000
Financial Assets		
Fair value through profit and loss	155,698	70,787
Loans and receivables	0	7
Financial Liabilities		
Fair value through profit and loss	0	(772)
	155,698	**70,022**

17c. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1:
Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2:
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3:
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly, however, lag quarter behind so the valuation in the accounts is as at 31st December 2014. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Asset type 2014/15	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000
Equities	Majedie Asset Management	UK Equities	114,245	114,245		
	Harris Associates	Global Equities	114,348	114,348		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	159,821	159,821		
	Majedie Asset Management	UK Pooled Fund	10,410	10,410		
	Pimco Europe Ltd	Global Aggregate Bonds	213,878	213,878		
	MFS	Global Equities	132,423	132,423		
	HarbourVest Partners Ltd	Private Equity	64,337			64,337
	Aberdeen Property Investors	Property Unit Trusts	62,971		62,971	
	Blackrock	Hedge Fund	77,314			77,314
	Global Infrastructure Partners	Infrastructure	9,946		9,946	

Asset type 2014/15	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000
	Legal & General	Global Equities	304,277	304,277		
	Investec	Global Equities	129,486	129,486		
	Brevan Howard	Hedge Fund	77,090			77,090
Net Derivative Assets			0			
Net Current Assets (incl cash)			42,189	42,189		
Total			**1,512,735**	**1,221,077**	**72,917**	**218,741**

Asset type 2013/14	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000
Fixed Interest Securities	Strategic Fixed Income	Global Government Bonds	61,798	61,798		
Equities	Majedie Asset Management	UK Equities	110,258	110,258		
	Harris Associates	Global Equities	97,584	97,584		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	131,773	131,773		
	Majedie Asset Management	UK Pooled Fund	11,680	11,680		
	Pimco Europe Ltd	Global Aggregate Bonds	131,170	131,170		
	MFS	Global Equities	123,238	123,238		
	HarbourVest Partners Ltd	Private Equity	57,348			57,348
	Aberdeen Property Investors	Property Unit Trusts	51,999		51,999	
	Blackrock	Hedge Fund	67,802			67,802
	Global Infrastructure Partners	Infrastructure	10,746		10,746	
	Legal & General	GlobalEquities	289,037	289,037		
	Investec	Global Equities	106,818	106,818		
	Brevan Howard	Hedge Fund	62,475			62,475
Net Derivative Assets			639	639		
Net Current Assets (incl cash)			24,838	24,838		
Total			**1,339,203**	**1,088,833**	**62,745**	**187,625**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund’s primary long term risk is that the Fund’s assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk the Pension Fund Officers and the Fund investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by Fund Officers to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	10.3%
Global Equities	9.0%
Property	3.6%
Private Equity	4.9%
Hedge Funds	4.6%
Global Aggregate Bonds	2.6%
UK ILG over 5 years	9.6%
Infrastructure	4.4%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset type 2014/15	Value as at 31 March £000	Percentage change %	Value on increase £000	Value on decrease £000
Net Assets including Cash	42,189	0.00	42.189	42.189
Investment Portfolio Assets				
UK Equities	114,066	10.30	125,815	102,317
Global Equities	691,124	8.96	753,049	629,199
Corporate Bonds	213,878	2.57	219,375	208,381
Property	62,970	3.63	65,256	60,684
Private Equity	64,337	4.85	67,457	61,217
Hedge Funds	154,404	4.57	161,460	147,348
UK Index linked Gilts over 5 years	159,821	9.59	175,148	144,494
Infrastructure	9,946	4.35	10,379	9,513
Total assets available to pay benefits	**1,512,735**		**1,620,128**	**1,405,342**

Asset type 2013/14	Value as at 31 March £000	Percentage change %	Value on increase £000	Value on decrease £000
Net Assets including Cash	24,825	0.0	24,825	24,825
Investment Portfolio Assets				
UK Equities	232,911	12.3	261,559	204,263
Global Equities	505,716	11.2	562,356	449,076
Corporate Bonds	131,170	2.5	134,449	127,891
Property	51,999	2.7	53,403	50,595
Private Equity	57,348	5.3	60,388	54,309
Hedge Funds	130,277	4.5	136,140	124,415
Global Government Bonds	61,798	2.7	63,467	60,129
UK Index linked Gilts over 5 years	131,773	8.8	143,369	120,177
Infrastructure	10,747	4.0	11,176	10,317
Net derivative assets	638	0.0	638	638
Total assets available to pay benefits	**1,339,202**		**1,451,770**	**1,226,634**

Interest rate risk

The Fund invests in financial assets e.g. corporate and index linked bonds for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2015 £000	As at 31 March 2014 £000
Cash and cash equivalents	39,915	22,441
Cash balances	20	38
Index Linked Bonds	159,821	131,773
Corporate Bonds	213,878	131,170
Fixed Interest securities (10 years)	0	61,798
Total change in assets available	**413,635**	**347,020**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates assuming all variables, in particular exchange rates, remain constant.

Asset type	Carrying	Effect on asset values	
	amount	+100BPS	-100BPS
As at 31 March 2015	£000	£000	£000
Cash and cash equivalents	39,915	0	0
Cash balances	20	0	0
Index Linked Bonds (average 25 years)	159,822	(39,955)	39,955
Absolute Return Strategy IV Fund (-1.87 years)	106,473	1,991	(1,991)
Global Investment Grade Credit Fund (5.67 years)	107,405	(6,090)	6,090
Total change in assets available	**413,635**	**(44,054)**	**44,054**

Asset type	Carrying	Effect on asset values	
	amount	+100BPS	+100BPS
As at 31 March 2014	£000	£000	£000
Cash and cash equivalents	22,241	0	0
Cash balances	38	0	0
Index Linked Bonds (24 years)	131,773	(31,626)	31,626
Absolute Return Strategy IV Fund (2.05 years)	66,155	(1,356)	1,356
Global Investment Grade Credit Fund (5.24 years)	65,015	(3,407)	3,407
Fixed Interest securities (10 years)	61,798	(6,180)	6,180
Total change in assets available	**347,020**	**(42,568)**	**42,568**

In terms of interest received, if the interest rate increases by 1% this will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

As at 31 March 2015 the Fund also had £3.380m of Pension Fund revenue cash invested. All of this was invested in two call accounts and is classified as a variable rate investment. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.034m. Similarly, the impact of a 1% fall in interest rates would be a £0.034m reduction in interest received. The Fund had nothing invested in fixed term deposits as at 31 March 2015.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than £ sterling. The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:

Currency exposure – asset type	Asset value as at 31 March 2015 £000	Asset value as at 31 March 2014 £000
Overseas Equities	368,515	614,250
Overseas Private Equity	67,925	61,807
Overseas Pooled Property	15,043	18,871
Overseas Government Bonds	0	64,302
Overseas Infrastructure	16,067	11,471
Total change in assets available	**467,550**	**770,701**

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 5% (as measured by one standard deviation). A 5% fluctuation in the currency is considered reasonable based on historical movements in the month end exchange rates over a rolling 36 month period assuming all other variables, in particular, interest rates, remain constant. A 5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Carrying amount	Change in year in the net assets available to pay benefits	
		+5%	-5%
As at 31 March 2015	£000	£000	£000
Overseas Equities	368,515	386,941	350,089
Overseas Private Equity	67,925	71,321	64,529
Overseas Pooled Property	15,043	15,795	14,291
Overseas Infrastructure	16,067	16,870	15,264
Total change in assets available	**467,550**	**490,927**	**444,173**

Currency exposure - asset type	Carrying amount	Change in year in the net assets available to pay benefits	
		+5%	-5%
As at 31 March 2014	£000	£000	£000
Overseas Equities	614,250	644,963	583,538
Overseas Private Equity	61,807	64,897	58,717
Overseas Pooled Property	18,871	19,815	17,927
Overseas Government Bonds	64,302	67,517	61,087
Overseas Infrastructure	11,471	12,045	10,897
Total change in assets available	**770,701**	**809,237**	**732,166**

Credit Risk

Credit risk is the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, (the Fund currently does not hold any but derivatives positions would be an exception here, where risk equates to the net market value of a positive derivative position). However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The investment priorities for the management of the pension fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction of minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

Asset type	Rating	Balances as at 31 March 2015 £000	Balances as at 31 March 2014 £000
Natwest Instant Access Account	A	1,380,000	650,000
Handelsbanken Instant Access Account	AA-	2,000,000	2,000,000
Total		**3,380,000**	**2,650,000**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also to meet investment commitments.

The Fund has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2015 was £23.135m.

The Fund does not have access to an overdraft facility. All financial liabilities at 31 March 2015 are due within one year.

19. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation was undertaken as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The Funding strategy statement specifies a target period for achieving full funding of 19 years (19 years as at the 2010 valuation). For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2013 actuarial valuation, the Fund was assessed as 76% funded (81% at the March 2010 valuation). This corresponded to a deficit of £383 million (2010 valuation was £226 million) at that time. Revised contributions set by the 2013 valuation will be introduced in 2014/15 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 14.0% of pensionable pay.

The valuation of the Fund has been undertaken by the projected unit method under which the salary increase assumed for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows : -

Financial assumptions	31 March 2013	31 March 2010
Discount rate	4.95% p.a.	6.25% p.a.
Assumed long term CPI inflation	2.6% p.a.	3.0% p.a,
Salary increases – long term	4.1% p.a.	4.5% p.a.
Salary increases – short term	1% p.a. for 3 years	In line with Government proposals
Pension increases in payment	2.6% p.a	3.0% p.a.

Mortality assumptions	Male	Female
Current pensioners (at age 65)	23.7	26.0
Future pensioners (assumed current age 45)	25.9	28.8

20. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2015. An analysis of debtors is shown below:

	2014/15 £000	2013/14 £000
Central Government bodies	9	4
Other Local Authorities	1,679	3,406
NHS Bodies	1	0
Other entities and individuals	1,643	1,468
Total	**3,332**	**4,878**

21. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2015. An analysis of creditors is shown below:

	2014/15 £000	2013/14 £000
Other Local Authorities	1,239	3,960
Other entities and individuals	3,229	978
Total	**4,468**	**4,938**

22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Scheme members have the option to make Additional Voluntary Contributions (AVC's) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No3093).

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 534 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2014/15 contributions to the schemes amounted to £0.530m. The combined value of the AVC funds as at 31 March 2015 was £4.228m.

23. RELATED PARTY TRANSACTIONS

The Shropshire County Pension Fund is administered by Shropshire Council. Consequently there is a strong relationship between the Council and the Pension Fund. Shropshire Council incurred costs of £0.849m (2013/14 £0.681m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

Shropshire Council is also the single largest employer of members of the pension fund and contributed £18.732m (2013/14 £17.627m). All monies owing to the Fund were paid across in the year. The Scheme Administrator of the Shropshire County Pension Fund is also the Head of Finance, Governance & Assurance for Shropshire Council.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4)of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Shropshire County Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Shropshire Council.

Under legislation, introduced in 2003/04, Councillors are entitled to join the scheme and three Members of the Pension Fund Committee are Members of the Fund. These are Thomas Biggins, Malcolm Pate and Andrew B Davies. Jean Smith, Pensioner representative is also a member of the Fund.

Legislation coming into force on 1 April 2014 means the LGPS is only available to councillors and elected mayors of an English County Council or District Council who elected to joined before 31 March 2014. From 1 April 2014 access to the LGPS for councillors has been removed. Current members can continue in the LGPS until the end of their individual office.

24. CONTRACTUAL COMMITMENTS

The Fund has a 5% (£76 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2015 £123m has been committed to investment in private equity via a fund of funds manager (HarbourVest Partners). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2015 the funds Private Equity investments totalled £64.337m.

25. CONTINGENT ASSETS

11 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

26. VALUE ADDED TAX

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

27. CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodians own assets.

28. FUND AUDITORS

Grant Thornton has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

29. PENSION FUND BANK ACCOUNT

In March 2010 a separate bank account was opened for the Shropshire County Pension Fund and from the 1 April 2010 all income received is being paid into this account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2015 £3.380 million was invested. The cash balance in the Pension Fund account as at the same date was £0.020 million. All expenditure is still being paid by Shropshire Council on behalf of the Fund and this is reimbursed to Shropshire Council on a monthly basis.

30. FUND STRUCTURE UPDATE

At the March 2014 Pensions Committee a decision was taken to disinvest funds with Strategic Fixed Income and invest additional assets with Pimco. This process took place in May 2014.

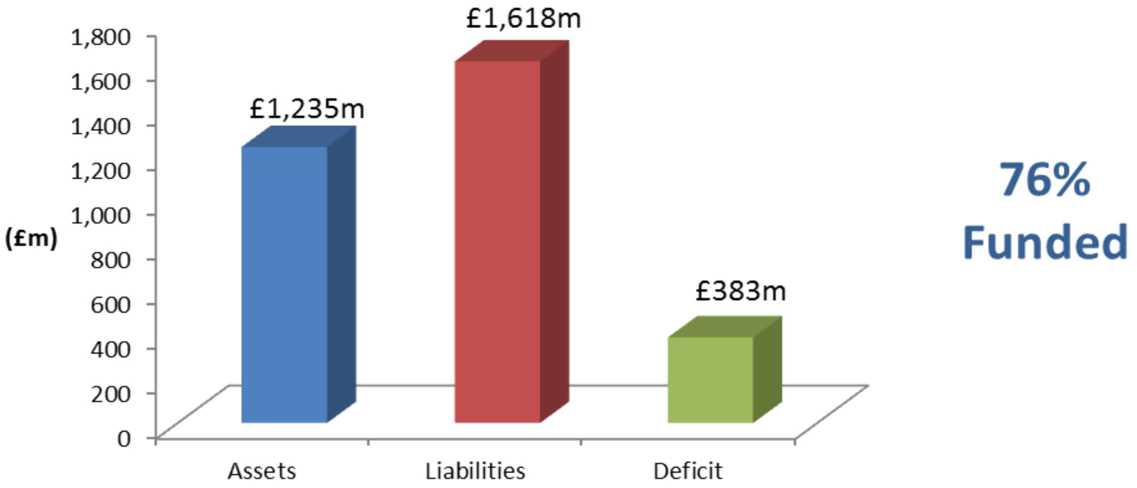
SHROPSHIRE COUNTY PENSION FUND

Accounts for the year ended 31 March 2015
Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,235 million represented 76% of the Fund's past service liabilities of £1,618 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £383 million.



The valuation also showed that a common rate of contribution of 14.0% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £274 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £17 million per annum increasing at 4.1% per annum (equivalent to approximately 8.2% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)	4.95% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £1,807 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by *c*£295 million. Adding interest over the year increases the liabilities by a further *c*£81 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by *c*£2 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £2,181 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2015

PENSION FUND ACCOUNTS

TO BE UPDATED FOLLOWING AUDIT OF PENSION FUND ACCOUNTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Shropshire Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Shropshire 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 Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance, Governance and Assurance & Scheme Administrator and auditor

As explained more fully in the Statement of the Head of Finance, Governance and Assurance's Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 pension fund 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- • give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- • have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Jon Roberts,
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands B4 6AT

30 September 2014

Section 8

Housing Revenue Account

HOUSING REVENUE ACCOUNT

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA INCOME AND EXPENDITURE STATEMENT

2013/14		2014/15	
£		£	£
	Expenditure		
4,900,807	Repairs & Maintenance	4,743,484	
2,935,528	Supervision and Management	3,266,387	
126,756	Rents, rates taxes and other charges	117,734	
4,171,900	Depreciation - Dwellings	4,262,170	
43,030	- Other	43,030	
3,389,719	Impairment, revaluation losses and (reversals of impairment or revaluation losses)	(7,397,450)	
4,740	Debt Management Costs	6,540	
70,000	Provision for Bad or Doubtful Debts	(23,620)	
15,642,480	**Total Expenditure**		**5,018,275**
	Income		
(16,653,589)	Dwelling Rents	(17,197,625)	
(186,251)	Non Dwelling Rents	(175,657)	
(179,007)	Other Income	(27,200)	
(217,942)	Charges for Services and Facilities	(308,431)	
(849,704)	Contributions towards expenditure	(921,849)	
(18,086,492)	**Total Income**		**(18,630,761)**
(2,444,012)	**Net Cost of HRA Services included in the Comprehensive I&E Statement**		**(13,612,487)**
173,510	HRA Share of Corporate & Democratic Core		178,275
(2,270,502)	**Net Cost of HRA Services**		**(13,434,212)**
266,337	(Gain) or loss on sale of HRA Assets		(67,493)
2,964,328	Interest payable and similar charges		2,994,856
(29,678)	Interest and Investment Income		(39,267)
(86,943)	Income & Expenditure in relation to investment properties & change in fair values		(20,561)
843,542	**(Surplus) or deficit for the year on HRA Services**		**(10,566,676)**

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2013/14 £		2014/15 £	£
(1,041,350)	**Balance on the HRA at the end of the previous year**		**(2,546,067)**
843,542	**(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement**		**(10,566,676)**
8,982	Difference between any other item of income and expenditure determined in accordance with the Code and those determined in accordance with statute.	0	
538	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute.	0	
(266,337)	(Gain) or Loss on sale of HRA non-current assets	67,493	
(2,087,235)	Transfer to/(from) the Capital Adjustment Account	9,969,299	
(2,344,052)	**Adjustments between accounting basis and funding basis under statute**		**10,036,792**
(4,207)	Transfer to/(from) Capital Reserve	0	
(4,207)	**Transfers to or (from) Reserves**		**0**
(1,504,717)	**(Increase) or Decrease in year on the HRA**		**(529,884)**
(2,546,067)	**Balance on the HRA at the end of the current year**		**(3,075,951)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

	2014/15	2013/14
Total Number of Dwellings at 31 March :		
Houses and Bungalows	3,257	3,234
Flats	878	881
	4,135	**4,115**
Change in Stock		
Stock at 1 April	4,115	4,189
Less: Sales – Right to Buy	(28)	(26)
Sales – Other	0	(2)
Disposal/restructuring	(1)	(48)
Acquisition – full ownership	38	2
Acquisition – shared ownership	11	0
	4,135	**4,115**

2. RENT ARREARS

	2014/15 £	2013/14 £
Due from Current Tenants	88,137	149,507
Due from Former Tenants	83,388	178,852
Total Rent Arrears as at 31 March	**171,525**	**328,360**
Pre-Payments	(321,652)	(499,183)
Net Arrears	**(150,127)**	**(170,823)**

As at 31 March 2015, the total provision set aside for housing rent bad debts is £317,241.

3. BALANCE SHEET VALUE OF ASSETS

	Council Dwellings £	Other Land & Buildings £	Assets Under Construction £	Total Property, Plant & Equipment £	Investment Properties £	Current Assets Held for Sale £	Total £
Cost or Valuation							
At 1 April 2014	155,499,330	767,000	1,309,777	157,576,107	1,049,924	0	158,626,031
Additions	8,187,237	0	924,297	9,111,534	0	0	9,111,534
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,730,304	0	0	7,730,304	0	(13,599)	7,716,705
Derecognition - disposals	(1,198,380)	0	0	(1,198,380)	(24,710)	(80,703)	(1,303,793)
Derecognition - other	0	0	0	0	(323,365)	0	(323,365)
Assets reclassified (to)/from Held for Sale	(829,080)	0	0	(829,080)	0	829,080	0
Other movements in cost or valuation	1,111,173	0	(719,323)	391,850	(391,850)	0	0
As at 31 March 2015	**170,500,585**	**767,000**	**1,514,751**	**172,782,336**	**309,999**	**734,777**	**173,827,112**
Accumulated Depreciation and Impairment							
At 1 April 2014	(4,374,926)	(10,360)	0	(4,385,286)	0	0	(4,385,286)
Depreciation Charge	(4,294,840)	(10,360)	0	(4,305,200)	0	0	(4,305,200)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(332,854)	0	0	(332,854)	0	0	(332,854)
Derecognition - disposals	32,400	0	0	32,400	0	0	32,400
As at 31 March 2015	**(8,970,220)**	**(20,720)**	**0**	**(8,990,940)**	**0**	**0**	**(8,990,940)**
Net Book Value							
As at 31 March 2015	**161,530,364**	**746,280**	**1,514,751**	**163,791,395**	**309,999**	**734,777**	**164,836,172**
As at 31 March 2014	**151,124,404**	**756,640**	**1,309,777**	**153,190,821**	**1,049,924**	**0**	**154,240,745**

There is a difference of £293.359m between the tenanted valuation and the District Valuer's Vacant Possession Value of £444.484m at 1 April 2014.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market.

The difference represents the economic cost of the Government of providing council housing at less than market rents.

4. MAJOR REPAIRS RESERVE

	2014/15 £	2013/14 £
Balance Brought Forward	3,722,229	1,401,750
Amount Transferred to the MRR during the Year	4,305,200	4,214,930
Capital Expenditure Financing	(6,391,905)	(1,894,451)
Balance Carried Forward	**1,635,524**	**3,722,229**

5. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on the Council Housing Stock during the year was financed as follows.

	2014/15 £	2013/14 £
Usable Capital Receipts	147,780	152,075
Revenue Contributions utilised in year	1,650,000	379,437
Major Repairs Allowance	6,391,905	1,894,451
Government Grants and Contributions	921,849	849,703
Total Capital Expenditure on Housing Stock	**9,111,534**	**3,275,666**

6. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

	2014/15 £	2013/14 £
Sale of Council Houses under Right to Buy (RTB)	1,614,500	1,565,110
Other Land & Buildings	103,750	240,186
Total Capital Receipts from HRA Asset Disposals	1,718,250	1,805,296
Less Capital Receipts subject to Pooling requirement	(538,587)	(458,204)
Net Capital Receipts from HRA Asset Disposals	**1,179,663**	**1,347,092**

7. HOUSING REPAIRS ACCOUNT

	2014/15 £	2013/14 £
Balance Brought Forward 1 April	25,000	29,207
Expenditure on Capital	0	(4,207)
Balance Carried Forward 31 March	**25,000**	**25,000**

8. CAPITAL ASSET CHARGES ACCOUNTING ADJUSTMENT

	2014/15 £	2013/14 £
Interest paid on mid-year HRA Capital Financing Requirement	67,604	69,125
Less Impairment	(332,854)	(170,336)
Capital Asset Charges Accounting Adjustment	**(265,250)**	**(101,211)**

Impairment represents capital work undertaken in the year that did not increase the asset value.

Section 9

Collection Fund

COLLECTION FUND

The Collection Fund is a statutory account showing the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution to local authorities and Central Government.

2013/14 Total £000		2014/15 Council Tax £000	2014/15 NDR £000	2014/15 Total £000
	Income:			
(151,347)	Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)	(154,576)	0	(154,576)
	Transfers from General Fund			
5	- Transitional relief	3	0	3
(75,997)	Income collectable from business ratepayers	0	(76,294)	(76,294)
48	Transitional Protection Payments	0	257	257
(227,291)	**TOTAL INCOME**	**(154,573)**	**(76,037)**	**(230,610)**
	Expenditure:			
	Precepts			
158,684	- Shropshire Council and Parish and Town Councils	122,933	37,406	160,339
17,743	- West Mercia Police & Crime Commissioner	18,314	0	18,314
9,567	- Shropshire & Wrekin Fire Authority	9,085	763	9,848
38,248	- Central Government	0	38,170	38,170
	Charges to Collection Fund			
464	- costs of collection	0	464	464
	Bad and doubtful debts			
(252)	- write offs	(277)	(760)	(1,037)
1,157	- provisions	650	703	1,353
	Appeals rates			
(1,302)	- write offs	0	(1,993)	(1,993)
2,908	- provisions	0	8,122	8,122
	Contributions			
506	- Towards previous year's estimated Collection Fund surplus	2,461	(2,011)	450
227,723	**TOTAL EXPENDITURE**	**153,166**	**80,865**	**234,031**
430	**Deficit/(Surplus) for the Year**	**(1,407)**	**4,828**	**3,421**
(857)	Balance brought forward	(3,514)	3,089	(425)
(425)	**Balance carried forward**	**(4,920)**	**7,916**	**2,996**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2014/15 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	31.73	5/9	17.63
A	15,270.79	6/9	10,180.53
B	25,907.02	7/9	20,149.90
C	23,432.32	8/9	20,828.73
D	17,278.85	9/9	17,278.85
E	13,306.99	11/9	16,264.10
F	7,224.17	13/9	10,434.91
G	4,018.67	15/9	6,697.78
H	259.75	18/9	519.50
			102,371.93
Adjustment for MoD Properties (687.83 Band D Equivalents) and Collection Rate (97.5%)			(1,896.75)
			100,475.18

2. NON-DOMESTIC RATES (BUSINESS RATES)

Shropshire Council is the billing authority for NDR and retains 49% share of the total collected and distributes the remaining balance to Central Government (50%) and Shropshire & Wrekin Fire Authority (1%).

At 31 March 2015, the total non-domestic rateable value for all business premises in Shropshire was £204,119,919. The multiplier set by Government to calculate rate bills in 2014/15 was 47.1p for small businesses and 48.2p for all other businesses.

Section 10

Glossary

GLOSSARY

Accountable Body	An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds.
Accounting Concepts	The basis on which an organisation's financial statements are based to ensure that those statements 'present fairly' the financial position and transactions of that organisation. Accounting concepts include 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements'.
Accounting Policies	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
Accumulated Absences Account	The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.
Accruals	The accruals accounting concept requires the non-cash effect of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
Actuarial Basis	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
Actuarial Gain	This may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).
Actuarial Loss	These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

GLOSSARY

Adjusted Capital Financing Requirement
The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A.

Adjustment A
The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed.

Appropriation
The transfer of sums to and from reserves, provisions and balances.

Assets
These are economic resources that can include anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value.

Associated Company
An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.).

The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence.

Balances
Amounts set aside to meet future expenditure but not set aside for a specific purpose.

Balance Sheet
The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.

Below the Line Items
Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and IAS19 pension costs.

Bonds	Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.
Borrowing	Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council.
Budget	The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy.
Budget Strategy	A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities.
Cabinet	The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision- making powers are set out in the Council's Constitution.
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 contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Capital Expenditure	Expenditure on items that have a life of more than one year, such as buildings, land, major equipment.

GLOSSARY

Capital Financing Requirement (CFR)	This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. non current assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision.
Capital Grants Unapplied	The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
Capital Receipts	The proceeds from the sale of non current assets such as land and buildings. These sums can be used to finance new capital expenditure.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capitalised Expenditure	Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account.
Cash Equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash Flow Statement	The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

GLOSSARY

Code of Practice on Local Authority Accounting (Code)	A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.
Collection Fund	A separate statutory fund which records Council Tax and Non-Domestic Rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), NDR distribution to Central Government and the billing Council's own General Fund.
Collection Fund Adjustment Account	The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Comprehensive Income and Expenditure Statement	This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
Constitution	The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people.
Contingent Liability	Potential costs that the Council may incur in the future because of something that happened in the past.
Corporate Bonds	Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.
Council	The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

GLOSSARY

Council Tax	A local taxation that is levied on dwellings within the local Council area. The actual level of taxation is based on the capital value of the property, which is split into 8 bands from A to H, and the number of people living in the dwelling.
Council Tax Base	To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure.
Council Tax Precept	The amount of income due to the Council in respect of the total Council Tax collected.
Credit	A credit represents income to an account.
Credit Ceiling	A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing.
Creditors	Represents the amount that the Council owes other parties.
Debit	A debit represents expenditure against an account.
Debt Charges	This represents the interest payable on outstanding debt.
Debtors	Represents the amounts owed to the Council.
Dedicated Schools Grant (DSG)	A specific grant paid to Local Authorities to fund the cost of running its schools.
Deferred Capital Receipts Reserve	The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts.
Deficit	Arises when expenditure exceeds income or when expenditure exceeds available budget.

GLOSSARY

Depreciation	The accounting term used to describe the charge made representing the cost of using tangible non current assets The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time.
Direct Revenue Financing	The cost of capital projects that is charged against revenue budgets.
Equities	Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.
Estimation Techniques	The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.
Exceptional Item	Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.
Financial Instruments	Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Council, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

Fixed Interest Securities

Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Futures

A contract made to purchase or sell an asset at an agreed price on a specified future date.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.

The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year.

Going Concern

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Group Accounts

Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.

Hedge Funds

An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.

GLOSSARY

Heritage Assets

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

Housing Revenue Account

The Housing Revenue Account reflects the statutory obligation to maintain a revenue account for the local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. This account includes the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset.

Index Linked Securities

Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges.

Inflow

This represents cash coming into the Council.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements.

Investments

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

Joint Venture

An organisation in which the Council is involved where decisions require the consent of all participants.

Leases

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system.

Liabilities	An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Liquid Resources	These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days.
Major Repairs Reserve	The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end.
Managed Funds	A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.
Materiality	Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects.
Medium Term Financial Plan (MTFP)	A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFP covers three years.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).
Movement in Reserves Statement	This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.
Non Domestic Rates (NDR)	Taxation that is levied on business properties. This is collected by billing authorities and then distributed to preceptors and Central Government.
Net Book Value	The amount at which non current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.

Net Expenditure	The actual cost of a service to an organisation after taking account of all income charged for services provided.
Net Cost of Service	The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to non current assets.
Non Current Assets	Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.
Operating Lease	A lease where the asset concerned is returned to the lessor at the end of the period of the lease.
Outflow	This represents cash going out of the Council.
Outturn	Actual expenditure within a particular year. In the Explanatory Foreword this expenditure is stated before taking into account Depreciation and other Below the Line Items.
Pension 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. Statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
Post Balance Sheet Event	Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.
Precept	The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor.

Primacy of Legislation	The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply.
Prior Period Adjustments	These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.
Private Finance Initiative (PFI)	A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.
PFI Credits	The financial support provided to Local Authorities to part fund PFI capital projects.
Provisions	Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.
Prudential Borrowing	The amount of borrowing undertaken by the Council to fund capital expenditure, in line with affordable levels calculated under the Prudential Code.
Prudential Code	The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis.
Public Works Loans Board (PWLB)	A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.
Public Sector Bonds	Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised.

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

Revenue Expenditure

Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance.

Revenue Expenditure Funded By Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of non current assets.

Revenue Support Grant (RSG)

An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering.

Reserves

Sums are set aside in reserves for specific future purposes rather than to fund past events.

Service Reporting Code of Practice (SERCOP)

Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities.

Soft Loan

This is a loan which is provided with a below-market rate of interest.

Specific Grant

A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.

Subsidiary

An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.)

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

GLOSSARY

Trading Service/Organisation	A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.
Treasury Strategy	A plan outlining the Council’s approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year.
Unit Trusts	A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.
Usable Capital Receipts Reserve	Represents the resources held by the Council that have arisen from the sale of non current assets that are yet to be spent on other capital projects.
Usable Reserves	Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot.
Variation	The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Virement	The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution.

Draft Statement of Accounts (Unaudited)

2014 – 2015

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Have your say – We want to know what you think of this statement of accounts. Tell us your views by telephone (01743) 253705 or email corporate.finance@shropshire.gov.uk

If you can read this but know someone who can't, please contact us on (01743) 253705 so we can provide this information in a more suitable format such as large print, Braille and audio, or translated into another language.

SHROPSHIRE COUNCIL ANNUAL GOVERNANCE STATEMENT 2014/15

Scope of responsibility

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

2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of the Council's functions, which includes arrangements for the management of risk.

3. The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council website at: http://shropshire.gov.uk/committee-services/ecSDDisplay.aspx?NAME=SD203&ID=203&RPID=500657316&sch=doc&cat=13331&path=13331 This statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

4. The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and 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 contributed to the delivery of appropriate services and value for money.

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

6. The governance framework accords with proper practice and has been in place at the Council for the year ended 31st March 2015 up to the date of approval of the Statement of Accounts.

7. A brief description of the key elements of the Council's governance framework is outlined below. Documents referred to may be viewed on the Council's website and are available from the Council on request.

Leadership and behaviour

8. The Council's Constitution is updated annually and sets out how the Council operates. It states the matters reserved for decision by the whole Council, the responsibilities of the Leader and Cabinet, the matters reserved for collective and individual decision, and the powers delegated to panels, boards, committees and wider bodies such as partnerships. Decision making powers not reserved for members are delegated to directors and senior managers. The Monitoring Officer ensures that all decisions made are legal and supports the Standards Committee in promoting high standards of conduct amongst members. **Annex A** identifies the process which leads to the preparation of the Annual Governance Statement and it being signed off and published with the Statement of Accounts. The Local Code of Corporate Governance is reviewed annually and reported to Audit Committee.

9. The Cabinet is the Council's key decision making body and makes decisions within the policy framework approved by Full Council. It is made up of the Leader, and up to nine members. Key decisions are published in the Executives' Forward Plan and are discussed with Council officers at a meeting of the Cabinet, normally open for the public to attend, except where confidential matters are being discussed. The Cabinet can only make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

10. Senior Management are responsible for overseeing and monitoring the control environment as an integral part of the risk management process. This key management responsibility is supported by the three statutory officers; the Head of Paid Service (Chief Executive), the Chief Financial Officer (Head of Finance Governance and Assurance) and the Monitoring Officer (Head of Legal, Strategy and Democratic Services) the roles of which are set out in the Constitution, plus Internal and External Audit and other external review agencies, such as Ofsted, the Care Quality Commission etc.

11. The Council's financial arrangements confirm with the governance requirements of the CIPFA, "Statement on the Role of the Chief Financial Officer in Local Government (2010)" as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The Chief Financial Officer (Section 151 Officer), Head of Finance Governance and Assurance, has statutory responsibility for the proper management of the Council's finances and is a key member of the Council's senior management team reporting directly to the Chief Executive (for the last three months of the year and previously to that he attended senior management meetings to ensure financial support at the highest levels). He formally devolves the management of the Council's finances within services to directors through a scheme of delegation. Directors further devolve decision making through service schemes of management. The Section 151 Officer also provides detailed financial rules, guidance and finance training for members, managers and staff.

12. The Council's assurance arrangements conform to the governance requirements of CIPFA's "Statement on the Role of the Head of Internal Audit (2010)". The Audit Service Manager reports functionally to the Audit Committee, which approves the Audit Plan and receives performance reports throughout the year on audit and anti-fraud activity as well as the annual report and opinion on the internal control framework.

13. Whilst the Audit Service Manager is responsible for its compilation, the Annual Governance Statement is prepared with the full engagement of senior management and key officers, using data collated from all areas of the Council.

14. The Council has in place an effective Audit Committee which provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process, including scrutiny of Treasury Management strategy and policies. The core functions of the Audit Committee are undertaken in accordance with CIPFA's, "Audit Committee – Practical Guide for Local Authorities".

15. The Constitution includes codes of conduct for both members and staff. These are reviewed regularly to reflect any necessary changes and all members and staff have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided for officers as necessary and appropriate induction sessions are arranged for all new staff and members.

16. The Head of Legal, Strategy and Democratic Services is the Council's Senior Information Risk Owner (SIRO) and there is an Information Governance Group which considers and reviews risk assessments and current issues on the use of personal information. Risk assessments are updated to reflect system and service changes. All employees handling personal data are required to undertake appropriate training on line.

17. Monitoring of compliance is delivered by relevant key officers, including the Section 151 Officer (Head of Finance, Governance and Assurance) and the Monitoring Officer (Head of Legal, Strategy and Democratic Services).

18. The Chief Executive continues to show his commitment to engage with and support staff by providing regular updates and key messages through emails and he regularly visits places of work to engage with staff.

Openness and comprehensive stakeholder engagement

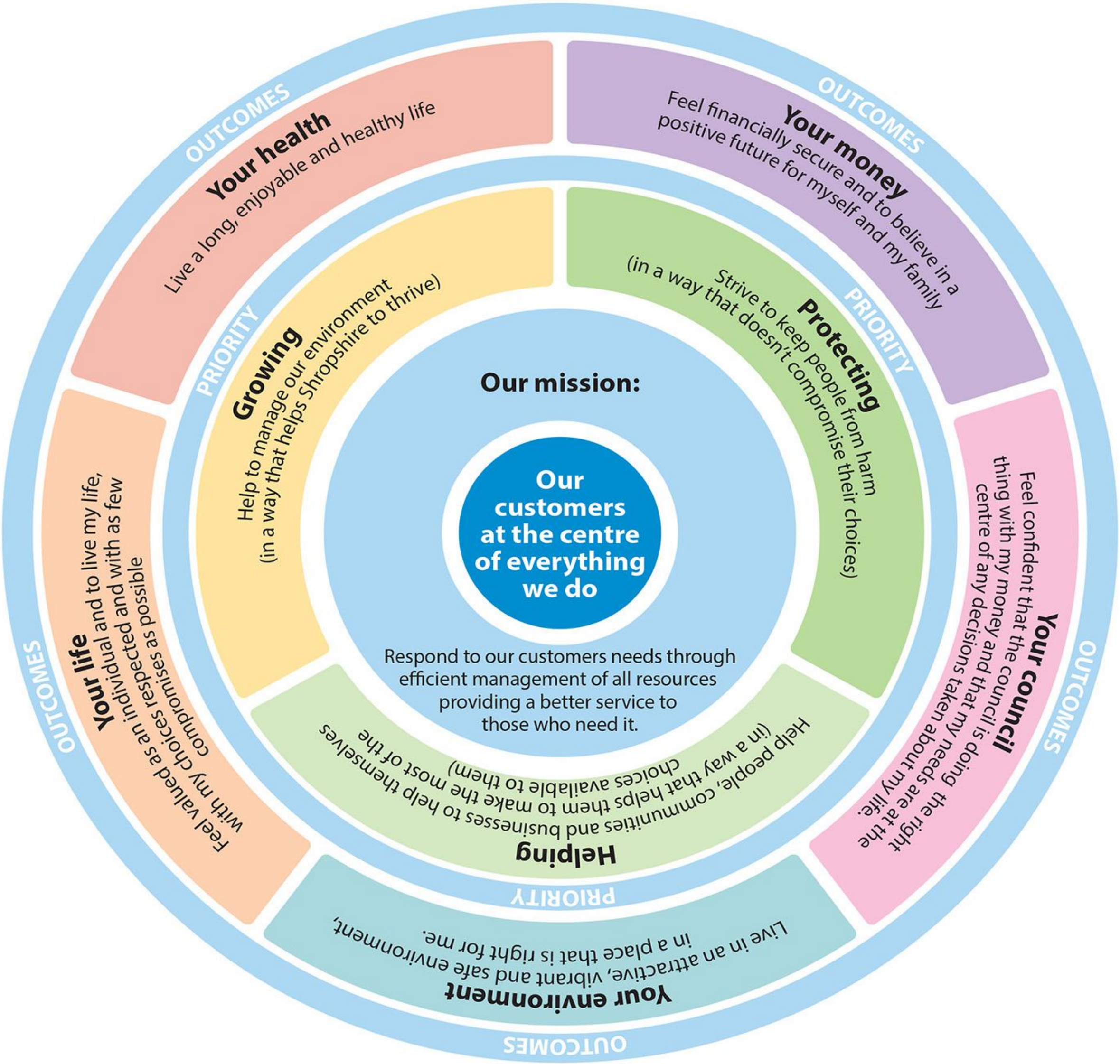
19. The Council's Business Plan and Financial Strategy 2014-17 has been reviewed and refreshed for 2015/6 onwards. The plan sets out an approach to redesigning everything the Council currently does and how best use will be made of the resources available. The financial strategy takes account of any known transfer of services to other delivery models to ensure that the Council's financial position is understood and reflected ahead of any decision taken to approve a transfer. It remains flexible and responsive to emerging local issues and significant national developments such as the Care Act, whilst continuing to focus on delivery of the Council's outcomes as detailed in the diagram overleaf.

20. The Council continues to develop its Inspiring Partnerships and Enterprise initiative (ip&e), comprising two companies: ip&e Limited and ip&e Trading. The Chair of ip&e Ltd is the elected Leader of the Council, the Chair of ip&e Trading is Cllr Michael Wood. Both chairs are supported by boards of directors, appointed by the Council Cabinet. There is also an Officer Director appointed to each company to ensure the companies work within the overall aims and objectives of the Council. The Cabinet acts as shareholder on behalf of the people of Shropshire. A Cabinet member has Portfolio Holder responsibility for ip&e.

21. The Cabinet appoints the Chief Operations Officer of ip&e ltd, who manages resources. This post is held currently by the Director of Resources and Support on secondment from the Council. There are also partial secondments in place to cover the roles of Finance and Commercial Director and Director of HR.

22. ip&e Limited is a Teckal company and has a strategic contract with the Council to enable it to provide services on its behalf. Delivery against the strategic contract is reviewed regularly, in routine meetings that are conducted between Shropshire Council and ip&e. There are individual contracts in place for each of the services that ip&e ltd deliver on behalf of the Council The contracts set out what is expected of each party, and specifies the funds the Council will provide to ip&e Limited to deliver services, and the outcomes and/or outputs that are required. Each contract has a commissioning lead who measures the performance of the individual contracts on a routine, agreed basis, as per the contract.

23. Prior to service areas being considered for transfer, a robust process is followed to ensure a financially viable business case is developed that has considered all aspects in relation to human resources, legal, ICT, finance and risk. Once these elements have been satisfied, the business case is then put forwards to Cabinet for consideration.



24. ip&e Limited and the Council agree a business plan each year to set out its proposals and intentions for the forthcoming year. The business plan is approved by both Cabinet and the Board of ip&e. To date, two business units have been established within ip&e Limited: ip&e Communications and ip&e Business Design (a programme management and business design service). Ip&e Trading to date is not operational as all business has been conducted through the ltd company.

25. A high level Directors' Commissioning Group has been established to monitor the overall progress of ip&e Ltd and other new delivery models. Individual directors and portfolio holders are responsible for the effective management of change and transformation in their areas but will also report through to this Group, where relevant.

26. A revised performance framework was implemented in 2014/15 to measure the Council's delivery of change, as well as the impact of commissioning decisions on Council outcomes. Quarterly performance reports are presented to Cabinet and Scrutiny Committees. The reports highlight any areas of concern. These are monitored and Cabinet will refer issues of continuing concern to Scrutiny for review.

27. The savings target and proposals for the period 2014 to 2017 were agreed by Council in February 2013 as £80m and £83m respectively. The target for 2015/16 was set at £20m, the proposal £26m.

28. Progress against achievement of the 2014/15 savings proposals of £39m has been monitored throughout 2014/15 and as part of this budget monitoring process, service pressures in year and ongoing have been identified. Where there has been a delay in achieving savings or the planned savings have not been achieved, management action has been taken to find alternative savings and offset service pressures to seek to balance the 2014/15 budget, the details of which appear in the quarterly revenue monitoring reports to Cabinet.

29. For 2015/16, the Financial Strategy to Council on 26 February 2015 recognises that of the initial savings proposals of £66m (2014/15 and 2015/16), £59m is expected to be delivered leaving a shortfall against the total proposals. It also highlights service pressures of £7.6m in 2015/16. The report identifies how the total 2015/16 potential budget shortfall of £15m can be found to provide a balanced budget for 2015/16.

30. There is an established Opportunity Risk Management Strategy in place supported by a Risk Management Governance Structure of officers and members with key responsibilities for maintaining the profile of risk management across all areas of service. The Strategy is signed and endorsed by the Chief Executive.

31. The strategic risks for the Council have been identified. High level risks are aligned to the action plans resulting from this Annual Governance review, and actions have been put in place where possible to ensure minimal disruptive impact on the delivery of the Council's outcomes. The strategic risks are updated monthly and reported to the informal Directors and Cabinet monthly meetings. All committee reports include a section on risk assessment and opportunities appraisal and all risks have owners.

32. The Council recognises the importance of communicating its vision and uses a number of channels to this effect. As well as intensive re-design work with specific communities:

- People can email, call, write or visit customer service points. They can visit the Council website and complete an online report form or join in an online conversation;
- They can use one of the many social media channels – to ask a question on Twitter or Facebook , or comment on one of the Council's You Tube channels;
- The Council holds a wide range of public meetings at which people can find out more and have their say;
- People can call or email their local councillor or the appropriate Cabinet member, to ask a question or pass on a comment;
- The latest news from the Council can be found on the online Newsroom, Twitter feed and in local and regional media.

33. The Council regularly consults with the public on strategic decisions and service developments. For example, a group of people, including previous members of the People's Panel, have signed up to provide feedback to the Council, via email. These consultees have been used to seek views on annual budget proposals; taxi licensing fees; the Shropshire Local Offer; and drug and alcohol treatment systems in Shropshire. The people on the consultation list also provide a quarterly view of the public's perception of how the Council is changing. This is a feature of the Council's Performance Management Framework

34. The Council also undertakes locality commissioning. This work starts with initial subject specific data and requires consultation and engagement with the local community to provide intelligence to compliment detailed reviews of systems and customer experiences. The findings are used to challenge service providers and commissioners, and enable informed decision making about the need to and the permission required for change. Full locality commissioning activity has taken place in four market towns so far and has involved the use of Local Joint Committees.

35. The Council has a zero tolerance to fraud, corruption and bribery and is self-regulating in respect of Counter Fraud. It undertakes a self-assessment, identifies its risks and understands them. It acknowledges the problems and puts in place plans which demonstrate that action is being taken and outcomes are visible. It is transparent about this process and reports to both the senior managers and to those charged with governance.

36. Guidance on 'Speaking up about Wrongdoing' which incorporates whistle blowing is distributed to staff, members and contractors. Any irregularities identified will be investigated by Internal Audit or the appropriate officers within the Services. Audit Committee are responsible for the monitoring and overview of the "Speaking up about Wrongdoing Policy" and receive an annual report.

People

37. The Council continues to invest in staff and members to ensure engagement and motivation.

38. Implementation of the Council's values and behaviours starts at Induction. All staff can access an electronic skills assessment and a management development toolkit. Staff can discuss development needs with their manager and identify relevant training from a core skills programme.

39. Member development is delivered through a Community Leadership and Development Framework of blended learning, structured enough to ensure good planning and flexible enough to remain dynamic. It comprises of the induction programme, essential training

which all Members are asked to undertake, the Member briefing programme, and individual assessment of development needs.

Partnerships and other joint arrangements

40. The Council continues to support a range of joint working initiatives to improve service performance and delivery. Governance arrangements in respect of partnerships and other group working are identified within the Constitution, Financial Rules and the Corporate Performance Management Framework.

41. The Shropshire Compact is a set of shared commitments and guidelines for effective partnership working between Shropshire's public sector bodies and the Voluntary and Community Sector (VCS). A Compact Group leads this work for the county, details of which appear on the Council's web site. The Shropshire VCS Assembly also ensures the Compact is integrated into cross-sector policy and projects. The Assembly has around 300 members with a Board and 16 forums of interest. Forums of interest are groups of voluntary and community sector organisations with a common interest (for example heritage, arts, disability, etc.). The Assembly undertakes regular communication activity to involve its members in events, tender opportunities, consultations and to promote funding opportunities, it works to develop new policy and guidance designed to establish a common vision and set out new partnership approaches and expectations. Public sector representatives join the VCS Assembly Board regularly in addition to joint working through task groups.

42. A number of public health services are delivered by the Council in conjunction with the local NHS and other services in the area to provide information and services to promote healthier lifestyles.

43. Shropshire Towns and Rural Housing Ltd (ST&RH) manages homes and neighbourhoods on behalf of the Council, collecting rent, organising repairs and making improvements to the housing stock. The 'management agreement' between the two parties sets out in detail the 'who-does-what' between the two organisations. It includes arrangements for checking how ST&RH performs to make sure high standards are maintained.

Review of effectiveness – how do we know our arrangements are working?

44. The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the governance arrangements is informed by the work of the directors and senior management who have responsibility for the development and the maintenance of the governance environment, the Audit Service Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

45. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

46. The Head of Paid Service, Chief Financial Officer and the Monitoring Officer all contribute to the identification of any known areas of weakness which may need to be addressed. Led by the Chief Executive, all directors, area commissioners and senior managers have confirmed that, to their knowledge, internal control systems and governance arrangements are

operating adequately in their areas and/or steps are being taken to address known areas of weakness.

47. Management Team have provided assurance that the arrangements generally continue to be regarded as fit for purpose in accordance with the governance framework. Where there are exceptions and services have been identified as having fundamental or significant risks in their management controls, for example the infrastructure IT systems, these form part of an on-going process of service improvement which are managed, monitored and reported upon. Progress on key system internal control areas is also being reported to Audit Committee. The significant areas to be addressed for the Council and activities for their management are outlined in the action plans later in this statement.

48. The Council has implemented the actions agreed in the 2013/14 Annual Governance Statement. A summary of which appear below:

Deliver value for money through commissioning

The first year of our business plan/financial strategy has been successfully implemented. Savings of circa £40m are expected to be fully delivered. A refresh of this plan and strategy has been produced and was approved by Council in March 2015 as part of our budget setting process.

The Director team are now looking at a financial plan for the next five years to 2020. We expect to engage Cabinet, Council, staff and the public with shaping this over the 2015/16 financial year.

Work has been completed to develop the Council for commissioning. A commissioning strategy has been completed. The Cabinet has agreed to further transforming the Council to commission everything that we do. Further progress on this will be made during 2015/16.

Review the Council's financial reserves to ensure the level is appropriate to risk

A risk assessment was undertaken and reported to Cabinet 11 February 2015. The General Fund Balance risk assessed level for 2015/16 is £15.86m. The estimated level reported to Cabinet is currently £14.535m, based on £0.371m overspend. A variance of £1.325m is acceptable, given the Council's recent history of delivering a balanced budget and compliance with financial plans.

This is no longer a significant risk for inclusion as an action in this statement.

Staffing resources skills and abilities match business needs

Although there has been significant reductions in staff, services have adapted and outcomes for citizens have been maintained. Notably, our Adult Social Care, which is a high cost one, has been recognised as being the lowest cost per capita nationally whilst also being noted as the highest quality by the Care Quality Commission.

As the Council develops into commissioning, new skills will be required. The Director team have undertaken initial work with the University of Chester to explore collaboration in developing a competence based training and accreditation programme leading to post graduate qualifications in public sector commissioning.

Improved IT infrastructure to manage business continuity risks

The Council has undertaken work to ensure that its ICT infrastructure conformed to the recommendations set-out in the Public Services Network (PSN) guidance for 2014/15. A designated project manager has been identified to manage future changes to the PSN standards and future work will be treated as a project. Regular progress reports will be provided to Directors, the ICT Portfolio Holder and members as appropriate.

An ICT programme of work is being developed to provide Shropshire Council with a level of control around its key projects. This will identify those projects which ensure that robust ICT solutions and resilience are implemented in a timely manner and, as a priority, that Disaster Recovery and Business Continuity is in place to ensure the ongoing management of material systems and service delivery is maintained to the highest standard. This programme of work will be aligned to the Council's priorities and will be included in the future ICT roadmap as part of the wider ICT Strategy.

The Council has identified the key systems in operation and has started to work with suppliers to implement alternative hosting solutions to mitigate business continuity and disaster recovery issues.

The ICT Strategy is currently being developed and will be published later this year.

Robust business cases to deliver services

During autumn 2014 Directors established a commissioning and service transition process that included a common approach to business cases and redesign work associated with new delivery models. This includes a robust set of guidance notes, fact sheets, templates and checklists. This information is available to staff via the Council's intranet.

Improved monitoring of contracts

In order to create consistency of approach, understand skill sets amongst those staff that manage contracts, and to establish best practice, a small team of officers undertook a review of Shropshire Council's contract management across all areas by looking at the Top 50 contracts (in value) and to understand how these contracts are managed at present, what is working well and is deemed industry best practice and also identifying those areas that could learn from others.

Phase 1 – Review of existing approaches
Officers undertook a series of meetings with both individual internal contract managers and external Contractors to ascertain where the Council is now in terms of the effectiveness of

the management of its major contracts. The meetings used set questions to allow us to undertake a consistent overall assessment.

Information was also sought on areas of best practice for contract management, from a range of sources including Improvement and Efficiency West Midlands (IEWM) and other West Midlands Authorities and Procurement Groups. The Council's management team also received a presentation from a specialist Contract Management consultancy, Newcomen who provided details of the important elements of Contract Management and its current relevance.

Through the above work the following have been identified as the key elements to successful contract management:-

- Negotiation;
- Market/Contractor Engagement;
- Contract Initiation;
- Contract Administration;
- Performance Monitoring;
- Supplier Viewpoint;
- Relationship Management;
- Contract development and improvement.

These elements form the basis of the Contract Management module within the Commissioning Training Programme.

In addition, best practice indicates that the Council needs a clearly documented framework and guidance available to all officers with a reporting and review mechanism.

Phase 2 – Creating the new Approach to Contract Management
A new Council Commissioning Support Unit is being established by summer 2015, pulling together into a single team all of the key functions that support commissioning currently. This will enable all team members to have a greater understanding in all areas as opposed to being purely focussed on a specialist area of commissioning.

Initially, a key area of work for the team will be to establish a consistent approach to contract management that ensures key principles are followed that builds in sufficient flexibility, depending on the size and nature of the contract. Development of this approach will draw on learning from the Phase 1 review. This will include as a specific Contract Management module, the documented framework and guidance for officers as part of the overall Commissioning Training programme aimed at developing a range of skills within the new Commissioning Support Unit.

Progress reports on this activity was reported to Audit Committee in 2014 and further updates are planned for 2015.

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49. The Internal Audit Service complies with the requirements of the Public Sector Internal Audit Standards and works continually with managers in assessing the risk management, control and governance environment, enhancing processes where necessary. A risk based internal audit plan is in place which examines all key financial and managerial systems. This is endorsed by the Audit Committee and reports on counter fraud activity.

50. On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment. This

is based on the continuing numbers, and negative direction of travel, of the internal audit assurances provided on the IT infrastructure systems. These risks are already known to Directors and Members and are reflected in the strategic risk register. The IT infrastructure on which Council applications operate continues to present a clear risk to service continuity. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Council's accounts and reliance can still be placed upon them for that purpose.

51. Members and officers have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee which supports the Audit Service Manager, and that these issues are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address the issues identified. Audit Committee continue to monitor planned improvements.

52. In their Audit Findings for the year ended 31 March 2014, the External Auditor provided an unqualified opinion on the financial statements and an unqualified VFM conclusion, "Overall we are satisfied that in the short-term the Council is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014". A single recommendation was made to ensure that the Council complies with the requirements of IFRS 10,11 and 12 and IAS 27 and 28 in the 2014/15 financial statements following changes to the accounting standards and Code of Practice and discuss any specific issues with the auditors; managers were fully signed up to this.

53. The External Auditor also issued an unqualified opinion on the Pension Fund.

54. Cabinet monitors the effectiveness of the internal control system via consideration of regular performance and financial information reports from the senior management. Cabinet members receive regular feedback from senior officers within their portfolios on the progress of objectives and the management of risks linked to these objectives. Each portfolio holder produces an annual report to Council on performance in their area and areas which require improvement.

55. Scrutiny Committees have a role in the review of policies and their outcomes, development of new policies and in the performance of services. Scrutiny Chairs produce an annual report on the work of their panels.

56. During 2014/15 all Shropshire Council's adult services, registered by the Care Quality Commission (CQC), maintained their compliance status with CQC. No inspections were undertaken by CQC during the year as previous inspections in 2013/14 had deemed them to be meeting each of the standards assessed (the highest possible outcome). During the year 2014/15 two registered services, Shared lives and Community Living, were transferred to an external provider. Both services have maintained their registration and compliance status following transfer.

57. Adult Social Care services in Shropshire have been subject to peer reviews as part of the ADASS[1] West Midlands sector led improvement programme. The service was assessed by "Peers" from Hereford, Sandwell and Wolverhampton. The feedback was positive and our transformation described as innovative. As a result a number of other local authorities, either regionally and nationally have either visited Shropshire or requested information.

58. Adult Social care participated fully in regional work on prevention, again as part of the sector led improvement programme. The resulting published report cites Shropshire extensively as demonstrating good and innovative practice in this area.

59. The Better Care Fund (BCF) is a pooled budget under a section75 agreement for the delivery of integrated health and social care services. Performance by the partners on delivery of the BCF is measured through metrics which are nationally determined by NHS England. Additional funding is dependent on achieving the metrics.

60. Financial Risks are mitigated by Shropshire Council hosting s75 pooled budget, a s75 agreement, monitoring of fund and activity by the Health and Wellbeing Board (HWB), and a conflict of interest policy. The performance is monitored at both a delivery/operational model by the BCF Transformation Group and the Contracts and Finance group and strategically by the HWB.

61. The Funding reforms of the Care Act legislation to be implemented in April 2016 are a financial risk to the authority as more people will be eligible for Local Authority (LA) funded support as a result of the change in the financial threshold from £23,500 to £118k. The LA does not as yet have a clear picture on the number of people eligible within this threshold.

62. To inform how the risks are mitigated the Council is undertaking financial and demand modelling based on national models developed as part of the Care Act Implementation work, and local surveys with care providers to determine the number of residents and users who fund their own care.

63. The Council's Scrutiny Committees have continued to maintain an overview of the Council, but have also taken a clear view of the changes that have been made to services provided or commissioned by the Council. The Enterprise and Growth Scrutiny Committee have had a Task and Finish Group which has worked closely with the development of a different way for the Council to support and enable Economic Growth in Shropshire, making recommendations that support the structural changes, identify the need to improve access to information and advice and communicate opportunities, and identifying strategic decisions that the Council should take about its purpose and role in promoting and enabling Economic Growth in Shropshire. The Health and Adult Social Care Scrutiny Committee have had a member working group focusing on what measures and information will be required to understand and evidence the impact of the Council's new Adult Social Care Operating Model. These measures are being used to form a new revised dashboard for regular reporting and consideration by Members and officers.

64. In December 2014 schools' performance, as measured by Ofsted inspection judgements, demonstrated improvement: 69 per cent of Shropshire secondary schools were judged by Ofsted to be good or outstanding; 75 per cent of pupils attended good and outstanding secondary schools; 82 per cent of Shropshire primary schools were judged to be good or outstanding and 84 per cent of Shropshire pupils attended primary schools judged to be good or outstanding. In December 2014 there was one secondary school and two primary schools

[1] Directors of Adult Social Services

in a category of special measures and in these circumstances the Council is required to set out its action plan for improvement. All action plans have been approved by Ofsted and the Council's support for these schools has been judged to be effective.

65. Ofsted undertook an unannounced safeguarding inspection in Shropshire on the 19th to the 28th November 2012. The overall judgment was 'Adequate', meaning that Shropshire meets the requirements in terms of quality of practice, leadership and governance and effectiveness of help and protection. The strong or good elements related to timeliness of assessments, the direction of travel and the good potential for Early Help arrangements. The areas for development were largely focussed on referral and decision-making processes. All recommendations have been addressed and reported to the Safeguarding Board and have continued to be improved. Shropshire's Children's Services are currently preparing for the new unannounced inspection of their services, under the new Ofsted framework which commenced nationally in 2013. Preparation continues through 2014/15. June 2015 a Peer Review will take place conducted by the LGA, this is an extensive review and will support the service to identify area of best practice to be enhanced and area of weakness to be addressed as part of the preparation for Ofsted.

66. Shropshire's children's homes: during 2014/15 review and development of the Shropshire residential care provision was undertaken. The homes work in partnership to provide the best outcomes possible for Shropshire's 'Looked After Children'. The homes incorporate the Council's objectives into team action plans and development plans; along with legislation and national guidance these form the basis of the service delivery. The Rowans, Chelmaren and Havenbrook have all been inspected in 2014/15 and judged by Ofsted for overall effectiveness. Chelmaren was rated as outstanding, Havenbrook and Rowans judged as 'Good'.

67. Direct quotations from the Ofsted inspections include: 'Staff have an excellent understanding of young people's needs and safe working practices'. 'Young People develop very positive relationships with staff which underpins the outstanding levels of care and support they receive' and 'internal and external monitoring of the home takes place regularly…Reports appropriately review performance and identify areas for improvement'.

68. As part of the development of services to children in care and to support children on the edge of care, Havenbrook was launched as a residential short breaks service in June 2014. Following the outcomes for children being positively identified in the evaluation as well as a saving to the Council through prevention of care, Havenbrook was confirmed as a permanent short breaks service in January 2015.

69. The redesign was completed in April 2015 with the closure of the Rowans and investment in new outreach worker posts providing support to young people and families in the community, supporting sustained rehabilitation plans and prevention of care. Chelmaren continues as a medium to long term residential unit and is undergoing building work to increase capacity to care for up to six children.

70. During 2014/15 two inspections took place, out of a total of 39 Children's Centres. Both received a judgement of 'Good,' for both overall effectiveness and capacity to improve.

Significant governance issues

71. The main challenges facing the Council appear below and are set in the context of delivering services to acceptable standards whilst achieving the budget savings required in 2015/16

and the overall funding gap of £80m as identified as part of the Business Plan and Financial Strategy. To ensure this is delivered and strategic risks managed, the Council will:

	Action	Strategic Risk	Lead Officer	Completion date
1.	Identify a clear ICT Strategy for future delivery and as part of this, improve the ICT infrastructure to ensure it is fit for purpose, robust, PSN compliant and provides cover for business continuity. The ICT Strategy should be fully aligned to the Council's Asset Strategy, Digital Strategy and Customer Involvement Strategy and the Council's Business Plan and Financial Strategy.	Non implementation of robust ICT solutions and resilience to support the direction of travel results in significant impact on access to, and management of, material systems and ultimately service delivery.	Rod Thomson	March 2016
2.	Regularly monitor and review delivery against the second year of the Council's Business Plan and Financial Strategy and adjust plans as required at Director and Cabinet levels to achieve a balanced budget. Ensuring that supporting strategies, i.e. ICT and Workforce development align closely.	Failure to meet savings and income targets resulting in an illegal budget, leading to an inability to deliver vital services.	James Walton (all Directors input)	March 2016
3.	Regularly monitor and review delivery of the Council's Business Plan and Financial Strategy to deliver outcomes whilst managing demand and delivering value for money through commissioning.	Failure to clearly articulate the strategic vision of the Council results in loss of momentum to deliver the redesign outcomes from the business planning process and associated workforce transformation. Failure to re-design of the Council impacts on delivery of services to citizens of Shropshire.	Clive Wright (all Directors input and Head of Human Resources)	March 2016
4.	Ensure that the staffing	Insufficient capacity,	Clive Wright	March 2016

	Action	Strategic Risk	Lead Officer	Completion date
	resources, given the changing shape of the Council, continue to remain skilled, knowledgeable and appropriate to deliver the Council's business plans. Especially for commissioning and ICT resources. Implement a workforce plan aligned to business plans and supported by our staff development processes.	experienced and qualified staff to sustain services during re-design		
5.	Continue to build appropriate governance arrangements into the commissioning Council to maximise value for money and ensure the best return for the local tax payer. Including: • Developing a more cohesive and robust way of monitoring contracts as part of the re-design of Council functions. • Further clarifying commissioning intentions (stop/do/buy). • Coordinating operationalisation of locality working. • Improving transfer arrangements to ADMs.	Inadequate governance arrangements in place to manage the transforming Council (and business as usual governance to support the re-design process) resulting in poor quality service, longer delivery times or higher cost of transformation. Insufficient standardisation and consistency within contract management and monitoring results in failure to support our outcomes and achieve value for money, efficiencies and innovation as we move towards becoming a commissioning council.	George Candler (all Directors input)	March 2016
6.	Ensure robust business cases for any project involving redesign and new delivery models are properly constructed, appropriately consulted upon and scrutinised to ensure they meet the requirements of the Business Plan and Financial Strategy and are financially viable before any	Implementation and impact of alternative service delivery vehicles (e.g. ip&e ltd) resulting in de-stabilised remaining services. Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need.	Clive Wright (all Directors input)	March 2016

	Action	Strategic Risk	Lead Officer	Completion date
	implementation decision. Business cases should follow the guidance available on the Intranet.			
7.	Review safeguarding governance arrangements and processes in consultation with key stakeholders	Failure to safeguard vulnerable adults and children	Stephen Chandler and Karen Bradshaw	March 2016

72. The associated strategic risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services.

73. Over the coming year, we propose to take steps to address the above matters to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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Leader	CEO/ Head of the Paid Service

Annex A

ANNUAL GOVERNANCE STATEMENT (AGS) ASSURANCE FRAMEWORK 2014/15

Key documents/functions/ process guidelines

- **Local code of corporate governance**
- **Business plan and financial strategy**
- **Council constitution**
- **Opportunity risk management strategy**
- **Commissioning Strategy**
- **HR policies, procedures and codes of conduct**
- **Anti-fraud and corruption and whistleblowing (Speaking up about wrong doing) policies**

Annual Governance Statement

Signed by the Leader of the Council and the CEO to accompany the Statement of Accounts

Audit Committee
Independent review and approval

Council and Directorate policies, plans and risk registers

Draft Annual Governance Statement
Senior management with responsibility for drafting AGS after evaluating assurances and supporting evidence and identifying areas for improvement

Review of the effectiveness of the system of Internal Audit

(Required by the Accounts and Audit Regulations 2011)

Provision of ongoing assurance on adequacy and effectiveness of controls over key risks

Policy and performance boards	**External inspections** **(e.g. Ofsted, Care Quality Commission)**	**Financial control assurance** (Section 151 Officer)	**Legal and regulatory assurance** (Monitoring Officer)	**Members' assurance**	**Internal Audit**	**External Audit**	**Risk management and performance management**

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