Public Document Pack

Shropshire Council

Date: Thursday, 15 September 2016

Time: 9.30 am

Venue: Shrewsbury Room, 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 2015/16

(Pages 1 - 196)

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is **to follow** marked 9.

Contact: James Walton 01743 255011

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Committee and date	Item
Audit Committee 15 September 2016 Council 22 September 2016	Public

AUDITED ANNUAL STATEMENT OF ACCOUNTS 2015/16

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 2015/16.

2. Recommendations

It is recommended that Members:

A. Consider and approve the 2015/16 Statement of Accounts and that the Chairman of the Council signs them (in accordance with the requirements of the Accounts and Audit Regulations 2015).

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 2016.

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 2015 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 2015/16 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 2015 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 23 June 2016 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 2016 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 2016 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 2015/16 and applicable law.

7. Changes from the Draft Statement of Accounts Certified by the Head of Finance, Governance & Assurance on 30 June 2016

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:

- Amendment to the Gross Expenditure of Highways & Transport and Environmental & Regulatory Services in the Comprehensive Income & Expenditure Statement which have not impacted on the Total Net Cost of Services.
- Amendments to disclosures within the Financial Instrument Note to the Accounts.
- Minor typographical amendments have been included across the Statement of Accounts.

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 2016.

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 2015/16. Audit Committee 23 June 2016 CIPFA's Code of Practice (Code) on Local Authority Accounting CIPFA/SOLACE guidance on the Annual Governance Statement Revenue and Capital Budget 2015/16
Cabinet Member (Portfolio Holder) All
Local Member All
Appendices 1. Audited Statement of Accounts 2015/16 2. Annual Governance Statement

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Statement of Accounts

2015-2016

ANNUAL STATEMENT OF ACCOUNTS 2015/16

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2015, 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 Sedgley on (01743) 258937.

James Walton
Head of Finance, Governance & Assurance

Section 1

Narrative Report

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.

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

- **A Narrative Report** – this provides an effective guide to the most significant matters reported in the accounts, including an explanation of the Council's financial position and details the performance of the Council during the financial year.

- **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 2016. 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 2015/16 and assets and liabilities as at 31 March 2016.

- **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

Revenue Outturn for 2015/16

The revenue budget for 2015/16 was agreed by Council in February 2015. During the course of the year, budgets can move between service areas in line with the Council's approval process, however the Net Budget remains the same, to reflect the funding that the Council receives. Revenue budgets are monitored and reported regularly to Cabinet in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising.

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.

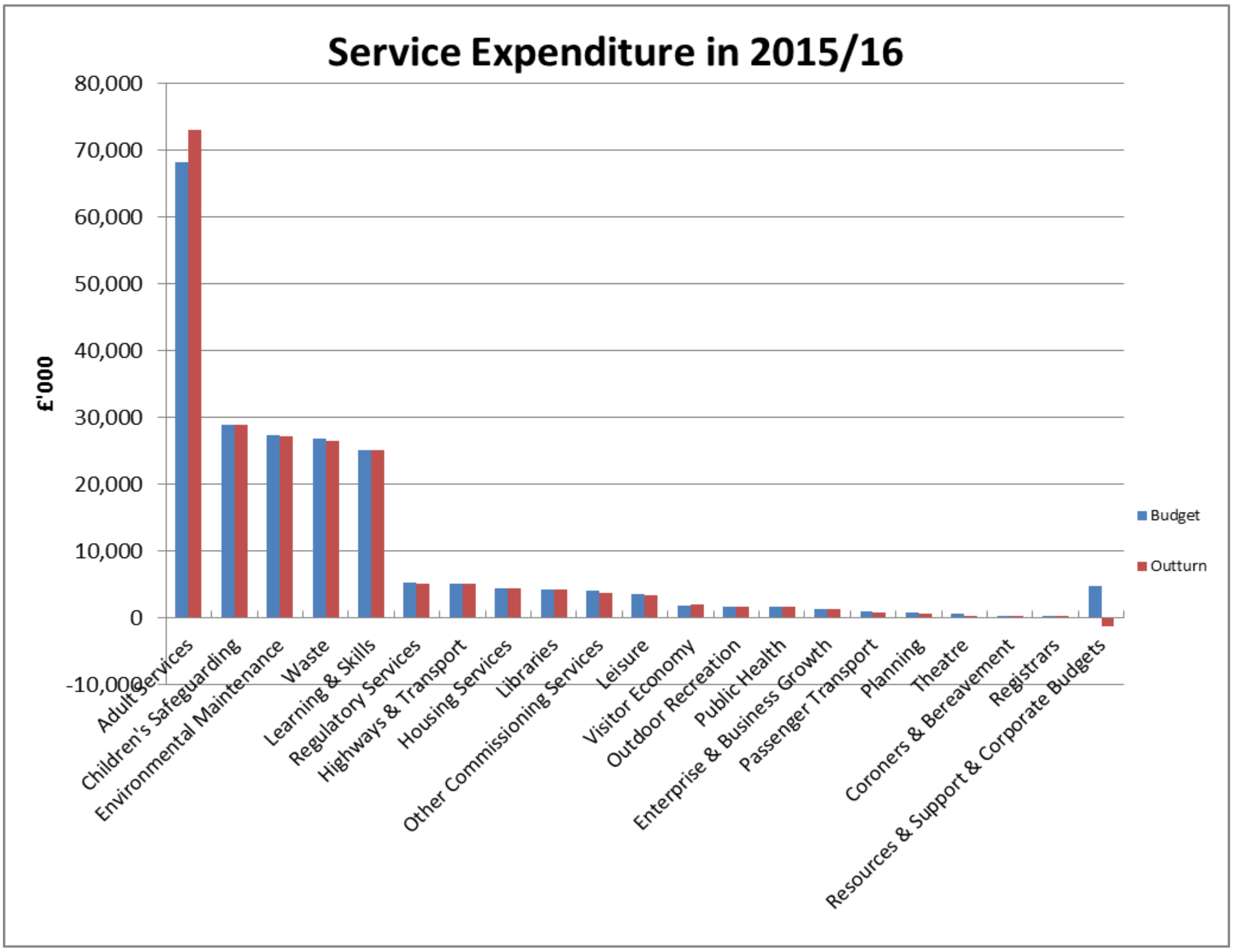
	Final Budget £000	Actual Outturn £000	Over/ (Under) £000
Service Expenditure			
Adult Services	72,435	77,281	4,846
Children's Services	53,859	53,892	32
Commissioning	82,917	81,238	(1,679)
Public Health	2,013	1,993	(20)
Resources & Support	7,375	5,072	(2,303)
Corporate	(2,756)	(6,448)	(3,692)
Net Budget	**215,843**	**213,027**	**(2,816)**
Funded By:			
Revenue Support Grant	(43,760)	(43,760)	0
Top Up grant	(10,036)	(10,036)	0
Business Rates	(39,166)	(39,166)	0
New Homes Bonus topslice	(395)	(151)	244
Shortfall in funding from Corporate Budgets	0	(244)	(244)
Collection Fund Surplus	(3,205)	(3,205)	0
Council Tax	(119,281)	(119,281)	0
Total Funding	**(215,843)**	**(215,843)**	**0**

Budget monitoring reports during the course of the year have shown the following position:

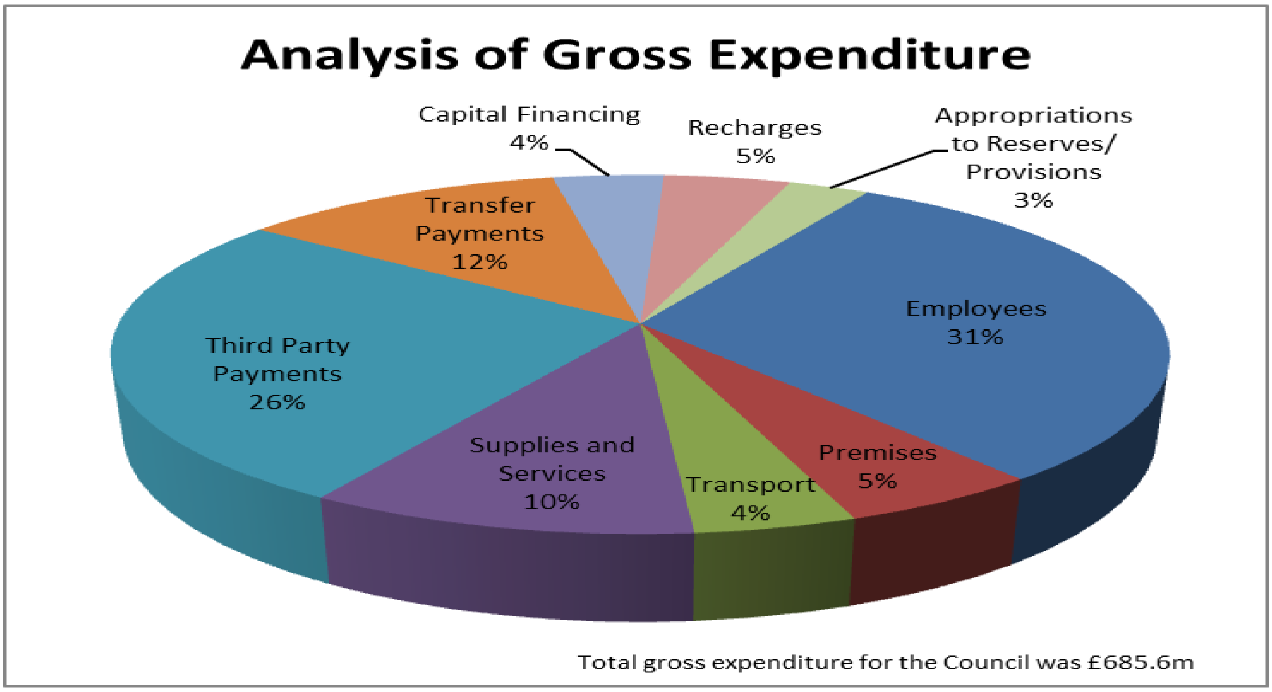
Over/(Under)spend Projected	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Outturn £000
Adult Services	3,937	4,929	5,452	4,846
Children's Services	0	(1)	414	32
Commissioning	626	358	(343)	(1,679)
Public Health	(27)	(57)	(15)	(20)
Resources & Support	391	(283)	(1,999)	(2,303)
Corporate	96	(812)	(3,106)	(3,692)
TOTAL	**5,023**	**4,135**	**403**	**(2,816)**

The main area of overspend identified during the year, was in Adult Services where it was identified that costs of purchasing care packages were exceeding the budget from Quarter 1 onwards. Accordingly, all services were tasked with identifying where in-year savings could be made during the financial year to balance off the budget for 2015/16.

The chart below demonstrates which services the Council has spent its net budget on. It should be noted that this excludes any expenditure on schools which is funded separately through the Dedicated Schools Grant.



The gross expenditure for the Council, including expenditure for schools, was £685.6m, and this was spent on the following types of expenditure:



The overall underspend of £2.816m against service area's budgets represents 0.5% of the gross budget of £594m.

In addition, School balances, including invested sums, have increased by £3.216m 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.

Capital Outturn for 2015/16

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 2015/16 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 2015/16 £000	Actual Spend 2015/16 £000	Variance 2015/16 £000
General Fund			
Commissioning	30,792	25,850	4,942
Adult Services	2,591	2,114	477
Children's Services	8,374	6,846	1,528
Resources & Support	4,921	4,686	235
Total General Fund	**46,678**	**39,496**	**7,182**
Housing Revenue Account	5,202	4,943	259
Total Capital Programme	**51,880**	**44,439**	**7,441**

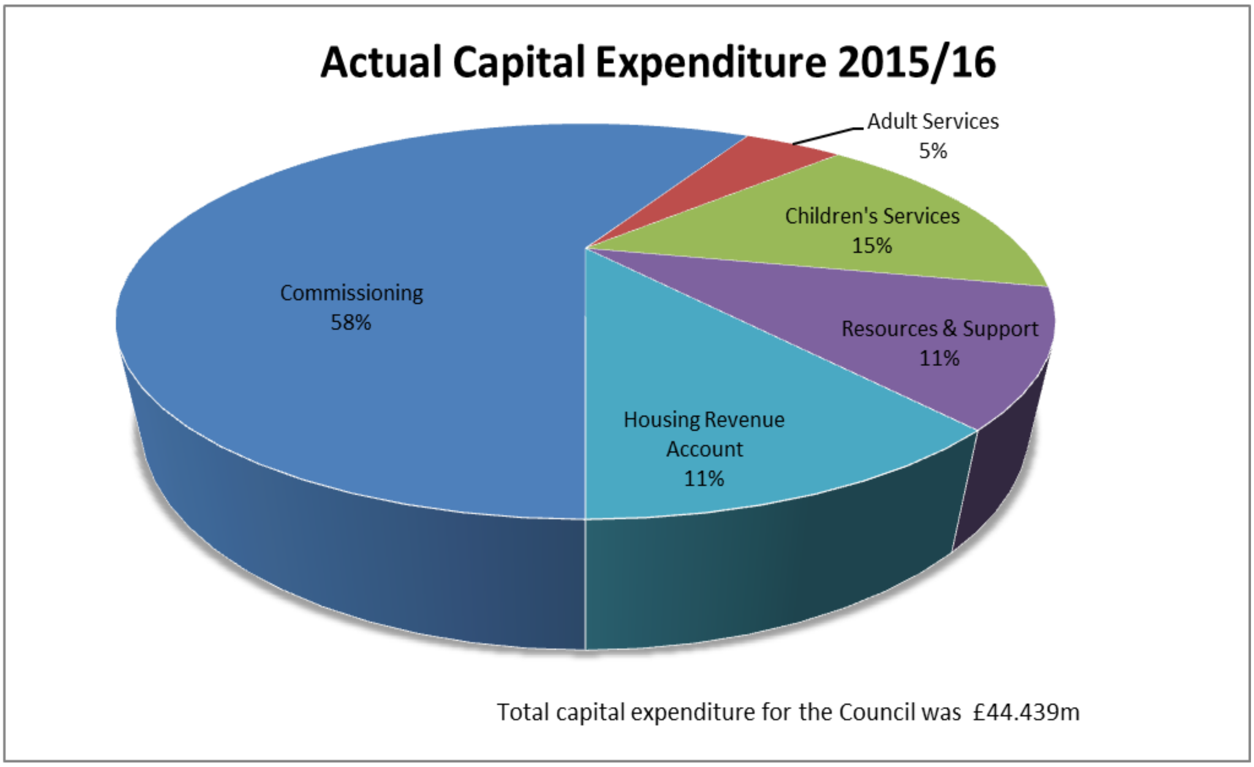
The table below provides a summary of the capital financing for the actual capital expenditure for 2015/16.

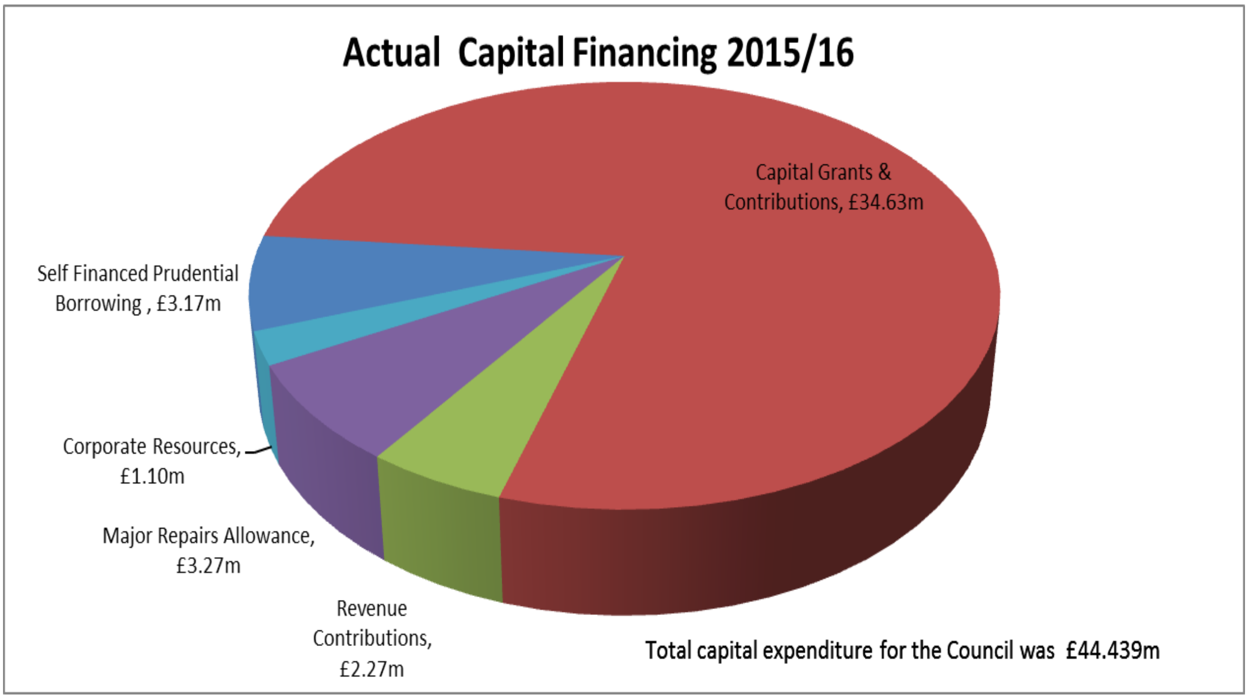
Financing	2015/16 £000
Self Financing Prudential Borrowing	3,172
Capital Grants & Contributions	34,627
Revenue Contributions	2,265
Major Repairs Allowance	3,273
Corporate Resources (Prudential Borrowing/Capital Receipts)	1,102
	44,439

The areas of most significant expenditure for schemes undertaken in 2015/16 are as follows:

	Expenditure 2015/16 £000	Scheme Total Budget £000

Commissioning		
Highways, Bridges & Street Lighting Infrastructure	16,513	Ongoing
Integrated Transport Plan	1,153	Ongoing
Affordable Housing Schemes	837	Ongoing
Broadband – Phase 1	5,074	17,494
Adult Services		
Supported Living Accommodation Schemes	507	Ongoing
Disabled Facilities Grants	1,230	Ongoing
Children's Services		
Primary School Schemes	406	Ongoing
Secondary School Schemes	666	Ongoing
School Condition Schemes	3,652	Ongoing
Devolved Formula Capital & UIFSM - Allocated by schools	1,014	Ongoing
Resources & Support		
Mardol House Student Halls of Residence refit	3,472	3,640
Solar PV Installations	510	Ongoing
Housing Revenue Account		
Housing Major Repairs Programme	3,296	Ongoing
New Build Programme – Phase 1&2	1,647	10,992





Reserves

The general fund balance has increased by £3.164m in 2015/16 to a total of £18.370m. This reflects the underspend within the revenue account during 2015/16, and whilst this balance is more than the Council had anticipated within the Council's Financial Strategy, this still remains below the risk assessed level of balances calculated.

Earmarked reserves have increased by £5.814m during 2015/16 which includes an increase in schools delegated balances of £2.6m. Other increases in reserves include the creation of a Financial Strategy Reserve which has been created during 2015/16 to provide one off funding for savings proposals in 2016/17. This has been offset by the reduction in the redundancy reserve of £3.6m paid out during the year.

Assets

During 2015/16 the Energy Renewable Facility in Battlefield, Shrewsbury as provided by Veolia under the Waste PFI contract was completed and became operational. Accordingly this asset has been recognised within the Council's Non-Current Assets on the Balance Sheet at a value of £86.3m.

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.

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 2015, the Council's net pensions liability amounted to £408m. In comparison, the deficit amounts to £389m at 31 March 2016 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.

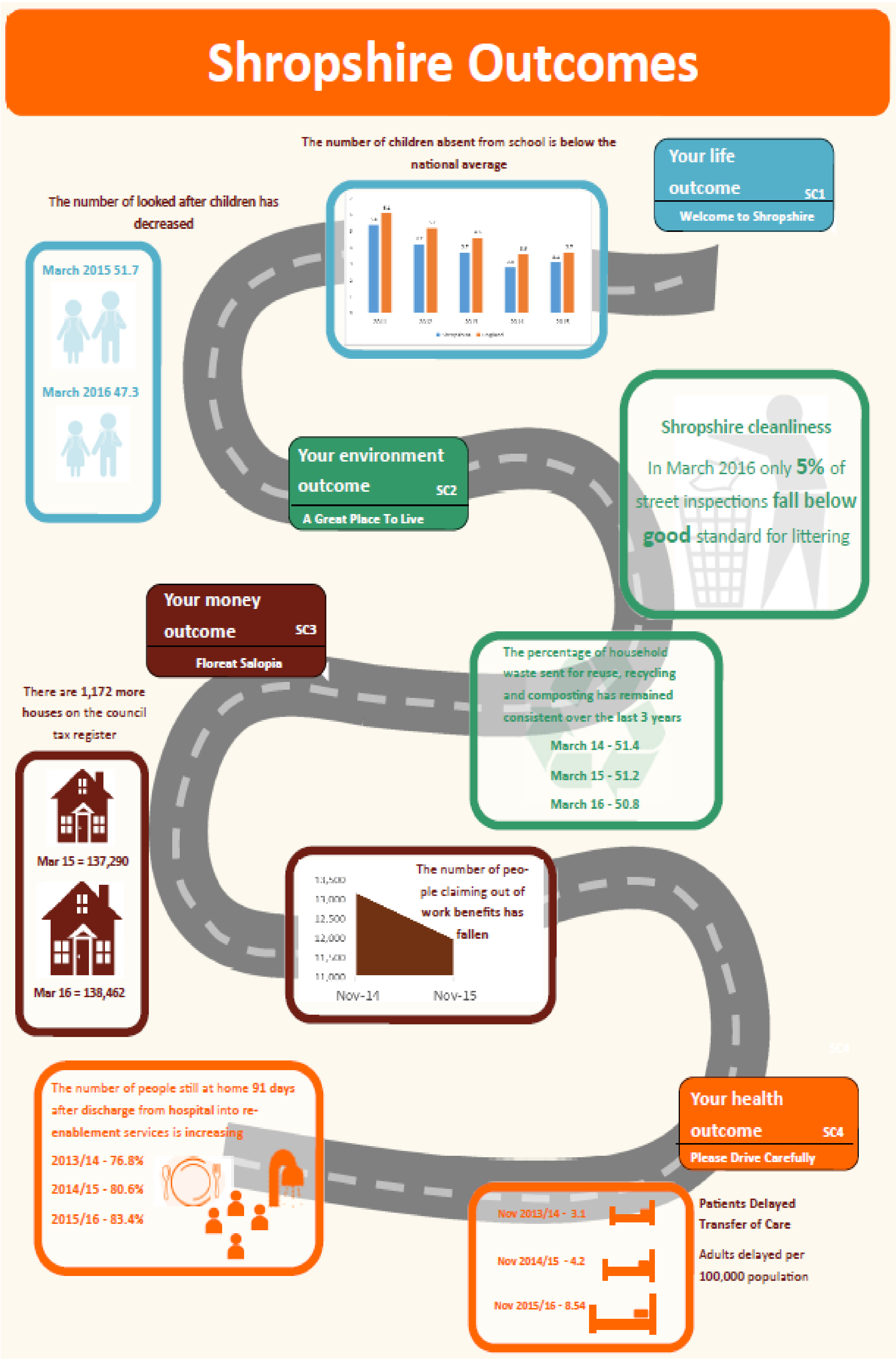
Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 21, and the change to the pension liability in 2015/16 is analysed in note 35 to the accounts.

Performance in 2015/16

The Council measures its performance in relation to four outward focusing outcomes for Shropshire Council:

- **Your money** – 'Feel financially secure and to believe in a positive future for myself and my family'
- **Your environment** – 'Live in an attractive, vibrant and safe environment, in a place that is right for me'
- **Your life** – 'Feel valued as an individual and to live my life, with my choices respected and with as few compromises as possible'
- **Your health** – 'Live a long, enjoyable and healthy life'

The delivery of the outcomes for Shropshire is monitored on a quarterly basis. This is carried out through a summary infographic, shown below, that draws out key measures by exception that is presented to Cabinet. This is underpinned by a basket of indicators grouped into four technical dashboards which are reported to Performance Management Scrutiny Committee and enables a more detailed consideration of issues to take place.


Shropshire Outcomes
The number of children absent from school is below the national average
Your life outcome SC1
Welcome to Shropshire
The number of looked after children has decreased
March 2015 51.7
March 2016 47.3
Your environment outcome SC2
A Great Place To Live
Shropshire cleanliness
In March 2016 only 5% of street inspections fall below good standard for littering
Your money outcome SC3
Floreat Salopia
The percentage of household waste sent for reuse, recycling and composting has remained consistent over the last 3 years
March 14 - 51.4
March 15 - 51.2
March 16 - 50.8
There are 1,172 more houses on the council tax register
Mar 15 = 137,290
Mar 16 = 138,462
The number of people claiming out of work benefits has fallen
Nov-14
Nov-15
The number of people still at home 91 days after discharge from hospital into re-enablement services is increasing
2013/14 - 76.8%
2014/15 - 80.6%
2015/16 - 83.4%
Your health outcome SC4
Please Drive Carefully
Nov 2013/14 - 3.1
Nov 2014/15 - 4.2
Nov 2015/16 - 8.54
Patients Delayed Transfer of Care
Adults delayed per 100,000 population

The performance in 2015/16 has shown a number of improvements or stabilisation of performance.

- The number of looked after children by the authority has decreased throughout 2015/16.
- The number of people claiming out of work benefits has fallen by 1,130.

In addition to these improvements there are confirmed challenges to be faced, and results show that they are being managed by the relevant service areas.

- Delays in discharge from hospital continues to be a key area of focus.

The increase in the numbers of delays in discharge in Shropshire is increasing above the national trend. Monitoring and reviews with partners are taking place to identify areas for focus and to ensure delays are kept to a minimum. Reducing delays is a high priority as this links to the supporting measures which have been agreed in the plan, to deliver the Better Care Fund outcomes and priorities.

Current and Future Prospects

The Council's current business plan incorporating the financial strategy was set for a 3 year period, from 2014/15 to 2016/17. As the Council is moving into the final year of this plan, work is progressing to develop a new corporate plan for 2016/17 to 2018/19 which details a new Council vision, mission, and values that it works to.

Alongside this the Council is also developing a new 3 year financial strategy. The budget strategy for 2016/17 and beyond looks to develop a Sustainable Business Model to understand and manage the Council's resources and costs. In doing so the Council is undertaking unprecedented dialogue with the public, business and stakeholders via our 'Big Conversation' to understand what our communities want and need; and creating a new vision for Shropshire and mission statement for Shropshire Council to enable us to plan for all of our futures.

The budget for 2016/17 includes savings proposals of £23.051m however the use of one-off funds will also be used to close the total funding gap of £47.487m in 2016/17. Further work is currently ongoing to establish how the 2017/18 budget can be balanced through a combination of ongoing savings proposals and the use of one off funds.

The development of a sustainable budget for the Council beyond the 2017/18 year will be difficult to progress until the Council fully understands the changes to funding that will occur in the Business Rate Retention Scheme. This is currently being considered by the Government.

In addition, there are a number of other areas that require further refinement (over the next twelve months) before consideration for inclusion in the 2017/18 budget:

- Consider how the Council could operate if no Revenue Support Grant was received.
- Impact of the introduction of the Care Bill 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.

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 2016/17 – 2017/18 is £37.5m and the council is continuing with its asset management strategy to identify whether these potential receipts can be generated. The Council also intends to review whether the new statutory powers on the flexible use of capital receipts can be used within the Council.

The Council wholly owns a company (ip&e (Group) Ltd), as a vehicle for delivering a range of public services in Shropshire. On 17 February 2016, Cabinet agreed to bring the Council's relationship with ip&e Ltd to an end and terminate the strategic contract between the two parties. It was also agreed to terminate the service contracts between the Council and ip&e Ltd with effect from 31 March 2016. In its role as sole shareholder, the Cabinet agreed that ip&e Ltd should cease trading as soon as possible and take necessary actions to remove the company from the companies register. Whilst trading ceased on 31 March 2016, liabilities and commitments remain that need to be resolved before the company can formally apply to be dissolved and removed from the companies register and therefore further financial transactions will be incurred in the 2016/17 financial year.

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 2015/16 was formally approved at a meeting of the Council on 22 September 2016.

Ann Hartley
Chairman of the Council
22 September 2016

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 2016.

James Walton
Head of Finance, Governance & Assurance
22 September 2016

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Section 3

Audit Opinion & Certificate

AUDIT OPINION AND CERTIFICATE

TO BE UPDATED FOLLOWING AUDIT OF ACCOUNTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the financial statements of Shropshire Council for the year ended 31 March 2016 under the Audit Commission Act 1998. The financial statements comprise the Core Financial Statements (the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement), the Notes to the Core Financial Statements, the Group Accounts (the Group Movement in Reserves Statement, the Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the Notes to the Group Accounts), the Housing Revenue Account (the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Notes to the Housing Revenue Account) and the Collection Fund (the Collection Fund and the Notes to the Collection Fund). 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 2015/16.

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 2015/16, 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 2016 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 2016 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 2015/16 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 are required to report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

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

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Shropshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have:

- completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack.
- completed our consideration of matters that have come to our attention.

We are satisfied that our work on the Authority's Whole of Government Accounts consolidation pack and the matters that have come to our attention do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Mark Stocks
Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza,
20 Colmore Circus,
Birmingham
B4 6AT

XX September 2016

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 2015	**15,206**	**55,027**	**3,076**	**1,635**	**3,954**	**78,898**	**312,161**	**391,059**
<u>Movement in reserves during 2015/16</u>								
Surplus or (deficit) on the provision of services	(31,997)	0	496	0	0	(31,501)	0	(31,501)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	59,014	59,014
Total Comprehensive Income and Expenditure	**(31,997)**	**0**	**496**	**0**	**0**	**(31,501)**	**59,014**	**27,513**
Adjustments between accounting basis & funding basis under regulations (Note 6)	40,975	0	2,251	1,167	2,658	47,051	(47,051)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**8,978**	**0**	**2,747**	**1,167**	**2,658**	**15,550**	**11,963**	**27,513**
Transfers to/(from) Earmarked Reserves (Note 7)	(5,814)	5,814	0	0	0	0	0	0
Increase/(Decrease) in 2015/16	**3,164**	**5,814**	**2,747**	**1,167**	**2,658**	**15,550**	**11,963**	**27,513**
Balance at 31 March 2016	**18,370**	**60,841**	**5,823**	**2,802**	**6,612**	**94,448**	**324,124**	**418,572**

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 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**

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.

2014/15				2015/16		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
			Expenditure on Continuing Services (Note 27)			
102,718	(30,552)	72,166	Adult Social Care	111,135	(36,534)	74,601
8,348	(2,999)	5,349	Central Services	8,978	(3,586)	5,392
228,346	(174,065)	54,281	Children's and Education Services	225,245	(178,102)	47,143
22,640	(8,335)	14,305	Cultural and Related Services	20,088	(7,530)	12,558
37,321	(5,691)	31,630	Environmental and Regulatory Services	48,938	(8,265)	40,673
38,301	(10,201)	28,100	Highways and Transport Services	37,503	(10,450)	27,053
5,012	(17,709)	(12,697)	Local Authority Housing (HRA)	15,588	(18,471)	(2,883)
82,589	(77,981)	4,608	Other Housing Services	81,034	(76,042)	4,992
20,657	(15,253)	5,404	Planning Services	25,219	(17,188)	8,031
10,488	(11,103)	(615)	Public Health	14,204	(13,073)	1,131
4,575	0	4,575	Corporate and Democratic Core	4,437	0	4,437
(485)	0	(485)	Non Distributed Costs	2,454	0	2,454
560,510	**(353,889)**	**206,621**	**Net Cost of Services**	**594,823**	**(369,241)**	**225,582**
		70,519	Other Operating Expenditure (Note 8)			28,667
		23,699	Financing and Investment Income and Expenditure (Note 9)			36,639
		(267,672)	Taxation and Non Specific Grant Income (Note 10)			(259,387)
		33,167	**(Surplus) or Deficit on the Provision of Services**			**31,501**
		(9,354)	(Surplus) or Deficit on Revaluation of Non Current Assets			(26,901)
		3,223	Impairment Losses on Non-Current Assets Charged to the Revaluation Reserve			3,031
		101,795	Remeasurement of the Net Defined Benefit Liability			(35,144)
		95,664	**Other Comprehensive Income and Expenditure**			**(59,014)**
		128,831	**Total Comprehensive Income and Expenditure**			**(27,513)**

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 2015		31 March 2016	
£000		£000	£000
	Non-Current Assets		
995,904	Property, Plant & Equipment (Note 11)	1,072,784	
2,592	Heritage Assets	2,622	
47,673	Investment Property (Note 12)	50,855	
432	Intangible Assets	173	
599	Assets Held for Sale	599	
1,047,200	**Total Non-Current Assets**		**1,127,033**
400	Long Term Investment (Note 16)	400	
7,240	Long Term Debtors (Note 16)	13,614	
1,054,840	**Total Long Term Assets**		**1,141,047**
	Current Assets		
125	Current Held for Sale Investment Properties (Note 12)	160	
3,635	Assets Held for Sale	5,860	
41,730	Short Term Investments (Note 16)	58,850	
994	Inventories	824	
72,260	Short Term Debtors (Note 18)	67,430	
68,343	Cash & Cash Equivalents (Notes 16 & 19)	75,956	
187,087	**Total Current Assets**		**209,080**
1,241,927	**Total Assets**		**1,350,127**
	Current Liabilities		
(10,131)	Bank Overdraft (Notes 16 & 19)	(11,028)	
(11,117)	Short Term Borrowing (Note 16)	(7,200)	
(51,883)	Short Term Creditors (Note 20)	(62,785)	
(3,585)	Short Term Provisions	(2,708)	
(6,042)	Grants Receipts in Advance - Revenue (Note 33)	(6,926)	
(70)	Grants Receipts in Advance - Capital (Note 33)	(114)	
(82,828)	**Total Current Liabilities**		**(90,761)**
1,159,099	**Total Assets Less Current Liabilities**		**1,259,366**
	Long Term Liabilities		
(707)	Long Term Creditors (Note 16)	(695)	
(328,968)	Long Term Borrowing (Note 16)	(323,968)	
(22,676)	Other Long Term Liabilities (Note 15)	(118,426)	
(407,792)	Pensions Liability (Note 35)	(388,736)	
(7,897)	Long Term Provisions	(8,969)	
(768,040)	**Total Long Term Liabilities**		**(840,794)**
391,059	**Net Assets**		**418,572**
	Financed by:		
78,898	Usable Reserves (Note 21)	94,448	
312,161	Unusable Reserves (Note 22)	324,124	
391,059	**Total Reserves**		**418,572**

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.

2014/15 £000	Revenue Activities	2015/16 £000	2015/16 £000
33,167	Net (surplus) or deficit on the provision of services	31,501	
(95,024)	Adjust net surplus or deficit on the provision of services for non cash movements	(107,502)	
45,258	Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities	59,055	
(16,599)	**Net cash flows from Operating Activities (Notes 23 & 24)**		**(16,946)**
6,298	Investing Activities (Note 25)	(4,658)	
5,288	Financing Activities (Note 26)	14,888	
(5,013)	**Net (increase) or decrease in cash and cash equivalents**		**(6,716)**
53,199	Cash and cash equivalents at the beginning of the reporting period		58,212
58,212	**Cash and cash equivalents at the end of the reporting period (Note 19)**		**64,928**

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 2015/16 financial year and its position at the year end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, 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 2015/16 and the Service Reporting Code of Practice 2015/16, 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 current 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 current 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	Market Value (MV) fair value measurement estimated at highest and best use from a market participant's perspective.
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 current 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 desktop review of value undertaken by the Valuation Office Agency.

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. As such Investment Properties are subject to an annual review to ensure their valuation reflects fair value at the 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.

The Council as Lessor

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

Revenue Grants

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.

Capital Grants

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 2015/16. 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.

1.32. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

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 2016/17 Code:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs (2012 – 2014 Cycle). These improvements are minor, principally proving clarification.
- Amendment to IAS 1 Presentation of Financial Statements which provides guidance on the form of the financial statements. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and a new Expenditure and Funding Analysis will be introduced.

It is anticipated that the introduction of these standards will not have a material impact on the financial statements. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements.

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. Further details are provided at Note 37.

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 2016:

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.
NDR Appeals Provision	The provision set aside for Non Domestic Rate appeals is estimated based on the number of outstanding appeals as per the Valuation Office and then the percentage rateable value change of successful appeals is applied.	There is a risk that successful appeals will be significantly more than the estimate leading 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	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	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 discount rate assumption would result in a decrease in the pension liability of £19.086m.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured or based on quoted prices in active markets (i.e. level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes to below.	The authority uses the discounted cash flow model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets) Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.
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 7% • Creditors 18%	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 £0.037m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.243m.

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Finance, Governance & Assurance on 30 June 2016. 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 one school to convert to Academy School status in the 2016/17 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.

2015/16	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 to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	16,088	0	0	0	0	(16,088)
Financial instruments	(319)	0	0	0	0	319
Council tax and NDR	2,773	0	0	0	0	(2,773)
Holiday pay	(1,046)	0	0	0	0	1,046
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	39,007	5,080	4,440	0	3,122	(51,649)
Total Adjustments to Revenue Resources	56,503	5,080	4,440	0	3,122	(69,145)
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(1,595)	(2,869)	0	4,821	0	(357)
Administrative costs of non-current asset disposals	0	40	0	(40)	0	0
Payments to the government housing receipts pool	600	0	0	(600)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(12,268)	0	0	0	0	12,268
Capital expenditure financed from revenue balances	(2,265)	0	0	0	0	2,265
Total Adjustments between Revenue and Capital Resources	(15,528)	(2,829)	0	4,181	0	14,176
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(4,213)	0	4,213
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(3,273)	0	0	3,273

2015/16	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
Application of capital grants to finance capital expenditure	0	0	0	0	(464)	464
Cash payments in relation to deferred capital receipts	0	0	0	32	0	(32)
Total Adjustments to Capital Resources	0	0	(3,273)	-4,181	(464)	7,918
Total Adjustments	**40,975**	**2,251**	**1,167**	**0**	**2,658**	**(47,051)**

2014/15 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 to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	8,603	0	0	0	0	(8,603)
Financial instruments	(297)	0	0	0	0	297
Council tax and NDR	106	0	0	0	0	(106)
Holiday pay	(6)	0	0	0	0	6
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	70,004	(6,710)	4,305	0	1,872	(69,471)
Total Adjustments to Revenue Resources	78,410	(6,710)	4,305	0	1,872	(77,877)
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(3,180)	(1,712)	0	4,978	0	(86)
Administrative costs of non-current asset disposals	0	36	0	(36)	0	0
Payments to the government housing receipts pool	539	0	0	(539)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(15,055)	0	0	0	0	15,055
Capital expenditure financed from revenue balances	(1,886)	(1,650)	0	0	0	3,536
Total Adjustments between Revenue and Capital	(19,582)	(3,326)	0	4,403	0	18,505

2014/15 Comparative Figures Resources	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 to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(4,435)	0	4,435
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(6,392)	0	0	6,392
Application of capital grants to finance capital expenditure	0	0	0	0	(704)	704
Cash payments in relation to deferred capital receipts	0	0	0	32	0	(32)
Total Adjustments to Capital Resources	0	0	(6,392)	(4,403)	(704)	11,499
Total Adjustments	**58,828**	**(10,036)**	**(2,087)**	**0**	**1,168**	**(47,873)**

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 2015/16.

	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations	17,061	(3,135)	5,567	19,493	(7,120)	1,663	14,036
Insurance Reserves	2,678	0	324	3,002	0	409	3,411
Reserves of trading and business units	131	0	169	300	0	307	607
Reserves retained for service departmental use	13,630	(5,474)	18,183	26,339	(12,525)	19,767	33,581
School Balances	1,619	(5,512)	9,786	5,893	(3,991)	7,304	9,206
Total	**35,119**	**(14,121)**	**34,029**	**55,027**	**(23,636)**	**29,450**	**60,841**

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 2015/16 Revenue Outturn report.

8. OTHER OPERATING EXPENDITURE

	2015/16 £000	2014/15 £000
Parish Council Precepts	6,307	5,908
Levies	121	118
Payments to the Government Housing Capital Receipts Pool	600	539
(Gains)/losses on the disposal of non-current assets*	20,755	63,670
(Gains)/losses on change in valuation of non-current assets	884	284
	28,667	**70,519**

* 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

	2015/16 £000	2014/15 £000
Interest payable and similar charges	24,433	19,735
Net interest on the net defined benefit liability	12,624	12,439
Interest receivable and similar income	(2,153)	(1,815)
(Income) and expenditure in relation to investment properties and changes in their fair value	(5,077)	(18,559)
(Surpluses)/deficits on Trading Activities	6,812	11,899
	36,639	**23,699**

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	2015/16 £000	2014/15 £000
Council tax income	(128,428)	(126,097)
Non domestic rates	(46,793)	(45,018)
Non ringfenced government grants	(56,504)	(67,734)
Capital grants and contributions	(27,662)	(28,823)
	(259,387)	**(267,672)**

11. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non-current assets held by the Council during 2015/16.

	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 2015	**170,500**	**527,753**	**16,089**	**438,847**	**3,583**	**2737**	**6,301**	**1,165,810**	**33,527**
Additions	3,539	107,843	1,933	17,641	33	0	2,116	**133,105**	99,703
Revaluation increases/(decreases) recognised in the Revaluation Reserve	966	12,876	0	0	0	472	0	**14,314**	1,118
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(15,711)	(44)	0	0	0	46	0	**(15,709)**	143
Derecognition - disposals	(1,328)	(20,293)	(120)	(42)	0	(200)	0	**(21,983)**	0
Derecognition - other	(39)	(3,530)	(6,083)	(19)	0	(7)	0	**(9,678)**	(2,747)
Assets reclassified (to)/from Held for Sale	(335)	(3,059)	0	0	0	(814)	0	**(4,208)**	0
Other movements in cost or valuation	561	(18,387)	(1,318)	0	0	(155)	(4,368)	**(23,667)**	(10,120)
At 31 March 2016	**158,153**	**603,159**	**10,501**	**456,427**	**3,616**	**2,079**	**4,049**	**1,237,984**	**121,624**
Depreciation and Impairments									
At 1 April 2015	**(8,970)**	**(31,130)**	**(9,653)**	**(119,193)**	**(805)**	**(155)**	**0**	**(169,906)**	**(6,794)**
Depreciation charge for 2015/16	(4,430)	(14,578)	(2,364)	(11,666)	(178)	(10)	0	**(33,226)**	(4,695)
Depreciation written out to the Revaluation Reserve	89	12,483	0	0	0	15	0	**12,587**	1,300
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,734	290	0	0	0	0	0	**13,024**	0

	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
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(2,155)	0	0	0	(876)	0	**(3,031)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	(14,623)	(858)	0	0	(1,119)	0	**(16,600)**	(10,127)
Derecognition - disposals	68	1,273	65	24	0	27	0	**1,457**	0
Derecognition - other	6	365	6,083	19	0	7	0	**6,480**	2,747
Other movements in depreciation and impairment	503	20,092	1,319	0	0	2,101	0	**24,015**	10,120
At 31 March 2016	**0**	**(27,983)**	**(5,408)**	**(130,816)**	**(983)**	**(10)**	**0**	**(165,200)**	**(7,449)**
NBV at 31 March 2016	**158,153**	**575,176**	**5,093**	**325,611**	**2,633**	**2,069**	**4,049**	**1,072,784**	**114,175**
NBV at 31 March 2015	**161,530**	**496,623**	**6,436**	**319,654**	**2,778**	**2,582**	**6,301**	**995,904**	**26,733**

The comparative movements in 2014/15 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 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)
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**

	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
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**

Local Authority Maintained Schools

Included in the above balances for other land and buildings are all or a significant part of 11 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 £19.86m.

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 £20.90m.

Academy Schools

In 2015/16 four 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 2015/16 for these schools was £17.68m.

At balance sheet date, Department of Education approval had been granted to one school to convert to Academy status, but their conversion dates are not until later in 2016/17.

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 2016, 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 2016/17 and future years budgeted to cost £28.112m. Similar commitments at 31 March 2015 were £25.528m. The major commitments were:

- Rural Broadband - £11.939m.
- Highways & Transport schemes - £6.906m.
- HRA Major Repairs Programme - £5.195m.
- HRA New Build Programme - £2.225m.

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	450	5,093	0	5,543
Valued at Fair Value as at:					
31-Mar-16	158,153	760	0	0	158,913
01 Apr 15	0	273,092	0	2,070	275,162
01-Apr-14	0	118,886	0	0	118,886
01-Apr-13	0	86,016	0	0	86,016
01-Apr-12	0	42,969	0	0	42,969
01-Apr-11	0	53,003	0	0	53,003
Total Cost or Valuation	**158,153**	**575,176**	**5,093**	**2,070**	**740,493**

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:

	2015/16 £000	2014/15 £000
Schools, Children's Services and other Education Facilities	226,978	245,548
Culture & Heritage Buildings	63,876	61,100
Leisure & Recreation	53,791	50,184
Highways & Car Parks	44,101	44,877
Social Services	30,556	28,898
Administrative Offices	17,195	22,818
Waste Management Site	103,569	14,378
Business / Commercial Sites (including Markets)	14,000	14,370
Housing Services (including Gypsy Sites)	8,257	6,463
Smallholdings	10,873	6,165
Other	1,980	1,822
Total	**575,176**	**496,623**

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.

	2015/16 £000	2014/15 £000
Rental income & service charges from investment property	(1,156)	(964)
Direct operating expenses arising from investment property	(3,921)	139
Net (gain)/loss	**(5,077)**	**(825)**

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	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Balance at start of the year	47,673	28,878	125	0
Additions:				
- Purchases	0	4,500	0	0
Disposals:	(231)	(2,022)	(125)	0
Net gains/losses from fair value adjustments	5,013	17,759	(1,092)	(25)
Transfers:				
- To/from Property, Plant and Equipment	(1,450)	(1,292)	1,102	0
- To/from Current/Long term	(150)	(150)	150	150
Balance at end of the year	**50,855**	**47,673**	**160**	**125**

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2016 are as follows:

2015/16 Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2016 £000
Residential (market rental) properties	0	7,942	0	7,942
Office units	0	32,579	0	32,579
Commercial units	5,335	5,159	0	10,494
Total	**5,335**	**45,680**	**0**	**51,015**

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The market approach and the income approach have been used to as the valuation techniques to measure the fair value of Investment Properties.

The fair value of properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The Income approach has been used mainly in relation to Investment Properties leased on a commercial basis. The income approach is calculated by means of the discounted cash flow method, where the expected cash flows from the properties are discounted to establish the present value of the net income stream. This approach is based on the authorities lease data and data on the local rental market.

Highest and Best Use of Investment Properties

In estimating the fair value of the authority's Investment Properties, the valuations have been on the basis of the highest and best use of the asset. In a small number of instances this differs to their current use, mainly where sites would have a higher value if use for residential development, and it is expected planning permission for these sites would be granted based on existing planning policy. The authority is actively working to bring these sites forward for development, but this process can take a number of years.

Valuation Process for Investment Properties

The fair value of the authority's investment properties are subject to revaluations in accordance with the authority's policy on revaluing non-current assets, undertaken by the authority's internal Estates Department for General Fund assets and Valuation Office Agency for HRA assets. As Investment Properties are valued on a market value basis and hence more volatile to changes in valuation, they are also subject to annual desktop review, to ensure the valuation reflects current value at the balance sheet date.

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.

	2015/16 £000	2014/15 £000
Opening Capital Financing Requirement (including PFI & Finance Lease)	**330,609**	**338,035**
Adjustment for loans for capital purposes not previously included in CFR	**0**	**0**
Adjusted Opening Capital Financing Requirement (including PFI & Finance Lease)	**330,609**	**338,035**
Capital investment		
Property, Plant and Equipment	133,221	37,357
Investment Properties	0	4,500
Intangible Assets	53	16
Revenue Expenditure Funded from Capital under Statute	10,760	12,351
Capital Loans	6,870	4,255
Sources of finance		
Capital receipts	(4,213)	(4,435)
Capital grants and other contributions	(34,626)	(36,487)
Direct Revenue Financing (Including MRA)	(5,538)	(9,928)
Minimum Revenue Provision	(12,268)	(15,055)
Closing Capital Financing Requirement (including PFI & Finance Lease)	**424,868**	**330,609**
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund	242,875	246,044
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA	84,595	84,595
Closing Capital Financing Requirement – PFI & Finance Lease	97,397	(30)
	424,867	**330,609**
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	(11,571)	(9,951)
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	8,402	5,856
Assets acquired under finance leases	0	(23)
Assets acquired under PFI contracts	97,427	(3,308)
Increase/(decrease) in Capital Financing Requirement	**94,258**	**(7,426)**

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.

During 2015/16 the Energy Renewable Facility in Battlefield, Shrewsbury as provided by Veolia under the Waste PFI contract was completed and became operational. Accordingly this asset has been recognised within the Council's Non-Current Assets on the Balance Sheet at a value of £86.3m and similarly the Finance Lease Liability has also increased.

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 31/03/16 £000	Year Ended 31/03/15 £000	Year Ended 31/03/16 £000	Year Ended 31/03/15 £000
Non-Current Assets – Land & Buildings				
Balance Brought Forward	13,697	20,373	11,134	11,448
- Depreciation in Period	(269)	(269)	(3,426)	(339)
- Additions	7	0	99,118	66
- Revaluation	0	(6,407)	2,561	0
- Derecognition	(7)	0	(10,120)	(41)
Balance Carried Forward	13,428	13,697	99,266	11,134
Non-Current Assets - Vehicles, Plant & Equipment				
Balance Brought Forward	0	0	1,901	2,786
- Depreciation in Period	0	0	(1,000)	(1,014)
- Additions	0	0	578	129
Balance Carried Forward	0	0	1,479	1,901
Prepayments				
Balance Brought Forward	0	0	22,706	19,383
- Planned Capital Expenditure	0	0	(1,677)	3,323
Balance Carried Forward	0	0	21,029	22,706
Finance Lease Liability				
Balance Brought Forward	(13,038)	(13,279)	(9,638)	(9,383)
- Additions	0	0	(99,469)	(195)
- Repayment of Principal	216	241	3,503	(60)
Balance Carried Forward	(12,822)	(13,038)	(105,604)	(9,638)

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	25,424	5,268	11,094	41,786
Amounts Falling Due Within 2 - 5 Years	84,667	15,544	47,033	147,244
Amounts Falling Due Within 6 - 10 Years	127,198	13,961	53,674	194,833
Amounts Falling Due Within 11 - 15 Years	137,981	26,496	49,159	213,636
Amounts Falling Due Within 16 - 20 Years	172,311	41,044	30,370	243,725
Amounts Falling Due Within 21 - 25 Years	1,321	713	123	2,157

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

	31 March 2016 £000	31 March 2015 £000
Buildings	112,695	24,831
Vehicles, Plant and Equipment (salt domes)	0	0
Vehicles, Plant and Equipment (PFI)	1,480	1,902
Total	**114,175**	**26,733**

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 2016 £000	31 March 2015 £000
Finance lease liabilities (NPV of minimum lease payments)	124,200	103,241
Finance costs payable in future years	218,707	192,740
Minimum lease payments	**342,907**	**295,981**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Not later than one year	17,450	16,364	5,152	5,247
Later than one year and not later than five years	64,832	62,588	18,275	15,441
Later than five years	260,625	217,029	100,773	82,553
Total	**342,907**	**295,981**	**124,200**	**103,241**

The finance lease liabilities recognised on the balance sheet as “Deferred Liabilities” totals £118.426m. 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)	(236)	(4,916)	(5,152)
Lease liability (due after 1 year)	(12,586)	(100,688)	(113,274)
Total	**(12,822)**	**(105,604)**	**(118,426)**

Operating Leases

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 2016 £000	31 March 2015 £000
Expiring not later than one year	106	102
Expiring later than one year and not later than five years	657	671
Expiring later than five years	409	624
Total	**1,172**	**1,397**

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

	31 March 2016 £000	31 March 2015 £000
Lease payments	1,654	2,077
Sub Lease receivable	0	0
Total	**1,654**	**2,077**

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 2016 £000	31 March 2015 £000
Expiring not later than one year	234	139
Expiring later than one year and not later than five years	397	708
Expiring later than five years	1,370	1,288
Total	**2,001**	**2,135**

16. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long term		Current	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Investments:				
Loans and receivables	400	400	134,806	110,073
Total investments	**400**	**400**	**134,806**	**110,073**
Debtors:				
Loans and receivables	13,614	7,240	0	0
Financial assets carried at contract amounts	0	0	40,372	46,049
Total Debtors	**13,614**	**7,240**	**40,372**	**46,049**
Borrowing:				
Financial liabilities at amortised cost	(323,968)	(328,968)	(7,200)	(11,117)
Total Borrowings	**(323,968)**	**(328,968)**	**(7,200)**	**(11,117)**
Other Long Term Liabilities:				
PFI and finance lease liabilities	(118,426)	(22,676)	0	0
Total Other Long Term Liabilities	**(118,426)**	**(22,676)**	**0**	**0**
Creditors:				
Financial liabilities carried at contract amount	(695)	(707)	(54,967)	(45,218)
Cash overdrawn	0	0	(11,028)	(10,131)
Total Creditors	**(695)**	**(707)**	**(65,995)**	**(55,349)**

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 2016 £000	31 March 2015 £000
Debtors:		
Financial assets carried at contract amounts as per Financial Instruments	40,372	46,049
Payments In Advance	27,058	26,211
Total Debtors as per Balance Sheet	**67,430**	**72,260**
Creditors:		
Financial liabilities carried at contract amount as per Financial Instruments	(54,967)	(45,218)
Receipts In Advance	(7,818)	(6,665)
Total Creditors as per Balance Sheet	**(62,785)**	**(51,883)**

Soft Loans

Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT Ltd to be used to provide small business loans. As at the balance sheet date a total of £0.650m has been loaned to MRRT Ltd.

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 Ltd 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 £2.073m 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 £0.320m. 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

	2015/16			2014/15		
	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	24,433	0	24,433	19,734	0	19,734
Total expense in Surplus or Deficit on the Provision of Services	**24,433**	**0**	**24,433**	**19,734**	**0**	**19,734**
Interest income	0	(2,153)	(2,153)	0	(1,815)	(1,815)
Interest income accrued on impaired financial assets	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	**0**	**(2,153)**	**(2,153)**	**0**	**(1,815)**	**(1,815)**
Net (gain)/loss for the year	**24,433**	**(2,153)**	**22,280**	**19,734**	**(1,815)**	**17,919**

The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets held by the authority are classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows. The fair values calculated are as follows:

	31 March 2016		31 March 2015	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities - LOBOS	49,200	62,659	49,200	60,055
Financial liabilities - PWLB	279,768	345,266	288,568	354,998
PFI liabilities	118,426	239,887	22,676	40,358

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 2016) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2016		31 March 2015	
Financial Assets	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables:				
Cash	47,480	47,480	35,900	35,900
Fixed Term Deposits	87,000	87,324	74,000	74,208
Long term debtors	7,240	7,240	7,240	7,240
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 2016) 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.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31 March 2016			
Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Financial liabilities				
Financial liabilities held at amortised cost:				
Loans/borrowings	0	407,925	0	407,925
PFI and finance lease liabilities	0	239,887	0	239,887
Total	**0**	**647,812**	**0**	**647,812**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	2,723	2,723
Other loans and receivables	0	134,804	0	134,804
Total	**0**	**134,804**	**2,723**	**137,527**

	31 March 2015 Comparative Year			
Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Financial liabilities				
Financial liabilities held at amortised cost:				
Long term creditors	0	0	0	0
PFI and finance lease liabilities	0	40,358	0	40,358
Total	**0**	**455,411**	**0**	**455,411**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	2,442	2,442
Other loans and receivables	0	110,108	0	110,108
Total	**0**	**110,108**	**2,442**	**112,550**

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at 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.

Financial Assets	Financial Liabilities
No early repayment or impairment is recognised	No early repayment is recognised
Estimated ranges of interest rates at 31 March 2016 of 0.25% to 0.55% for loans receivable, based on new lending rates for equivalent loans at that date	Estimated ranges of interest rates at 31 March 2016 of 1.13% to 3.14% for loans payable, based on new lending rates for equivalent loans at that date
The fair value of trade and other receivables is taken to be the invoiced or billed amount	

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 2016 %	Estimated maximum exposure to default and uncollectability at 31 March 2016 %	Estimated maximum exposure at 31 March 2015 £000
	A	B	C	(AxC)	
Loans and receivables held with counterparties having a default rating of:					
AA	27,480	0.03	0.03	0.00	0.00
A	80,000	0.08	0.08	0.00	0.00
BBB	15,000	0.19	0.19	0.00	0.00
Other Local Authorities	12,000	0.00	0.00	0.00	0.00
Debtors (Customers)	22,417	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 £22.417m outstanding from customers £12.878m is past its due date for payment. This amount past due date is analysed by age as follows:

Age of Debt	2015/16 £000	2014/15 £000
Less than 3 months overdue	2,263	2,236
3 to 6 months overdue	2,618	2,546
6 months to 1 year overdue	2,277	2,715
More than 1 year overdue	5,720	4,064
	12,878	11,561

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	2015/16 £000	2014/15 £000
Less than 1 year	5,061	8,861
Between 1 and 2 years	6,400	5,000
Between 2 and 5 years	14,000	16,400
Between 5 and 10 years	18,600	22,100
More than ten years	284,968	285,468
	329,029	337,829

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 2016 the Council's total outstanding debt (excluding accrued interest) amounted to £329.029m of which none of these loans were at stepped interest rates. Out of this balance £279.768m 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 2016, £47.480m 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 2016.

	31 March 2016 £000	31 March 2015 £000
Central Government Bodies	7,923	7,358
Other Local Authorities	2,228	1,782
NHS Bodies	6,044	11,869
Public Corporations and Trading Funds	4	2
Other Entities and Individuals	30,202	28,543
Waste PFI Prepayments	21,029	22,706
	67,430	**72,260**

19. CASH AND CASH EQUIVALENTS

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

	31 March 2016 £000	31 March 2015 £000
Bank current accounts	32,480	30,900
Short term deposits with building societies	43,476	37,443
Total Cash and Cash Equivalents	**75,956**	**68,343**
Bank Overdraft	(11,028)	(10,131)
Cash Overdrawn	**(11,028)**	**(10,131)**

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 2016.

	31 March 2016 £000	31 March 2015 £000
Central Government Bodies	(5,281)	(5,695)
Other Local Authorities	(1,566)	(3,625)
NHS Bodies	(2,265)	(3,240)
Public Corporations and Trading Funds	0	(5)
Other Entities and Individuals	(53,673)	(39,318)
	(62,785)	**(51,883)**

21. USABLE RESERVES

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

	31 March 2016 £000	31 March 2015 £000
Usable Capital Receipts Reserve	0	0
Major Repairs Reserve	2,802	1,635
Reserves	60,841	55,027
Capital Grants Unapplied Account	6,612	3,954
HRA Balance	5,823	3,076
General Fund Balance	18,370	15,206
Total Usable Reserves	**94,448**	**78,898**

22. UNUSABLE RESERVES

	31 March 2016 £000	31 March 2015 £000
Revaluation Reserve	136,248	121,439
Capital Adjustment Account	584,836	605,297
Financial Instruments Adjustment Account	(5,284)	(5,603)
Deferred Capital Receipts Reserve	740	772
Pensions Reserve	(388,736)	(407,792)
Collection Fund Adjustment Account	(1,515)	1,259
Accumulated Absences Account	(2,165)	(3,211)
Total Unusable Reserves	**324,124**	**312,161**

Revaluation Reserve

	2015/16 £000	2014/15 £000
Balance at 1 April	**121,439**	**137,177**

	2015/16 £000	2014/15 £000
Upward revaluation of assets	29,446	14,544
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(5,576)	(8,414)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**23,870**	**6,130**
Difference between fair value depreciation and historical depreciation	(3,604)	(3,254)
Accumulated gains on assets sold or scrapped	(5,457)	(15,814)
Other transfers to the Capital Adjustment Account	0	(2,800)
Amount written off to the Capital Adjustment Account	**(9,061)**	**(21,868)**
Balance at 31 March	**136,248**	**121,439**

Capital Adjustment Account

	2015/16 £000	2014/15 £000
Balance at 1 April	**605,297**	**622,864**
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	(49,906)	(39,380)
- Revaluation losses on Property, Plant and Equipment	(3,569)	(2,366)
- Amortisation of intangible assets	(318)	(365)
- Revenue expenditure funded from capital under statute	(10,760)	(12,351)
- 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	(25,536)	(68,612)
	(90,089)	**(123,074)**
Adjusting amounts written out of the Revaluation Reserve	**9,061**	**21,868**
Net written out amount of the cost of non-current assets consumed in the year	**(81,028)**	**(101,206)**
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	4,213	4,435
- Use of the Major Repairs Reserve to finance new capital expenditure	3,273	6,392
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	34,163	35,783
- Application of grants to capital financing from the Capital Grants Unapplied Account	464	704
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	12,268	15,055
- Capital expenditure charged against the General Fund and HRA balances	2,265	3,536
	56,646	**65,905**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**3,921**	**17,734**
Balance at 31 March	**584,836**	**605,297**

Financial Instruments Adjustment Account

	2015/16 £000	2014/15 £000
Balance at 1 April	**(5,603)**	**(5,900)**

	2015/16 £000	2014/15 £000
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	4	(18)
Balance at 31 March	**(5,284)**	**(5,603)**

Pensions Reserve

	2015/16 £000	2014/15 £000
Balance at 1 April	**(407,792)**	**(297,394)**
Remeasurements of the net defined benefit liability/(asset)	35,144	(101,795)
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	(36,529)	(28,732)
Employer's pension contributions and direct payments to pensioners payable in the year	20,441	20,129
Balance at 31 March	**(388,736)**	**(407,792)**

Deferred Capital Receipts Reserve

	2015/16 £000	2014/15 £000
Balance at 1 April	**772**	**804**
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)	(32)
Balance at 31 March	**740**	**772**

Collection Fund Adjustment Account

	2015/16 £000	2014/15 £000
Balance at 1 April	**1,259**	**1,365**
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	(2,774)	(106)
Balance at 31 March	**(1,515)**	**1,259**

Accumulated Absences Account

	2015/16 £000	2014/15 £000
Balance at 1 April	**(3,211)**	**(3,217)**
Settlement or cancellation of accrual made at the end of the preceding year	3,211	3,217

	2015/16 £000	2014/15 £000
Amounts accrued at the end of the current year	(2,165)	(3,211)
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	**1,046**	**6**
Balance at 31 March	**(2,165)**	**(3,211)**

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

	2015/16 £000	2014/15 £000
Surplus/(Deficit) for year per Comprehensive Income & Expenditure Statement	**(31,501)**	**(33,167)**
Adjust net surplus or deficit on the provision of services for non cash movements:		
Depreciation	49,906	39,379
Impairment and downward valuations	3,569	2,365
Amortisation	317	365
Impairment losses on loans & advances debited to surplus or deficit on the provision of services in year	7	23
Reductions in fair value of non PWLB Loans	0	0
Soft Loans – Interest adjustment	0	0
Adjustments for effective interest rates	0	2
Increase/(Decrease) in Interest Creditors	(113)	(27)
Increase/(Decrease) in Creditors	9,384	(5,315)
(Increase)/Decrease in Interest and Dividend Debtors	(171)	1
(Increase)/Decrease in Debtors	6,894	(3,226)
(Increase)/Decrease in Inventories	170	(28)
Pension Liability	16,088	8,603
Contributions to/(from) Provisions	193	2,089
Carrying amount of non-current assets sold	25,179	68,527
Movement in Investment Property Values	(3,921)	(17,734)
	107,502	**95,024**
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	(16,949)	(2,625)
Capital Grants credited to surplus or deficit on the provision of services	(37,284)	(37,655)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,822)	(4,978)
	(59,055)	**(45,258)**
Net Cash Flows from Operating Activities	**16,946**	**16,599**

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2015/16 £000	2014/15 £000
Interest received	(1,981)	(1,816)
Interest paid	24,540	19,736

25. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2015/16 £000	2014/15 £000
Purchase of property, plant and equipment, investment property and intangible assets	31,111	43,828
Other payments for investing activities	7,192	4,361
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(32)	(32)
Other receipts from investing activities*	(42,929)	(41,859)
Net cash flows from investing activities	**(4,658)**	**6,298**

* This includes capital grants received in year.

26. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2015/16 £000	2014/15 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	3,719	204
Repayments of short and long term borrowing	8,812	5,071
Other payments for financing activities*	2,357	13
Net cash flows from financing activities	**14,888**	**5,288**

* 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 cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year

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 2015/16	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Fees, charges and other services income	(42,787)	(27,768)	(46,498)	(2,975)	(79,707)	(199,735)
Government grants	(4,041)	(158,700)	(4,859)	(11,501)	(93,764)	(272,865)
Total Income	**(46,828)**	**(186,468)**	**(51,357)**	**(14,476)**	**(173,471)**	**(472,600)**
Employee expenses	16,795	28,777	25,041	3,024	31,796	105,433
Other service expenses	103,016	206,295	103,350	10,885	108,601	532,147

Service Area Income and Expenditure 2015/16	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Support service recharges	4,405	5,309	6,324	2,556	29,453	48,047
Total Expenditure	**124,216**	**240,381**	**134,715**	**16,465**	**169,850**	**685,627**
Net Expenditure	**77,388**	**53,913**	**83,358**	**1,989**	**(3,621)**	**213,027**

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**

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.

	2015/16 £000	2014/15 £000
Net expenditure in the Service Area Analysis	213,027	223,145
Net expenditure of services and support services not included in the Analysis	(217,628)	(186,679)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(496)	(10,567)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	36,598	7,268
Cost of Services in Comprehensive Income and Expenditure Statement	**31,501**	**33,167**

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.

2015/16	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	(197,109)	(18,470)	40,281	(46,793)	(222,091)
Interest and investment income	(2,626)	(43)	516	0	(2,153)
Income from council tax	0	0	0	(128,428)	(128,428)
Government grants and contributions	(272,865)	(315)	4,518	(71,259)	(339,921)
Total Income	**(472,600)**	**(18,828)**	**45,315**	**(246,480)**	**(692,593)**
Employee expenses	204,676	0	(1,046)	0	203,630
Other service expenses	392,251	12,611	(45,981)	(183)	358,698
Support Service recharges	53,199	194	0	0	53,393
Depreciation, amortisation and impairment	0	3,023	52,253	0	55,276
Interest Payments	35,383	2,994	(13,943)	0	24,434
Precepts & Levies	117	0	0	6,307	6,424
Payments to Housing Capital Receipts Pool	0	0	0	600	600
Gain or Loss on Disposal of Non-Current Assets	0	(489)	0	22,128	21,639
Total expenditure	**685,626**	**18,333**	**(8,717)**	**28,852**	**724,094**
(Surplus) or deficit on the provision of services	**213,027**	**(496)**	**36,598**	**(217,628)**	**31,501**

2014/15 comparative figures (Restated)	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	200,629	0	(6)	0	200,623
Other service expenses	379,825	8,104	(6,190)	(919)	380,820
Support Service recharges	43,041	185	0	0	43,226
Depreciation, amortisation and impairment	0	(3,092)	30,703	0	27,611
Interest Payments	34,873	2,995	(17,518)	0	20,350

2014/15 comparative figures (Restated)	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
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**

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 2015/16 are as follows:

		2015/16 £000	2015/16 £000	2014/15 £000	2014/15 £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	(15,382)		(15,134)	
	Expenditure	15,759		15,437	
	(Surplus)/ Deficit		**377**		**303**
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	(5,512)		(6,998)	
	Expenditure	7,339		7,412	
	(Surplus)/ Deficit		**1,827**		**414**
The consolidated results of the other 17 of the Council's 19 trading units are	Turnover	(39,524)		(37,650)	
	Expenditure	44,132		48,832	
	(Surplus)/ Deficit		**4,608**		**11,182**
Net Surplus on Trading Activities			**6,812**		**11,899**

29. MEMBERS' ALLOWANCES

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

	2015/16 £000	2014/15 £000
Basic Allowances	846	851

	2015/16 £000	2014/15 £000
Special Responsibility Allowances	282	286
Expenses	53	68
Total	**1,181**	**1,205**

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	2015/16	£101,466	£0	£101,466	£13,698	£115,164
	2014/15	£99,981	£0	£99,981	£13,497	£113,478
Director of Adult Services (left January 2016)	2015/16	£81,383	£0	£81,383	£10,628	£92,011
	2014/15	£97,485	£0	£97,485	£13,160	£110,645
Director of Adult Services (started January 2016)	2015/16	£20,214	£0	£20,214	£2,729	£22,942
	2014/15	£0	£0	£0	£0	£0
Director of Children's Services	2015/16	£98,940	£0	£98,940	£13,357	£112,297
	2014/15	£97,485	£0	£97,485	£13,160	£110,645
Director of Commissioning	2015/16	£98,940	£0	£98,940	£13,357	£112,297
	2014/15	£97,485	£0	£97,485	£13,160	£110,645
Director of Public Health ^	2015/16	£98,781	£0	£98,781	£14,431	£113,212
	2014/15	£98,453	£0	£98,453	£13,783	£112,236
Director of Resources and Support (left December 2015) *	2015/16	£69,378	£0	£69,378	£9,264	£78,642
	2014/15	£97,485	£0	£97,485	£13,160	£110,645
Head of Legal and Democratic Services, Monitoring Officer	2015/16	£97,838	£0	£97,838	£13,208	£111,046
	2014/15	£96,620	£0	£96,620	£13,044	£109,664
Head of Finance, Governance & Assurance, S151 Officer °	2015/16	£96,600	£0	£96,600	£13,041	£109,641
	2014/15	£95,400	£0	£95,400	£12,879	£108,279
Head of Human Resource (reports to Chief Executive from January 2016)	2015/16	£20,400	£0	£20,400	£2,754	£23,154
	2014/15	£0	£0	£0	£0	£0

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 Public Health was recharged to Herefordshire Council (£63,700) to reflect the shared arrangement for the Director of Public Health role.

* An element of the total remuneration paid to the Director of Resources & Support was recharged to ip&e Ltd (£78,642) to reflect the secondment arrangement during 2015/16. The Director Of Resources & Support also received a compromise agreement payment of £23,900 during 2015/16 in accordance with the Council's policy.

° An element of the total remuneration paid to the Head of Finance, Governance & Assurance is recharged to Shropshire County Pension Fund (£6,500), Shropshire & Wrekin Fire Authority (£15,640), West Mercia Energy (£4,000), and Marches LEP (£1,100) to reflect the various treasurer roles undertaken within those organisations.

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	2015/16 No. of Employees	2014/15 No. of Employees
50,000 - 54,999	78	86
55,000 - 59,999	46	34
60,000 - 64,999	26	26
65,000 - 69,999	15	11
70,000 - 74,999	3	2
75,000 - 79,999	5	5
80,000 - 84,999	9	12
85,000 - 89,999	6	4
90,000 - 94,999	0	1
95,000 - 99,999	4	7
100,000 - 104,999	3	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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
£0 - £20,000	102	27	106	90	208	117	1,240	924
£20,001 - £40,000	9	2	13	23	22	25	566	701
£40,001 - £60,000	0	0	12	11	12	11	616	531
£60,001 - £80,000	3	0	8	10	11	10	768	701
£80,001 - £100,000	0	0	3	4	3	4	256	372
£100,001 - £200,000	0	0	6	4	6	4	725	453
	114	29	148	142	262	171	4,171	3,682

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:

	2015/16 £000	2014/15 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	134	179
Fees payable to external audit for the certification of grant claims and returns	14	15
Fees payable in respect of other services provided by the external audit during the year	21	13
Total	169	207

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 2015/16 are as follows:

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2015/16 before Academy recoupment	35,318	153,333	188,650
Central provision with Schools and De-delegated Budgets	4,240	(4,240)	0
Early Years Maintained Settings included in ISB on S251	(2,442)	2,442	0
Re-Allocation of High Needs to ISB	(2,216)	2,216	0
High Needs Commissioned Places	(6,095)	6,095	0
High Needs Recoupment	0	(4,278)	(4,278)
Academy figure recouped for 2015/16	0	(49,061)	(49,061)
Total DSG after Academy recoupment for 2015/16	**28,805**	**106,507**	**135,311**
Plus: Brought forward from 2014/15	2,629	(419)	2,210
Less: Carry forward to 2016/17 agreed in advance	0	0	0
Agreed budgeted distribution in 2015/16	**31,434**	**106,088**	**137,522**
In-year adjustments	0	290	290
Final budgeted distribution in 2015/16	**31,434**	**106,378**	**137,812**
Less: Actual central expenditure	(27,887)	0	(27,887)
Less: Actual ISB deployed to schools	0	(104,659)	(104,659)
Early Years PVI included in ISB on S251	0	(2,738)	(2,738)
Plus: Local authority contribution for 2015/16	0	0	0
Carry forward to 2016/17	**3,547**	**(1,020)**	**2,527**

33. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2015/16:

	2015/16 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(43,760)	(57,058)
Local Services Support Grant	(241)	(305)
New Homes Bonus	(7,505)	(5,913)
Council Tax Freeze Grant	(1,325)	(1,307)
Business Rates Relief Grant	(3,673)	(2,988)
Efficiency Support for Sparse Areas	0	(163)
Capital Grants & contributions	(27,663)	(28,823)
Total	**(84,167)**	**(96,557)**
Credited to Services		
DWP Housing Benefit	(68,100)	(69,060)
DWP Housing Benefit & Council Tax Benefit Admin Subsidy	(1,346)	(1,208)
DCLG Waste PFI	(3,186)	(3,186)
DCLG Social Services PFI	(1,523)	(1,523)
DFE Dedicated Schools Grant	(135,284)	(133,991)
DFE/DE Sixth Forms funding	(2,029)	(3,080)
DFE Pupil Premium Grant	(6,591)	(7,190)
DFE UFSM	(3,128)	(1,847)
DFE PE & Sports	(1,052)	(1,069)

	2015/16 £000	2014/15 £000
Education Services Grant	(2,828)	(3,765)
DoH Public Health Grant	(11,032)	(9,843)
DfT Local Sustainable Transport	0	(977)
DCLG/DoH Adult Social Care New Burdens	(2,008)	0
Independent Living Fund Grant	(1,315)	0
Other Grants	(6,711)	(8,158)
Capital Grants & contributions	(9,622)	(8,832)
Total	**(255,755)**	**(253,729)**

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 2016 £000	31 March 2015 £000
Grants Receipts in Advance (Capital Grants)		
Other Grants & Contributions	(114)	(70)
Total	**(114)**	**(70)**
Grants Receipts in Advance (Revenue Grants)		
EFA Designated Schools Grant	(2,527)	(2,210)
DWP Housing Benefit Subsidy	(1,418)	0
CLG Tackling Troubled Families	(650)	(593)
Standards Fund	(354)	(549)
SEN Reform	(523)	(528)
Homelessness	(36)	(290)
Arts Council	(245)	(190)
CLG Social Services PFI	(210)	(210)
Police & Crime Commissioner - CCTV	(189)	0
Small Business Rate Relief Grant	0	(195)
EFA Pupil Premium Grant	0	(180)
Other Grants	(774)	(1,097)
Total	**(6,926)**	**(6,042)**

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 2015/16, the Council paid £8.232m to Teachers' Pensions in respect of teachers' retirement benefits. The contribution rate increased during the year from 14.1% in April 2015 to 16.48% in September 2015. The figures for 2014/15 were £7.946m 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 2015/16, the Council paid £0.123m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.0% of pensionable pay. The figures for 2014/15 were £0.106m 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	
	2015/16 £000	2014/15 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- current service cost	(23,075)	(18,016)
- past service gain/(cost)	(8)	(360)
- curtailment gain/(cost)	(169)	2,083
	(23,252)	**(16,293)**
Financing and Investment Income and Expenditure:		
- net interest expense	(12,624)	(12,439)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(35,876)**	**(28,732)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- return on plan assets	(24,276)	46,518
- experience (gain)/loss	0	0
- actuarial gains and (losses) arising on changes in demographic assumptions	0	(148,313)

	Local Government Pension Scheme	
	2015/16 £000	2014/15 £000
- actuarial gains and (losses) arising on changes in financial assumptions	59,420	0
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(732)**	**(130,527)**
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	35,876	28,732
Actual amount charged against the Fund Balances for pensions in the year:		
- employers' contributions payable to scheme	(20,441)	(20,129)

Assets and Liabilities Recognised in the Balance Sheet

	2015/16 £000	2014/15 £000
Present value of the defined benefit obligation	(1,085,538)	(1,114,833)
Fair value of plan assets	696,802	707,041
Net liability arising from defined benefit obligation	**(388,736)**	**(407,792)**

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

	Local Government Pension Scheme	
	2015/16 £000	2014/15 £000
Opening fair value of scheme assets at 1 April	707,041	646,316
Interest income	22,604	28,255
Remeasurement gain/(loss):		
Return on plan assets excluding the amount included in the net interest expense	(24,276)	46,518
Contributions from employer	20,441	20,129
Contributions from employees into the scheme	5,324	5,300
Benefits paid	(34,728)	(37,083)
Other	396	(2,394)
Closing fair value of scheme assets at 31 March	**696,802**	**707,041**

Reconciliation of Present Value of the Scheme Liabilities

	Local Government Pension Scheme	
	2015/16 £000	2014/15 £000
Opening balance at 1 April	(1,114,833)	(943,710)
Current Service Cost	(22,649)	(17,595)
Interest Cost	(35,228)	(40,694)
Contributions from scheme participants	(5,324)	(5,300)
Remeasurement gain/(loss):		

	Local Government Pension Scheme 2015/16 £000	2014/15 £000
Actuarial gains/(losses) arising from changes in demographic assumptions	0	(148,313)
Actuarial gains/(losses) arising from changes in financial assumptions	59,420	0
Other	0	0
Past service costs	(8)	(360)
Losses/(gains) on curtailment	(1,221)	(1,484)
Liabilities assumed on entity combinations	34,728	0
Benefits paid	1,658	37,083
Liabilities extinguished on settlements	(2,081)	5,540
Closing balance at 31 March	**(1,085,538)**	**(1,114,833)**

Local Government Pension Scheme Assets

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

	2015/16 £000	2014/15 £000
Cash and cash equivalents	**11,985**	**21,989**
Equity investments:		
UK quoted	52,259	58,260
Global quoted	303,527	309,471
Sub-total equity	**355,786**	**367,731**
Bonds:		
UK Government fixed	0	0
UK Government indexed	77,415	78,482
Government	0	0
PIMCO (Global Investment grade credit)	50,797	51,685
PIMCO (Global Absolute return bond fund)	51,076	50,271
Sub-total bonds	**179,288**	**180,438**
Property:		
Property funds	37,279	28,989
Sub-total property	**37,279**	**28,989**
Alternatives:		
Private Equity	30,520	29,484
Infrastructure	10,313	4,525
Hedge Funds	71,631	73,885
Sub-total alternatives	**112,464**	**107,894**
Total assets	**696,802**	**707,041**

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 2015/16	2014/15
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.9 yrs	23.8 yrs
Women	26.3 yrs	26.1 yrs
Longevity at 65 for future pensioners:		
Men	26.1 yrs	26.0 yrs
Women	29.1 yrs	29.0 yrs
Rate of inflation	2.0%	2.0%
Rate of increase in salaries	3.5%	3.5%
Rate of increase in pensions	2.0%	2.0%
Rate for discounting scheme liabilities	3.5%	3.2%

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)	1,106,442	1,064,634
Rate of inflation (increase or decrease by 0.1%)	1,104,965	1,066,111
Rate of increase in salaries (increase or decrease by 0.1%)	1,089,041	1,082,035
Rate of increase in pensions (increase or decrease by 0.1%)	1,104,965	1,066,111
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,066,452	1,104,624

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 16 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 £19.296m expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 18 years for 2015/16 (18 years 2014/15).

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 2015/16 was £24.741m compared with £31.773m for 2014/15.

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 £4.222m to organisations where members are employed and £0.210m 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 £0.493m 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 £0.977m from the pension fund for the costs of administration it provided in 2015/16 compared with £0.906m for 2014/15.

The Council also has group relationships with West Mercia Energy, Shropshire Towns & Rural Housing and IP&E Ltd. 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 89.

37. MARCHES LOCAL ENTERPRISE PARTNERSHIP

Shropshire Council, Telford & Wrekin Council and Herefordshire Council are Partners within the Marches Local Enterprise Partnership. The Partnership was launched in 2010 to create conditions for economic vitality and sustainable employment across the regions represented by the 3 Councils.

The Partnership is not a partnership in law, nor a formal decision making body, and does not have the power to bind the three Councils. The accountable body for the Marches LEP is Shropshire Council and all funding and transactions are processed through Shropshire Council's accounts. Shropshire Council's role within these transactions is deemed to be an agent, acting as an intermediary on behalf of the 3 Councils, therefore Shropshire Council accounts do not include the total income and expenditure for the Marches LEP. Instead, each Council within the Marches LEP will include any funding received from the Marches LEP and expenditure incurred in relation to LEP projects within their accounts. Accordingly any cash balances held by Shropshire Council in relation to the LEP is represented by a creditor within the Council's accounts.

Detailed below are the total funding received and expenditure paid out (cash) by Shropshire Council by 31st March in relation to the Marches LEP including the net creditor within Shropshire Council's balance sheet.

	2015/16	
	£000	£000
Opening Creditor 01 April 2015		**(8,765)**
Funding Received:		
Growth Deal	(12,800)	
DfT South Wye Package	(2,146)	
Growth Hub	(250)	
Core Funding	(250)	
Capacity Funding	(250)	
Match Funding – Partner Contributions	(121)	

	2015/16	
	£000	£000
Marches Investment Fund	(120)	
Interest on Balances	(101)	
		(16,038)
Expenditure:		
Growth Deal Projects	6,866	
Growth Hub	247	
Capacity Funding Projects	504	
Marches Investment Fund Expenditure	49	
LEP Management Costs	289	
		7,955
Marches LEP Creditor		**(16,848)**

38. BETTER CARE FUND

Shropshire Council and Shropshire CCG are partners in the provision of a range of services including support to hospital admission avoidance, hospital discharge planning, carers support and housing. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006.

The aims and benefits of the Partners in entering in to this Agreement are to:
- ◆ improve the quality and efficiency of the Services;
- ◆ meet the National Conditions and Local Objectives as set out in the Better Care Fund plan;
- ◆ make more effective use of resources through the establishment and maintenance of an aligned fund for revenue expenditure on the Services;

Financing	2015/16 £000	2014/15 £000
Funding provided to the pooled Budget:		
Shropshire Council	2,155	0
Shropshire CCG	19,596	0
	21,751	**0**
Expenditure met from the pooled Budget:		
Shropshire Council	10,149	0
Shropshire CCG	11,453	0
	21,602	**0**
Net underspend arising on the pooled budget during the year	**149**	**0**

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.	(9,172)	21,184	223,408	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)	7,530	139,929	0
Rosalie Inskip Music Trust	Supports excellence in music for young people living in Shropshire.	(7,455)	1,650	279,278	0
Priory Educational Trust	Charitable trust to support ex-pupils of Priory Boys School.	(1,073)	750	48,785	0
Lyneal Trust	A charity that offers canal and canal side holidays for people with disabilities, their family and friends.	(40,571)	38,075	471,837	(13,937)
Sight Loss Shropshire	A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin	(28,212)	43,690	490,573	(4,031)

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.

40. CONTINGENT LIABILITIES

At 31 March 2016 Council had the identified the following contingent liabilities:

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

- Numerous potential Article 5 claims for unlawful deprivations of liberty
- Article 8 claims by children accommodated when applications for a Care Order should have been made.
- Planning Inquiries
- S288 planning challenges outstanding
- Judicial Review for planning permission
- Judicial Review regarding DOLS funding
- Costs awarded against the Council in Barnsley Judicial Review.
- Costs from Hopton Heath Planning Judicial Review.
- Church Stretton library.

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 Council).

MENCAP no longer has active members, on closure they cleared their outstanding liabilities, they now have 7 pensioners and 1 deferred member Age Concern has 7 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 16 active members, 120 pensioners, 43 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 33 active members, 9 deferred members and 6 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 26 active members, 16 pensioners, 26 deferred members and 8 dependant. HMM Arts no longer has active members, on closure Shropshire Council has absorbed its asset and liabilities, they now have 3 deferred members and 2 pensioners .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. On the closure of ip&e (Group) Ltd, all assets and liabilities were transferred back to the Council. The Council has also agreed for 1 Admission Body; Mayfair Trust who are contracting to run services under contract, to be grouped with the Council for accounting purposes. This means all Pension assets and liabilities stay with the Council.

The Council has entered into six “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 £2.696m 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 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.

41. 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, leisure 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.

Section 6

Group Accounts

Introduction

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2015 to 31 March 2016. 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 2016, with comparative figures for the previous financial year.

IP&E LIMITED

IP&E Ltd is a trading company wholly owned by Shropshire Council. It was established to provide public services on the council's behalf and also to trade with other organisations. The company was incorporated on 30 May 2012. On 17 February 2016, Cabinet agreed to bring the Council's relationship with ip&e Ltd to an end and terminate the strategic contract between the two parties. It was also agreed to terminate the service contracts between the Council and ip&e Ltd with effect from 31 March 2016. In its role as sole shareholder, the Cabinet agreed that ip&e Ltd should cease trading as soon as possible and take necessary actions to remove the company from the companies register. Whilst trading ceased on 31 March 2016, liabilities and commitments remain that need to be resolved before the company can formally apply to be dissolved and removed from the companies register and therefore further financial transactions will be incurred in the 2016/17 financial year.

IP&E Ltd 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 2016. For 2015/16 IP&E Ltd had total income of £13.930m, total expenditure of £13.913m, assets of £1.531m and liabilities of £1.482m.

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 2015/16 Shropshire Towns and Rural Housing Limited had total income of £13.590, total expenditure of £12.943m, assets of £5.126m and liabilities of £4.766m.

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 Council's share of West Mercia Energy' balances is 25.7%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on draft statement of accounts for 31st March 2016. For 2015/16 West Mercia Energy had total income of £63.885m, total expenditure of £63.845m, assets of £14.128m and liabilities of £16.285m.

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 2015	**15,206**	**55,027**	**3,076**	**1,635**	**3,954**	**78,898**	**312,161**	**391,059**	**(2,043)**	**389,016**
Movement in reserves during 2015/16										
Surplus or (deficit) on the provision of services	(23,010)	0	496	0	0	(22,514)	0	(22,514)	(8,313)	(30,827)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	59,014	59,014	1,215	60,229
Total Comprehensive Income and Expenditure	**(23,010)**	**0**	**496**	**0**	**0**	**(22,514)**	**59,014**	**36,500**	**(7,098)**	**29,402**
Adjustments between Group Accounts and authority accounts	(8,987)	0	0	0	0	(8,987)	0	(8,987)	8,987	0
Net Increase/Decrease before Transfers	**(31,997)**	**0**	**496**	**0**	**0**	**(31,501)**	**59,014**	**27,513**	**1,889**	**29,402**
Adjustments between accounting basis and funding basis under regulations	40,975	0	2,251	1,167	2,658	47,051	(47,051)	0	9	9
Net Increase/Decrease before Transfers to Earmarked Reserves	**8,978**	**0**	**2,747**	**1,167**	**2,658**	**15,550**	**11,963**	**27,513**	**1,898**	**29,411**
Transfers to/from Earmarked Reserves	(5,814)	5,814	0	0	0	0	0	0	0	0
Increase/Decrease in 2015/16	**3,164**	**5,814**	**2,747**	**1,167**	**2,658**	**15,550**	**11,963**	**27,513**	**1,898**	**29,411**
Balance at 31 March 2016	**18,370**	**60,841**	**5,823**	**2,802**	**6,612**	**94,448**	**324,124**	**418,572**	**(145)**	**418,427**

2014/15 Comparative Figures	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**

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	8,987	0	0	0	8,987	0	8,987	(8,987)	0
Total adjustments between Group Accounts and authority accounts	**8,987**	**0**	**0**	**0**	**8,987**	**0**	**8,987**	**(8,987)**	**0**

The Group Comprehensive Income & Expenditure Statement

2014/15 Group Expenditure £000		2015/16 SC Net Expenditure £000	Adjustments £000	Group Expenditure £000
	Expenditure on Continuing Services			
72,166	Adult Social Care	74,601	0	74,601
5,824	Central Services to the public	5,392	525	5,917
54,281	Children's and Education Services	47,143	0	47,143
14,305	Cultural and Related Services	12,558	0	12,558
31,630	Environmental and Regulatory Services	49,157	0	49,157
28,100	Highways and Transport Services	18,569	0	18,569
(13,250)	Local Authority Housing (HRA)	(2,883)	(698)	(3,581)
4,608	Other Housing Services	4,992	0	4,992
5,404	Planning Services	8,031	0	8,031
(615)	Public Health	1,131	0	1,131
4,575	Corporate and Democratic Core	4,437	0	4,437
(485)	Non Distributed Costs	2,454	0	2,454
206,543	**Net Cost of Services**	**225,582**	**(173)**	**225,409**
70,519	Other Operating Expenditure	28,667	0	28,667
23,717	Financing and Investment Income and Expenditure	36,639	72	36,711
(267,672)	Taxation and Non Specific Grant Income	(259,387)	0	(259,387)
33,107	**(Surplus)/Deficit on the provision of services**	**31,501**	**(101)**	**31,400**
(534)	Associates & Joint Ventures Accounted for on an equity basis	0	(572)	(572)
32,573	**Group (Surplus)/Deficit**	**31,501**	**(673)**	**30,828**
(9,354)	(Surplus) or deficit on revaluation of non-current assets	(26,901)	0	(26,901)
3,223	Impairment losses on Non-Current Assets Charged to the Revaluation Reserve	3,031	0	3,031
103,885	Remeasurement of pension assets and liabilities	(35,144)	(1,215)	(36,359)
97,754	**Other Comprehensive Income and Expenditure**	**(59,014)**	**(1,215)**	**(60,229)**
130,327	**Total Comprehensive Income and Expenditure**	**(27,513)**	**(1,888)**	**(29,401)**

Group Balance Sheet at 31 March 2015

31 March 2015 £000		31 March 2016 SC £000	Adjustments £000	Group £000
995,912	Property, Plant & Equipment	1,072,784	21	1,072,805
2,592	Heritage Assets	2,622	0	2,622
47,673	Investment Property	50,855	0	50,855
447	Intangible Assets	173	0	173
599	Assets Held for Sale	599	0	599
1,047,223	**Total Non-Current Assets**	**1,127,033**	**21**	**1,127,054**
400	Long Term Investment	400	0	400
(693)	Investments in Associates and Joint Ventures	0	(555)	(555)
7,147	Long Term Debtors	13,614	0	13,614
1,054,078	**Total Long Term Assets**	**1,141,047**	**(534)**	**1,140,514**
	Current Assets			
125	Current Held for Sale Investment Properties	160	0	160
3,635	Assets Held for Sale	5,860	0	5,860
41,730	Short Term Investments	58,850	0	58,850
1,016	Inventories	824	23	847
71,537	Short Term Debtors	67,430	509	67,939
71,077	Cash & Cash Equivalents	75,956	4,329	80,285
189,120	**Total Current Assets**	**209,080**	**4,861**	**213,941**
1,243,198	**Total Assets**	**1,350,127**	**4,327**	**1,354,454**
	Current Liabilities			
(10,131)	Bank Overdraft	(11,028)	0	(11,028)
(11,117)	Short Term Borrowing	(7,200)	0	(7,200)
(52,679)	Short Term Creditors	(62,785)	(2,604)	(65,389)
(3,585)	Provisions	(2,708)	0	(2,708)
(6,042)	Grants Receipts in Advance - Revenue	(6,926)	0	(6,926)
(70)	Grants Receipts in Advance - Capital	(114)	0	(114)
(83,624)	**Total Current Liabilities**	**(90,761)**	**(2,604)**	**(93,365)**
1,159,574	**Total Assets Less Current Liabilities**	**1,259,366**	**1,723**	**1,261,089**
	Long Term Liabilities			
(707)	Long Term Creditors	(695)	0	(695)
(328,968)	Long Term Borrowing	(323,968)	0	(323,968)
(22,676)	Other Long Term Liabilities	(118,426)	0	(118,426)
(410,310)	Pensions Liability	(388,736)	(1,869)	(390,605)
(7,897)	Provisions	(8,969)	0	(8,969)
(770,558)	**Total Long Term Liabilities**	**(840,794)**	**(1,869)**	**(842,663)**
389,016	**Total Assets Less Liabilities**	**418,572**	**(146)**	**418,426**
	Financed by:			
80,108	Usable Reserves	94,448	2,990	97,438
308,908	Unusable Reserves	324,124	(3,136)	320,988
389,016	**Total Reserves**	**418,572**	**(146)**	**418,426**

Group Cash Flow Statement

2014/15 Group £000	Revenue Activities	2015/16 SC £000	Adjustments £000	Group £000
32,573	Net (surplus) or deficit on the provision of services	31,501	(674)	30,827
(95,200)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(107,502)	(801)	(108,303)
45,389	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	59,055	383	59,438
(17,238)	**Net cash flows from operating activities**	**(16,946)**	**(1,092)**	**(18,038)**
6,298	Investing activities	(4,658)	21	(4,637)
4,813	Financing activities	14,888	(524)	14,364
(6,127)	**Net (increase) or decrease in cash and cash equivalents**	**(6,716)**	**(1,595)**	**(8,311)**
54,819	Cash and cash equivalents at the beginning of the reporting period	58,212	2,734	60,946
60,946	**Cash and cash equivalents at the end of the reporting period**	**64,928**	**4,329**	**69,257**

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 (25.7%) £000
Turnover	(63,885)	(16,443)
Cost of Goods Sold and Operating Expenses	61,662	15,871
Interest and Investment Income	144	37
Net Operating Surplus	**(2,079)**	**(535)**
Distribution of Surplus to Member Authorities	2,039	525
NET SURPLUS FOR THE YEAR	**(40)**	**(10)**

G2. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£13.590m) and expenditure (£12.892m) of Shropshire Towns & Rural Housing Limited, giving a net income of £0.698m 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 £11.574m).

G3. Consolidation of IP&E Ltd

The operating income (£13.930m) and expenditure (£13.913m) of IP&E Ltd, giving a net income of £0.016m 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 £2.586m).

G4. Investment included in Group Balance Sheet

	WME £000	SC Share (25.7%) £000
Assets		
Plant & Equipment	27	7
Short term debtors	9,151	2,355
Cash and cash equivalents	4,950	1,274
Total Assets	**14,128**	**3,636**
Liabilities		
Short term creditors	(11,335)	(2,918)
Other long term liabilities	(4,950)	(1,274)
Total Liabilities	**(16,285)**	**(4,192**
Net Investments in Associates and Joint Ventures	**(2,157)**	**(554)**

Section 7

Pension Fund Accounts

Introduction

During the year the Shropshire Fund decreased in value by £19 million to be valued at £1.494 billion at the end of the year. The Fund decreased in value by 0.6% over the year and underperformed its benchmark by 1.3%. This is the first year in seven years the fund has decreased in value, this was largely due to the fall in equity markets throughout the year.

The Shropshire Fund had a variety of positive and negative investment returns in a number of asset classes during the year. The strongest returns were experienced in Private Equity where the Fund's investments increased in value by a notable 19.9% in the year. The Fund has also achieved strong returns in Property rising by 14.3% and Infrastructure increasing by 11.8%. The Funds allocation to Index Linked Bonds also increased by 1.9% in line with the index. However, Hedge Funds delivered a negative return of 3.5% and all of the equity managers with the exception of MFS delivered negative returns during the 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.

During 2015/16, 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.

The 7.5% allocation to Investment Grade Bonds managed by PIMCO was reviewed during 2015/16. 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 was replaced by more Unconstrained Bond Funds in early 2016 which provides further diversification within the Fund and improves 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 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 enables 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.

In March 2016 the Fund reduced its allocation in investment grade corporate bonds by 7.5% by redeeming funds from PIMCO and increasing the allocation to absolute return bonds. In May 2016 the 10% allocation to index linked bonds was also terminated to fund the new allocation to absolute return bonds and Liability Driven Investment. There were no other Fund manager changes during the financial year.

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.

The Government's investment pooling agenda has meant that the Shropshire Fund has been working extremely hard during the year with eight other Funds in the Midlands region in order to meet the tight deadlines set by Government to pool assets by 1 April 2018. The pace of change will only continue to accelerate, most notably with the introduction of LGPS investment asset pooling.

LGPS Central is a major strategic collaboration of eight LGPS funds across the Midlands region. It will be a multi-asset manager, investing approximately £35 billion of assets on behalf of its member funds from 2018 onwards. The aims of LGPS Central will be to deliver cost savings, to build on the existing investment expertise of its member funds through increased scale, resilience, and sharing of knowledge, and to have in place strong governance and decision-making arrangements. It will also aim to make the best use of a blend of internal and external investment management. Working with our partners to develop and implement LGPS Central will be a major strategic focus for the fund over the next two years.

The Pensions Administration Team have had a busy year embedding the Career Average Revalued Earnings (CARE) Scheme, introduced on 1 April 2014. The CARE Scheme brought with it increased workloads and complexities which meant that some existing processes required updating and training was required for the team as well as Fund Employers.

Throughout the year Fund Employers have been supported to try and ensure the data they have to provide to the team is supplied according to the Scheme regulations. To assist with this a middleware service called iConnect went live with two of the largest Fund employers. This enabled data to be transferred directly from the employer's payroll system into the

Pensions administration system. This has helped improve the accuracy of the data received by the Fund.

Members have been kept up to date through the year via various newsletters and updates. The website has been constantly updated with the latest Pensions news and more members are now using the on-line facilities.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2016

2014/15 £000		2015/16 £000
	Income	
	Contributions	
(44,657)	Employers (Note 7)	(45,854)
(14,134)	Employees (Note 7)	(14,235)
(4,339)	Transfers In from other pension funds (Notes 3, 7)	(2,373)
(63,130)	**Total Income**	**(62,462)**
	Expenditure	
	Benefits Payable	
51,090	Pensions (Note 7)	53,069
10,842	Commutation of pensions and lump sum retirement benefits (Note 7)	9,488
1,202	Lump Sums (Note 7)	1,074
	Payment to & Account of Leavers	
81	Refund of contributions (Note 7)	245
4,312	Transfers to other funds (Notes 3, 7)	4,259
67,527	**Total Expenditure**	**68,135**
4,397	**Net additions from dealings with scheme members**	**5,673**
13,764	**Management Expenses (Note 8)**	**13,097**
	Returns on Investments	
(19,248)	Investment Income (Notes 3, 9, 14)	(19,322)
(16,767)	(Gain)/loss on cash and currency hedging	(12,277)
20	Taxes on Income (Note 10)	20
(155,698)	Profits and losses on disposal of investments and changes in value of investments (Note 11)	31,554
(191,693)	**Net (increase) / decrease in the net assets available for benefits during the year**	**(25)**
(173,532)	**(Surplus) / deficit on the pension fund for the year**	**18,745**
1,339,203	**Opening net assets of the scheme**	**1,512,735**
1,512,735	**Closing net assets of the scheme**	**1,493,990**

PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2016

31 March 2015 £000		31 March 2016 £000	%
	Investment Assets		
228,604	Equities	213,865	14.32
	Pooled Investment Vehicles		
159,821	Unitised Investment Vehicles	162,999	10.91
1,082,132	Other Managed Funds	1,077,783	72.14
	Cash Deposits		
39,915	Deposits	38,116	2.55
3,380	Temporary Investments (Note 279)	860	0.06
1,513,852	**Total Investment Assets**	**1,493,623**	**99.98**
	Current Assets		
2,044	Contributions due from Employers (Note 18)	2,262	0.15
1,288	Other Current Assets (Note 18)	1,835	0.12
20	Cash Balances (Note 27)	5	0.00
	Current Liabilities		
(505)	Unpaid Benefits (Note 19)	(380)	(0.03)
(3,964)	Other Current Liabilities (Note 19)	(3,355)	(0.22)
1,512,735	**Net Assets of the Scheme - Available to Fund Benefits as at 31 March**	**1,493,990**	**100.00**

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2016

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 (as amended).

It is a contributory defined benefit 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 152 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

Shropshire County Pension Fund	31 March 2016	31 March 2015
Number of employers with active members	114	99
Number of employees in the scheme		
Shropshire Council	7,605	7,166
Other employers	9,264	8,980
Total	**16,869**	**16,146**
Number of pensioners in the scheme		
Shropshire Council	4,806	4,686
Other employers	4,838	4,723
Total	**9,644**	**9,409**

Shropshire County Pension Fund	31 March 2016	31 March 2015
Number of deferred pensioners in the scheme		
Shropshire Council	7,755	7,265
Other employers	7,919	2,461
Total	**15,674**	**14,449**

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 2016. 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 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 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 the 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 7). Individual transfers in/out are accounted for 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 7). 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 2015/16 this figure is £19,575.

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 administrative 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 the following managers that an element of their fee will be performance related :-
Majedie Asset Management – UK Equities
Pimco Europe Ltd – Absolute Return Bonds
MFS Investment Management –Global Equities
Blackrock – Hedge Fund
Investec Asset Management – Global Equities
Harris Associates – Global Equities
Brevan Howard – Multi Strategy Hedge Fund
Performance related fees in 2015/16 £2.640m (2014/15 £3.928m).

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 2015/16, £0.007m of fees is based on such estimates (2014/15 £0.013m).

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 the 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 International Private Equity and Venture Capital Valuation guidelines 2012.
- 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 20 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 using the International Private Equity and Venture Capital Valuation Guidelines 2012.

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 17. 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 2016 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 International Private Equity and Venture Capital Valuation Guidelines 2012. 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 £65.7 million. There is a risk that this investment may be under or over-stated in the accounts.
Hedge Funds	The hedge funds are 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 £149.1 million. There is a risk that these investments may be under/over - stated 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 2016 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).

2015/16	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contribution Received				
Employees	5,289	2,234	6,712	14,235
Employers	18,687	6,997	20,170	45,854
Transfers In	1,375	76	922	2,373
Total Income	**25,351**	**9,307**	**27,804**	**62,462**
Payments Made				
Pensions	32,484	6,261	14,324	53,069
Lump Sums	3,928	1,982	3,578	9,488
Death Benefits	405	58	611	1,074
Refunds	80	21	144	245
Transfers Out	351	374	3,534	4,259

Total Expenditure	**37,248**	**8,696**	**22,191**	**68,135**

2014/15 comparative figures	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
<u>Contribution Received</u>				
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)**
<u>Payments Made</u>				
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**

This table breaks down the employers contributions amount of £45.854m from the above table.

	2015/16 £000	2014/15 £000
Employers normal contributions	31,199	30,860
Employers deficit contributions	11,333	10,639
Employers augmentation contributions	3,322	3,158
	45,854	**44,657**

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.

	2015/16 £000	2014/15 £000
Administrative costs	817	785
Investment management expenses	11,673	12,451
Oversight and governance costs	607	528
	13,097	**13,764**

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.

The investment management expenses shown below includes £2.640m (2014/15 £3.928m) in respect of performance related fees paid/payable to the Fund's investment managers.

It also includes £0.449m in respect of transaction costs (2014/15 £0.404m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of Investments (see note 11A).

	2015/16 £000	2014/15 £000
Management Fees	7,098	7,186
Performance Fees	2,640	3,928
Other Fees	1,435	841
Transaction Costs	449	404
Custody Fees	51	92
	11,673	**12,451**

The costs incurred by the Council in administering the Fund totalled £0.817m for the year ended 31 March 2016 (2014/15 £0.785m).

	2015/16 £000	2014/15 £000
Employee Costs	541	525
IT	155	129
Printing & Postage	62	60
Office Accommodation	28	22
Subscriptions	14	22
Other Costs	17	27
	817	**785**

The costs incurred by the Council in Oversight and Governance totalled £0.607m for the year ended 31 March 2016 (2014/15 £0.528m).

	2015/16 £000	2014/15 £000
Investment advice	294	202
Employee costs (pensions investment)	138	108
Actuarial advice	5	75
Responsible engagement overlay	48	40
Professional fees	23	23
External audit	27	23
Performance analysis	23	22
Internal audit	17	17
Legal & Committee	15	15
Other Costs	17	3
	607	**528**

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.

	2015/16 £000	2014/15 £000
Interest from Fixed Interest Securities	0	(421)
Dividends from equities	(6,508)	(6,229)
Income from pooled investment vehicles	(3,649)	(3,097)
Interest on cash deposits	(22)	(25)
Other	(9,143)	(9,476)
	!19,322)	**(19,248)**

10. TAXES ON INCOME

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

	2015/16 £000	2014/15 £000
Withholding tax – Fixed interest securities	0	0
Withholding tax - equities	20	8
Withholding tax - pooled	0	12
	20	**20**

11A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

Investment type 2015/16	Value as at 1 April £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Equities	228,604	84,236	(79,570)		(19,405)	213,865
Pooled Investment Vehicles – Unitised Investment Vehicles	159,821	0	0	0	3,178	162,999
Pooled Investment Vehicles – Other Managed Funds	1,082,132	156,834	(143,357)	(2,460)	(15,366)	1,077,783*
Sub total	**1,470,557**	**241,070**	**(222,927)**	**(2,460)**	**(31,593)**	**1,454,647**
Cash deposits – with Managers	39,915	8,468	(8,517)	(1,789)	39	38,116
Temporary Investments	3,380			(2,520)		860
Total	**1,513,852**	**249,538**	**(231,444)**	**(6,769)**	**(31,554)****	**1,493,623**

Investment type 2014/15 comparative figures	Value as at 1 April £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £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)		(61)	0
Equities	207,853	89,382	(87,992)		19,361	228,604
Pooled Investment Vehicles – Unitised Investment Vehicles	131,773	0	0		28,048	159,821
Pooled Investment Vehicles – Other Managed Funds	912,315	116,035	(55,181)		108,963	1,082,132*
Derivative contracts	638	0	(21)		(617)	0
Sub total	**1,314,377**	**209,060**	**(208,574)**	**0**	**155,694**	**1,470,557**
Cash deposits – with Managers	22,241			17,670	4	39,915
Cash deposits – margin balances	(43)			43		0
Temporary Investments	2,650			730		3,380
Total	**1,339,225**	**209,060**	**(208,574)**	**18,443**	**155,698****	**1,513,852**

* Within the Pooled Investment Vehicles - other managed funds total of £1077.783m are £214.739m of level 3 investments as at 31 March 2016. The value of the level 3 investments were £218.741m as at 1st April 2015 which increased to £214.739m as at 31 March 2016. The decrease in value is due to purchases of £23.896m, sales of £22.247m and change in market value of -£5.651m.

** The total change in market value for 2015/16 as per the table above is -£31.554m. This figure is made up of profit on sales of £28.599m and also the difference between book cost and market value for the whole Fund which for 2015/16 was -£60.153m.

11B. ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVE CONTRACTS)

	2015/16 £000	2014/15 £000
Fixed Interest Securities		
Overseas		
Public sector quoted	0	0
Total Fixed Interest Securities	**0**	**0**
Equities		
UK		
Quoted	103,007	103,656
Overseas		
Quoted	110,858	124,948
Total Equities	**213,865**	**228,604**
Pooled Funds – additional analysis		
UK		
Index Linked Bonds	162,999	159,821
Unit Trusts	11,075	10,410
Overseas		
Unit Trusts	753,072	780,065
Hedge Funds	149,051	154,404

	2015/16 £000	2014/15 £000
Pooled property investments	77,526	62,970
Private Equity	65,688	64,337
Infrastructure	21,371	9,946
Total Pooled Funds	**1,240,782**	**1,241,953**
Total	**1,454,647**	**1,470,557**

12. 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.

13. 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.

14. STOCK 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).

Collateralised lending generated income of £0.079m in 2015/16 and this is included within investment income in the Pension Fund Account. At 31 March 2016 £7.971m worth of stock (via the Custodian) was on loan, for which the Fund was in receipt (via the Custodian) of £8.604m worth of collateral representing 108% of stock lent.

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. During the period stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

15A. 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 2016			31 March 2015		
	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						
Equities	213,865	0	0	228,593	0	0
Pooled Investment Vehicles – Unitised Investment Vehicles	162,999	0	0	159,821	0	0
Pooled Investment Vehicles – Other Managed Funds	1,077,783	0	0	1,082,132	0	0
Cash	0	38,981	0	0	43,325	0
Debtors	0	4,097	0	0	3,332	0
Total Assets	**1,454,647**	**43,078**	**0**	**1,470,546**	**46,657**	**0**
Financial Liabilities						
Creditors	0	0	(3,735)	0	0	(4,468)
Total Liabilities	**0**	**0**	**(3,735)**	**0**	**0**	**(4,468)**
Total	**1,454,647**	**43,078**	**(3,735)**	**1,470,546**	**46,657**	**(4,468)**

15B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2015/16 £000	2014/15 £000
Financial Assets		
Fair value through profit and loss	(31,554)	155,698
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
	(31,554)	**155,698**

15C. 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 a quarter behind so the valuation in the accounts is as at 31st December 2015. 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 2015/16	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	105,961	105,961		
	Harris Associates	Global Equities	107,897	107,897		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	162,999	162,999		
	Majedie Asset Management	UK Pooled Fund	11,075	11,075		
	Pimco Europe Ltd	Global Aggregate Bonds	104,506	104,506		

Asset type 2015/16	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
	MFS	Global Equities	134,460	134,460		
	HarbourVest Partners Ltd	Private Equity	65,688			65,688
	Aberdeen Property Investors	Property Unit Trusts	77,525		77,525	
	Blackrock	Hedge Fund	75,029			75,029
	Global Infrastructure Partners	Infrastructure	21,371		21,371	
	Legal & General	Global Equities	290,816	290,816		
	Investec	Global Equities	124,194	123,194		
	Brevan Howard	Hedge Fund	74,022			74,022
	Blackrock	Fixed Interest	100,096	100,096		
Net Current Assets (incl cash)			39,351	39,351		
Total			**1,493,990**	**1,181,355**	**98,896**	**214,739**

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	
	Legal & General	GlobalEquities	304,277	304,277		
	Investec	Global Equities	129,486	129,486		
	Brevan Howard	Hedge Fund	77,090			77,090
Net Current Assets (incl cash)			42,189	42,189		
Total			**1,512,735**	**1,221,077**	**72,917**	**218,741**

16. 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:

PENSION FUND ACCOUNTS

Asset Type	Potential market movements (+/-)
UK Equities	10.7%
Global Equities	9.8%
Property	2.4%
Private Equity	4.6%
Hedge Funds	4.6%
Absolute Return Bonds	2.8%
UK ILG over 5 years	9.6%
Infrastructure	4.6%

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 2015/16	Value as at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash	39,343	0	39,343	39,343
Investment Portfolio Assets				
UK Equities	114,082	12,207	126,289	101,875
Global Equities	659,329	64,614	723,943	594,715
Corporate Bonds	204,602	5,729	210,331	198,873
Property	77,525	1,861	79,386	75,664
Private Equity	65,688	3,022	68,710	62,666
Hedge Funds	149,051	6.856	155,907	142,195
UK Index linked Gilts over 5 years	162,999	15,648	178,647	147,351
Infrastructure	21,371	983	22,354	20,388
Total assets available to pay benefits	**1,493,990**	**110,920**	**1,604,910**	**1,383,070**

Asset type 2014/15	Value as at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash	42,189	0	42.189	42.189
Investment Portfolio Assets				
UK Equities	114,066	11,749	125,815	102,317
Global Equities	691,124	61,925	753,049	629,199
Corporate Bonds	213,878	5,497	219,375	208,381
Property	62,970	2,286	65,256	60,684
Private Equity	64,337	3,120	67,457	61,217
Hedge Funds	154,404	7,056	161,460	147,348
UK Index linked Gilts over 5 years	159,821	15,327	175,148	144,494
Infrastructure	9,946	433	10,379	9,513
Total assets available to pay benefits	**1,512,735**	**107,393**	**1,620,128**	**1,405,342**

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 2016 and 31 March 2015 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2016 £000	As at 31 March 2015 £000
Cash and cash equivalents	35,656	39,915
Cash balances	5	20
Index Linked Bonds	162,999	159,821
Corporate Bonds	204,602	213,878
Total change in assets available	**403,262**	**413,635**

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 As at 31 March 2016	Carrying amount £000	Effect on asset values +100BPS £000	-100BPS £000
Cash and cash equivalents	35,656	0	0
Cash balances	5	0	0
Index Linked Bonds (average 25 years)	162,999	(40,750)	40,750
Absolute Return Strategy IV Fund (-1.87 years)	104,506	4,013	(4,013)
Global Investment Grade Credit Fund (5.67 years)	100,096	(1,692)	1,692
Total change in assets available	**403,262**	**(38,428)**	**38,428**

Asset type As at 31 March 2015	Carrying amount £000	Effect on asset values +100BPS £000	+100BPS £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**

This analysis demonstrates that a 1% increase in interest rates 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.

During 2015/16 the Fund received £0.022m in interest from surplus pension fund revenue cash. This was either invested in call accounts which are classified as a variable rate investment or a fixed term deposit. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.055m. The impact of a 1% fall in interest rates would be a £0.022m reduction in interest received as this would imply negative interest rates. It is therefore assumed no interest would have been received or charged on these investments.

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 2016 and as at the previous year end:

Currency exposure – asset type	As at 31 March 2016 £000	As at 31 March 2015 £000
Overseas Equities	354,361	368,515
Overseas Pooled Equity	100,096	0
Overseas Private Equity	68,239	67,925
Overseas Pooled Property	24,320	15,043
Overseas Government Bonds	22,948	0
Overseas Infrastructure	0	16,067
Total change in assets available	**569,964**	**467,550**

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 6% (as measured by one standard deviation). A 6% 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 6% 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	Asset value as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+6%	-6%
As at 31 March 2016	£000	£000	£000
Overseas Equities	354,361	375,425	333,296
Overseas Fixed Interest	100,096	106,046	94,146
Overseas Private Equity	68,239	72,296	64,183
Overseas Pooled Property	24,320	25,766	22,874
Overseas Infrastructure	22,948	24,312	21,584
Total change in assets available	**569,964**	**603,845**	**536,083**

Currency exposure - asset type As at 31 March 2015	Carrying amount £000	Change in year in the net assets available to pay benefits +5% £000	 -5% £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**

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	As at 31 March 2016 £000	As at 31 March 2015 £000
Natwest Instant Access Account	BBB+	0	1,380
Handelsbanken Instant Access Account	AA	860	2,000
Total		**860**	**3,380**

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 2016 was £24.747m. The Fund does not have access to an overdraft facility. All financial liabilities at 31 March 2016 are due within one year.

17. 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 were 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

18. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2016. An analysis of debtors is shown below:

	2015/16 £000	2014/15 £000
Central Government bodies	5	9
Other Local Authorities	1,949	1,679
NHS Bodies	0	1
Other entities and individuals	2,143	1,643
Total	**4,097**	**3,332**

19. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2016. An analysis of creditors is shown below:

	2015/16 £000	2014/15 £000
Other Local Authorities	1,852	1,239
Other entities and individuals	1,883	3,229
Total	**3,735**	**4,468**

20. 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 2009/3093).

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member.

At present there are around 497 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2015/16 contributions to the schemes amounted to £0.474m. The combined value of the AVC funds as at 31 March 2016 was £4.276m.

21. 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 £0.977m (2014/15 £0.906m) 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 £18.523m (2014/15 £18.686m). 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, and Nigel Neat, Unison representative, are also members of the Fund.

Legislation which came 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 join 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.

22. CONTRACTUAL COMMITMENTS

The Fund has a 5% (£75 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 2016 £129m 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 2016 the funds Private Equity investments totalled £65.688m.

23. CONTINGENT ASSETS

14 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.

24. VALUE ADDED TAX

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

25. 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 Custodian's own assets.

26. 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.

27. 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 2016 £0.860 million was invested. The cash balance in the Pension Fund account as at the same date was £0.005 million. During 2015/16 all expenditure was still being paid by Shropshire Council on behalf of the Fund and this was reimbursed to Shropshire Council on a monthly basis.

In April 2016 a second bank account was opened and from 27th April 2016 the Fund will have the capacity to make all payments direct from this account including the monthly pensioner payroll. The Fund will no longer require Shropshire Council to make payments on its behalf and therefore the monthly transfer to Shropshire Council will no longer be necessary.

28. FUND STRUCTURE UPDATE

At the March 2015 Pensions Committee, members, (under guidance from the Fund Advisers), decided to undertake a manager selection exercise to appoint a Liability Driven Investment (LDI) Manager and two unconstrained bond managers. This would be achieved by replacing the L&G index linked gilt allocation as well as the Pimco Investment grade corporate bond investment.

At the June 2015 Committee Blackrock and Global Asset Management (GAM) were appointed as unconstrained bond managers and BMO Global Asset Management (BMO) as the LDI Manager. The process to transfer funds from Pimco to Blackrock took place in March 2016, whereas the L&G to BMO and GAM transfers were not completed until April and May 2016 respectively.

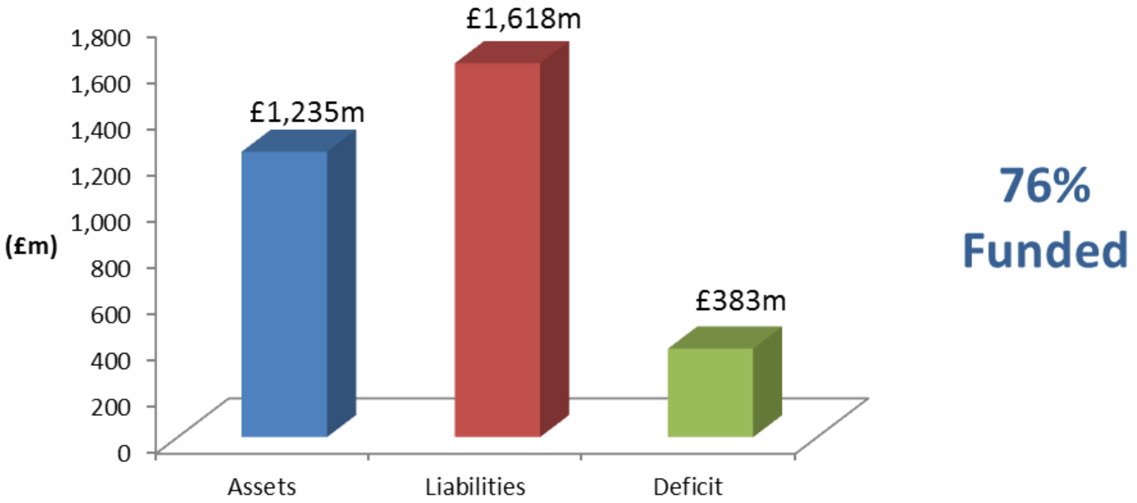
SHROPSHIRE COUNTY PENSION FUND

Accounts for the year ended 31 March 2016
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 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £2,181 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by *c*£118 million. Adding interest over the year increases the liabilities by *c*£72 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further *c*£9 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 2016 is therefore £2,144 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2016

TO BE UPDATED FOLLOWING AUDIT OF 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 2016 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 2015/16.

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 & Assurance's Responsibilities, the Head of Finance, Governance & Assurance is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance & Assurance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited pension fund 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 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 pension fund financial statements.

John Gregory,
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands B4 6AT

xx September 2016

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

2014/15 £		2015/16 £	2015/16 £
	Expenditure		
4,743,484	Repairs & Maintenance	4,332,865	
3,266,387	Supervision and Management	3,617,899	
117,734	Rents, rates taxes and other charges	140,092	
4,262,170	Depreciation - Dwellings	4,400,340	
43,030	- Other	40,030	
(7,397,450)	Impairment, revaluation losses and (reversals of impairment or revaluation losses)	2,977,643	
6,540	Debt Management Costs	16,500	
(23,620)	Provision for Bad or Doubtful Debts	63,000	
5,018,275	**Total Expenditure**		**15,588,368**
	Income		
(17,197,625)	Dwelling Rents	(17,963,955)	
(175,657)	Non Dwelling Rents	(174,096)	
(27,200)	Other Income	(7,619)	
(308,431)	Charges for Services and Facilities	(324,869)	
(921,849)	Contributions towards expenditure	(314,510)	
(18,630,761)	**Total Income**		**(18,785,048)**
(13,612,487)	**Net Cost of HRA Services included in the Comprehensive I&E Statement**		**(3,196,680)**
178,275	HRA Share of Corporate & Democratic Core		193,757
(13,434,212)	**Net Cost of HRA Services**		**(3,002,924)**
(67,493)	(Gain) or loss on sale of HRA Assets		(489,886)
2,994,856	Interest payable and similar charges		2,993,944
(39,267)	Interest and Investment Income		(42,995)
(20,561)	Income & Expenditure in relation to investment properties & change in fair values		45,045
(10,566,676)	**(Surplus) or deficit for the year on HRA Services**		**(496,815)**

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2014/15 £		2015/16 £
(2,546,067)	**Balance on the HRA at the end of the previous year**	**(3,075,951)**
(10,566,676)	**(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement**	**(496,815)**
10,036,792	Adjustments between accounting basis and funding basis under statute	(2,251,257)
(529,884)	**Net increase or (decrease) before transfers to or from reserves**	**(2,748,073)**
0	Transfers to or (from) Reserves	0
(529,884)	**(Increase) or Decrease in year on the HRA**	**(2,748,073)**
(3,075,951)	**Balance on the HRA at the end of the current year**	**(5,824,024)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

	2015/16	2014/15 Restated
Total Number of Dwellings at 31 March :		
Houses and Bungalows	3,244	3,261
Flats	869	874
	4,113	**4,135**
Change in Stock		
Stock at 1 April	4,135	4,115
Less: Sales – Right to Buy	(31)	(28)
Sales – Other	0	0
Disposal/restructuring	0	(1)
Acquisition – full ownership	6	38
Acquisition – shared ownership	3	11
	4,113	**4,135**

2. RENT ARREARS

	2015/16 £	2014/15 £
Due from Current Tenants	103,600	88,137
Due from Former Tenants	102,131	83,388
Total Rent Arrears as at 31 March	**205,731**	**171,525**
Pre-Payments	(310,860)	(321,652)
Net Arrears	**(105,130)**	**(150,127)**

As at 31 March 2016, the total provision set aside for housing rent bad debts is £353,875.

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 2015	170,500,584	767,000	1,514,751	172,782,336	309,999	734,777	173,827,112
Additions	3,539,093	0	1,390,633	4,929,727	0	0	4,929,727
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	965,910	(7,000)	0	958,910	0	0	958,910
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(15,711,054)	0	0	(15,711,054)	(64,999)	(899)	(15,776,952)
Derecognition - disposals	(1,328,181)	0	0	(1,328,181)	0	(1,045,228)	(2,373,409)
Derecognition - other	(39,000)	0	0	(39,000)	0	0	(39,000)
Assets reclassified (to)/from Held for Sale	(335,100)	0	0	(335,100)	0	335,100	0
Other movements in cost or valuation	561,201	0	(1,064,411)	(503,210)	0	0	(503,210)
As at 31 March 2016	**158,153,455**	**760,000**	**1,840,973**	**160,754,428**	**245,000**	**23,750**	**161,023,178**
Accumulated Depreciation and Impairment							
At 1 April 2015	**(8,970,220)**	**(20,720)**	**0**	**(8,990,940)**	**0**	**0**	**(8,990,940)**
Depreciation Charge	(4,430,010)	(10,360)	0	(4,440,370)	0	0	(4,440,370)
Depreciation written out to the Revaluation Reserve	89,010	31,080	0	120,090	0	0	120,090
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,734,310	0	0	12,734,310	0	0	12,734,310
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition - disposals	67,700	0	0	67,700	0	0	67,700
Derecognition - other	6000	0	0	6,000	0	0	6,000
Other movements in depreciation and impairment	503,210	0	0	503,210	0	0	503,210
As at 31 March 2016	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Book Value							
As at 31 March 2016	**158,153,455**	**760,000**	**1,840,973**	**160,754,428**	**245,000**	**23,750**	**161,023,178**
As at 31 March 2015	**161,530,364**	**746,280**	**1,514,751**	**163,791,396**	**309,999**	**734,777**	**164,836,172**

There is a difference of £313.559m between the tenanted valuation and the District Valuer's Vacant Possession Value of £475.089m at 1 April 2015.

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 providing council housing at less than market rents.

4. MAJOR REPAIRS RESERVE

	2015/16 £	2014/15 £
Balance Brought Forward	1,635,524	3,722,229
Amount Transferred to the MRR during the Year	4,440,370	4,305,200
Capital Expenditure Financing	(3,273,194)	(6,391,905)
Balance Carried Forward	**2,802,700**	**1,635,524**

5. CAPITAL EXPENDITURE FINANCING

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

	2015/16 £	2014/15 £
Usable Capital Receipts	1,355,034	147,780
Revenue Contributions utilised in year	0	1,650,000
Major Repairs Allowance	3,273,194	6,391,905
Government Grants and Contributions	314,510	921,849
Total Capital Expenditure on Housing Stock	**4,942,737**	**9,111,534**

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.

	2015/16 £	2014/15 £
Sale of Council Houses under Right to Buy (RTB)	1,709,750	1,614,500
Other Land & Buildings	1,157,644	103,750
Total Capital Receipts from HRA Asset Disposals	2,867,394	1,718,250
Less Capital Receipts subject to Pooling requirement	(600,488)	(538,587)
Net Capital Receipts from HRA Asset Disposals	**2,266,906**	**1,179,663**

7. HOUSING REPAIRS ACCOUNT

	2015/16 £	2014/15 £
Balance Brought Forward 1 April	25,000	25,000
Expenditure on Capital	0	0
Balance Carried Forward 31 March	**25,000**	**25,000**

8. CAPITAL ASSET CHARGES ACCOUNTING ADJUSTMENT

	2015/16 £	2014/15 £
Interest paid on mid-year HRA Capital Financing Requirement	66,692	67,604
Less Impairment	(3,042,642)	(332,854)
Capital Asset Charges Accounting Adjustment	**(2,975,950)**	**(265,250)**

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.

COLLECTION FUND

2014/15 Total £000		Council Tax £000	2015/16 NDR £000	Total £000
	Income:			
(154,576)	Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)	(158,061)		(158,061)
0	Income from Specific Grants	(47)		(47)
	Transfers from General Fund			
3	- Transitional relief	2		2
(76,294)	Income collectable from business ratepayers		(75,520)	(75,520)
257	Transitional Protection Payments		(337)	(337)
(230,610)	**TOTAL INCOME**	**(158,105)**	**(75,857)**	**(233,962)**
	Expenditure:			
	Precepts			
160,339	- Shropshire Council and Parish and Town Councils	125,587	39,166	164,753
18,314	- West Mercia Police & Crime Commissioner	19,039	0	19,039
9,848	- Shropshire & Wrekin Fire Authority	9,444	799	10,244
38,170	- Central Government	0	39,965	39,965
	Charges to Collection Fund			
464	- costs of collection	0	463	463
	Bad and doubtful debts			
(1,037)	- write offs	(24)	(375)	(399)
1,353	- provisions	572	594	1,166
	Appeals rates			
(1,993)	- write offs	0	(2,258)	(2,258)
8,122	- provisions	0	3,852	3,852
	Contributions			
450	- Towards previous year's estimated Collection Fund surplus	5,061	(1,906)	3,155
234,031	**TOTAL EXPENDITURE**	**159,680**	**80,301**	**239,980**
3,421	**Deficit/(Surplus) for the Year**	**1,575**	**4,443**	**6,018**
(425)	Balance brought forward	(4,920)	7,916	2,996
2,996	**Balance carried forward**	**(3,346)**	**12,360**	**9,014**

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 2015/16 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	28.38	5/9	15.77
A	15,363.75	6/9	10242.50
B	26,223.78	7/9	20396.27
C	23,915.73	8/9	21258.43
D	17,655.92	9/9	17655.92
E	13,428.08	11/9	16412.10
F	7,312.61	13/9	10562.66
G	4,069.49	15/9	6782.48
H	254.9	18/9	509.80
			103,835.93
Adjustment for MoD Properties (665.43 Band D Equivalents) and Collection Rate (98.0%)			(1,424.60)
			102,411.33

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 2016, the total non-domestic rateable value for all business premises in Shropshire was £203,209,572. The multiplier set by Government to calculate rate bills in 2015/16 was 48.0p for small businesses and 49.3p 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.

GLOSSARY

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.

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.

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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.

GLOSSARY

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 cannot 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.

Statement of Accounts

2015 – 2016

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Shropshire SY2,6ND

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SHROPSHIRE COUNCIL ANNUAL GOVERNANCE STATEMENT 2015/16

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.

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 its functions. This 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://staff.shropshire.gov.uk/committee-services/documents/s11249/Part5CodesandProtocols.doc.pdf. This statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2015, 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 2016, 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 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's main roles are: to report on matters she believes are, or are likely to be, illegal or amount to maladministration; to be responsible for matters relating to the conduct of Councillors and Officers and to be responsible for the operation of the Council's Constitution. **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. The incumbent Leader's resignation in November 2015 brought about a change in Leader and Cabinet members. Key decisions are published in the Executive Forward Plan and are discussed with Council officers at a meeting of the Cabinet, 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. Decisions outside of the budget or policy framework 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 Section 151 Officer) and the Monitoring Officer (Head of Legal and Democratic Services) the roles of whom 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 conform 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 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. He devolves formally 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 proposed 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 and members and appropriate induction sessions are arranged for all new staff and members.

16. The Head of Legal and Democratic Services is also 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 handling and 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.

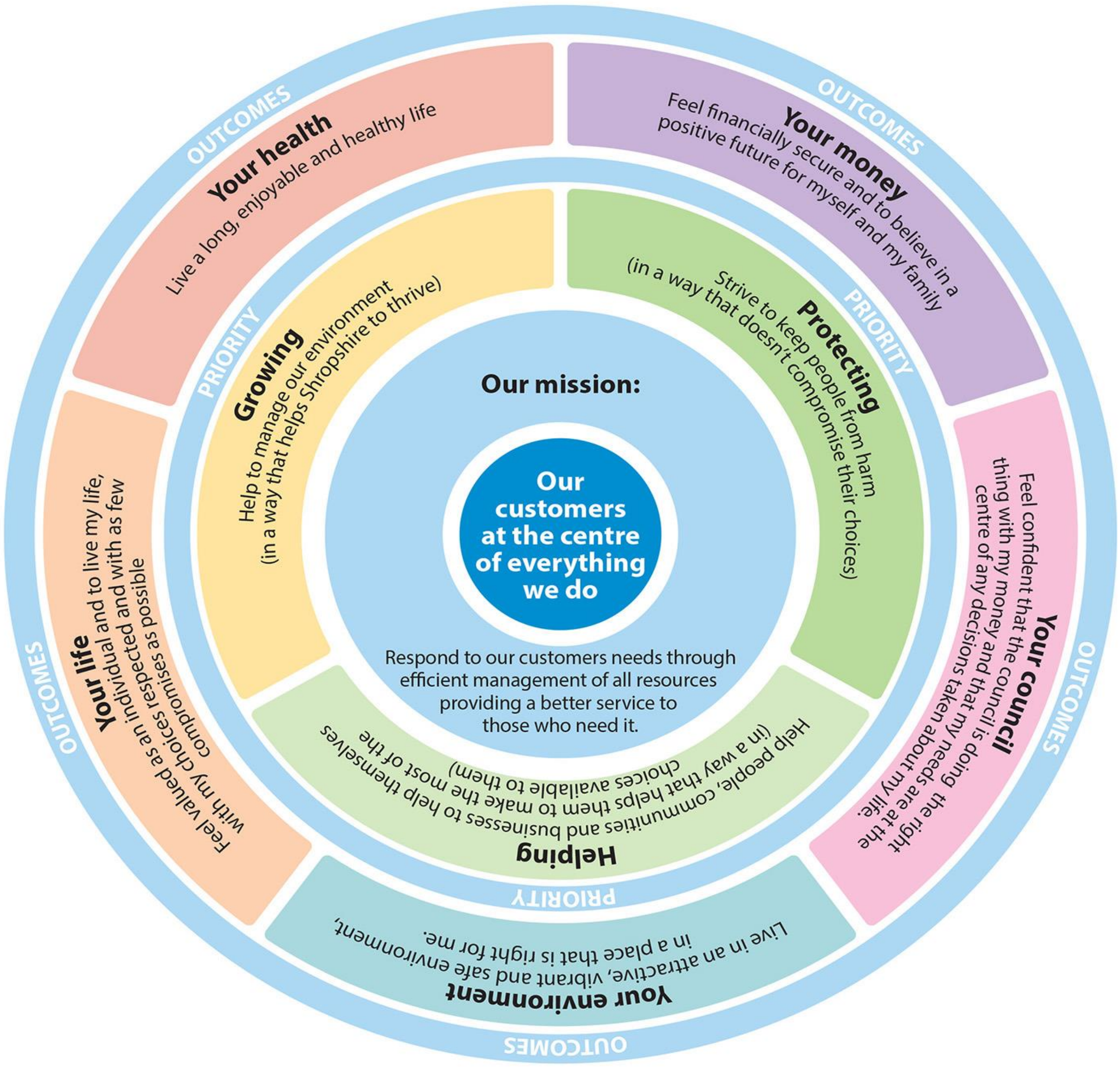
17. Monitoring of compliance is delivered by relevant key officers, including the Section 151 Officer and the Monitoring Officer.

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 visits places of work regularly 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 2016/17. 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 commissioned a review of its Inspiring Partnerships and Enterprise initiative (ip&e), comprising two companies: ip&e Limited and ip&e Trading. The review sought to determine if the company had achieved its objectives as a wholly owned separate trading entity or whether the business activities, commercial practice and income generation could be achieved more efficiently and effectively within the Council or another entity. The review agreed to cease the Company's operation and return the services to the Council. A high level Directors' Commissioning Group was established to monitor the overall progress of all new delivery models. Individual directors are responsible for the effective management of change and transformation in their areas but also report through to this Group, where relevant. The Council will review the close down of ip&e and the separate external audit of ip&e yet to be completed and will identify opportunities for learning arising therefrom. This will be reported as appropriate to the Audit Committee and, as far as is relevant and necessary, in the 2016/17 Annual Governance Statement of the Council.


Our mission:
Our customers at the centre of everything we do
Respond to our customers needs through efficient management of all resources providing a better service to those who need it.
PRIORITY
Growing
Help to manage our environment (in a way that helps Shropshire to thrive)
PRIORITY
Protecting
Strive to keep people from harm (in a way that doesn't compromise their choices)
PRIORITY
Helping
Help people, communities and businesses to help themselves (in a way that helps them to make the most of the choices available to them)
OUTCOMES
Your health
Live a long, enjoyable and healthy life
OUTCOMES
Your money
Feel financially secure and to believe in a positive future for myself and my family
OUTCOMES
Your council
Feel confident that the council is doing the right thing with my money and that my needs are at the centre of any decisions taken about my life.
OUTCOMES
Your environment
Live in an attractive, vibrant and safe environment, in a place that is right for me.
OUTCOMES
Your life
Feel valued as an individual and to live my life, with my choices respected and with as few compromises as possible

21. 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.

22. The initial savings required for the period 2014-17 were agreed by Council in February 2014. Over the three year period, savings of £80m were identified as required, £66.333m by 2015/16.

23. In February 2015, review of progress on achievement of savings to set the 2015/16 budget identified some slippage in achievement and also further savings required to offset growth of £28.442m.

24. Throughout 2015/16 regular monitoring reports have been considered by Cabinet. The monitoring considers both achievement of savings and other expenditure and income variations. 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 2015/16 budget, the details of which appear in the quarterly revenue monitoring reports to Cabinet.

25. In February 2016, Council agreed the financial strategy for 2016/17 to 2018/19. For 2016/17, which was the third and final year of the financial strategy 2014-17, projections of resources and expenditure have been revised and, after taking into account slippage on achievement of 2015/16 savings and new pressures identified largely in Adults services, proposals to meet a funding shortfall of £47.474m were agreed.

26. There is an established Opportunity Risk Management Strategy in place supported by a Risk Management Governance Structure of officers and members which has key responsibilities for maintaining the profile of risk management across all areas of service. The Strategy is signed and endorsed by the Chief Executive.

27. The strategic risks to the Council have been identified. Action plans have been prepared to mitigate these risks and are aligned to them. The plans are designed to minimise disruption to the delivery of the Council's outcomes where possible. The strategic risks are updated bi-monthly and reported to the Directors and informal Cabinet meetings. All committee reports include a section on risk assessment and opportunities appraisal and all risks are allocated an owner.

28. The Council recognises the importance of communicating its vision and uses a number of channels to this effect.

29. The Council regularly consults with the public on strategic decisions and service developments. During 2015/16 the Council responded to the increasing challenge of reducing funding from Government and the need to make hard decisions about how services will be delivered in the future by developing and launching the Big Conversation. Split into two phases, the Big Conversation combines communication with the development of a sustainable engagement framework. The first phase utilised external expertise from a national market research company (Pye Tait Ltd) and used a survey, focus groups and action planning workshops to develop a comprehensive and statistically viable view of perceptions relating to the Council's Financial Strategy 2016/17 to 2018/19. The findings have informed the decision to raise Council Tax by the maximum 1.99% as well as the 2% precept for Adult

Social Care, and confirmed the Financial Strategy focus on which service areas should be protected in future years. They also informed ongoing work with public sector partners, town and parish councils, the Voluntary Community and Social Enterprise sector, communities and individuals to see if there are different ways of delivering services which are valued in communities with little or no money. The second phase of the Big Conversation will run from April 2016 and will develop the sustainable engagement framework for the Council and its partners.

Locality commissioning

30. Shropshire Council has continued to commission services and activity locally, developing a number of commissioning models which have resulted in a range of community based activities being delivered differently. Soft market testing, use of local intelligence and consultation enable robust assessments of need to be undertaken. This leads to the design of services and activity that reflects both strategic and local need. In 2015/16 a number of library services and Customer First Points, plus activities for young people have all been commissioned locally. The Council has also been able to delegate the responsibility for the provision of youth activity to Shrewsbury Town Council and transfer areas of amenity land and public open space to town councils. These approaches enable a very local design for the management of services and assets along with the opportunity for other resources, such as external funding, volunteers and other assets to be employed and maximised to add value for communities.

31. Reports taken to Cabinet describe the council's approach to the redesign of the library service and customer service points, and the locality commissioning of youth activity.

32. Shropshire Council's Local Joint Committees (LJCs) are instrumental in the locality commissioning process, either by commissioning taking place through them, as with youth activity, or by providing local intelligence that informs commissioning design. LJCs continue to provide a local public forum for discussions on services and assets to take place as well as providing a local partnership structure for Shropshire Council and town and parish councils. There will be a review of the LJCs in 2016/17 to ensure that they evolve in line with the changes affecting Shropshire Council, town and parish councils and communities.

Commissioning

33. During 2015/16 the Council reviewed the functions which support effective commissioning and developed a support unit to work across the Council. The Commissioning Support Unit brings together teams that:
    - acquire and manage data;
    - provide engagement;
    - collect and analyse feedback developing insights;
    - provide performance management and policy advice;
    - support and develop intelligence;
    - support effective procurement and contract management;
    - Support strategic commissioning development.

    Short term benefits are already emerging with better sharing of skills and knowledge and the building of working groups around topics and issues. The new unit enables the right challenge and support to be integrated into teams with operational staff and lead senior officers/commissioners, and supports the move to intelligence driven decision making.

Contracts review

34. One of the key areas of work for the Commissioning Support Unit team continues to be the establishment of a consistent approach to contract management that ensures key principles are followed in order to develop a more cohesive and robust way of monitoring and managing

contracts. An analysis is underway looking at the top 80% by value of contractor expenditure and reviewing and matching this against the specific contractual arrangements and documentation in place. This will identify the contractual arrangements currently in place and ensure there is a central electronic repository of procurement and contract documentation in order to assist commissioners when re-commissioning or decommissioning services. This will also assist the Council to ensure that consistent outcomes, values and performance measures are built into new contract arrangements. Finally, this work will assist in the development of a contract management framework together with guidance for commissioners and help to target ongoing skills development requirements.

Counter fraud

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 senior management 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 leadership toolkit. Staff can discuss development needs with their manager and identify relevant training from a core skills programme. Managers have access to a management development programme and supporting toolkit covering HR related topics. An organisation wide coaching group provides support using a range of tools to help people through change.

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 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 principles and guidelines for effective partnership working between Shropshire's public sector bodies and the Voluntary and Community Sector (VCS). It acts as guidance to ensure shared understanding of responsibilities and obligations and works towards best practice in partnership arrangements. A cross sector Change and

Compact Group leads compact work for the County ensuring it is considered in all strategic change projects, new policies and integrated into cross-sector projects.

42. The VCS Assembly has around 250 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 disability, health and social care, criminal justice etc.). The Assembly undertakes regular communication activity to involve its members in events, tender opportunities, consultations and to promote funding opportunities. It works to establish cross sector working and co-production in the development of new policy, programmes and guidance. Public sector representatives work closely with the VCS Assembly representatives through the VCS Assembly Board and a wide range of task groups linked to local partnership structures.

43. 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. The Health and Wellbeing Board acts as the coordinating body for health and social care related areas of partnership.

44. There are weekly Chief Operating Officer Meetings between Social Care, Shrewsbury and Telford Hospital (SATH), the Clinical Commissioning Group (CCG) and Shropshire Community Trust. On a case by case basis in relation to Clinical Health Commissioning (CHC) funding, agreement is reached through a multi-disciplinary CHC process which includes a social worker assessment. CHC funding income is reviewed on a monthly basis by senior managers in adult social care and a dispute process is in place. The Head of Operations has regular meetings with the CHC lead nurse at the CCG.

45. Better Care Fund activity is reviewed through the Health and Wellbeing Delivery Group and Health and Wellbeing Board. The Transforming Care Partnership (TCP) Board is joint with Telford and Wrekin and reports to the Health and Wellbeing Board. The TCP Board includes senior managers in adult social care.

46. The Strategic Transformation Plan is being developed with health and social care partners across the whole health and social care economy including Telford and Wrekin

47. 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'. It includes arrangements for checking how ST&RH performs to make sure high standards are maintained.

Review of effectiveness – how does the Council know its arrangements are working?

48. 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.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

49. 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 of the Council or steps are being taken to address known areas of weakness.

50. 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 is 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.

51. The Council has implemented the actions agreed in the 2014/15 Annual Governance Statement. A summary of which appear below:

An Information Communications Technology Strategy has been implemented

Work to develop the ICT strategy is underway, but is delayed slightly. The Council has experienced difficulties in appointing a Head of IT to lead on this.

Improved governance arrangements for commissioning and the robust monitoring of contracts are in place

A review of the top fifty contracts was completed and a single team (Commissioning Support Unit) established to manage and monitor all of the key areas across the commissioning cycle including contract management. A central electronic repository of procurement and contract documentation is being established alongside development of a contract management framework with guidance for commissioners and help to target ongoing skill requirements.

The Commissioning Approach web based tool was updated to further enhance this area. New governance arrangements were put in place (Commissioning Directors' Group) to ensure all new commissioning, recommissioning and decommissioning has a single avenue for approval.

Commissioning of new youth activity has taken place through the Local Joint Committees, coordinated by the Community Enablement Team. A locality commissioning approach has also been taken to transfer the management of local libraries and customer service points to community based organisations, led by the Area Commissioner and Locality Commissioning Managers. Further opportunities will be progressed in 2016/17 with town and parish councils and local voluntary sector organisations.

The Council's Business Plan and Financial Strategy has been regularly monitored to deliver a balanced budget

The Council continued regular monitoring and review of delivery against the second year of the Council's Business Plan and Financial Strategy and adjusted plans as required at Director and Cabinet levels to achieve a balanced budget for 2016/17. This was achieved and approved by Council on 25 February 2016.

The Corporate Plan, ICT and Workforce Development Strategies are all in development, but have been progressed significantly, specifically for alignment to the new Medium Term Financial Plan and 2017/18 Budget.

The Council's Business Plan and Financial Strategy has been regularly monitored to deliver outcomes through commissioning

The Council continued regular monitoring and review of delivery against the second year of the Council's Business Plan and Financial Strategy to deliver outcomes, whilst managing demand and exploring different delivery methods through commissioning. Following lessons learnt in 2015/16, it has refreshed its business plan and financial strategy and reviewed its approach to commissioning which has led to significant changes and the drafting of a Corporate Plan to redirect Council services.

A new model of commissioning youth activities based on identified need using a needs analysis including one around rurality was developed. This replaced the former universal approach that the Council adopted. Commissioning of youth activities has been led at a local level via the Local Joint Committee's and local members to maximise the local intelligence and to ensure value for money on the reduced budget that was available. Work was undertaken to review a number of bus routes including the Park and Ride service and to encourage competition in the corresponding marketplace. As a result of this work £497k annual savings have been achieved with little change to the outcomes originally scoped.

A workforce plan aligned to business plans and supported by our staff development processes is implemented

Staffing 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 the Council has invested in consultants to meet an interim skills gap and, although unsuccessful in recruiting a Head of IT, has moved quickly to progress a solution.

Robust business cases for any project involving redesign and new delivery models are in place

Guidance for providing business cases was reviewed, updated and requires the inclusion of key areas:

- Service description and vision;
- Full options appraisal of the alternative delivery models;
- Financial statement;
- Market assessment;
- Staff assessment;
- Summary of assets being included (if a service is transitioning out of the Council);
- Equality impact and social inclusion needs assessment;
- Risk assessment;
- Timescales and timetable of activity.

The comprehensive business case is now subject to a robust decision making process:

- The officer with lead responsibility for the redesign or new service delivery model
    a. Ensures that the business case meets the expectations of the guidance and that the information provided is accurate and allows for the decision making process to be followed.
    b. Is accountable for considering the need to communicate the business case to directors and the appropriate portfolio holders throughout the process.
    c. Ensures that the business case and supporting report is subject to approval by Shropshire Council's Cabinet.
- Shropshire Council's Cabinet have the opportunity to accept the business case, ask for further information, or reject it.
- Once approved, the lead responsible officer is accountable for implementing the recommendations and next steps to progress the Business Case.

Whilst the business case process is well documented, the consistency and quality of its application has been variable. Increased communication, challenge and adoption of the process is required.

Safeguarding governance arrangements have been reviewed

Adult and Children's Services are continually reviewing Safeguarding processes in light of new and emerging guidance, national and local issues. A review of the governance arrangements for the key health, well-being and safeguarding forums has commenced but has not yet been completed, and is continuing through 2016/17. An Independent Adult Safeguarding Board was re-established, April 2015, in accordance with requirements of the Care Act with an independent Chair; a Designated Adult Safeguarding Manager (DASM) is in place; there are regular Care Quality Commission (CQC) liaison meetings held jointly with Telford to monitor the quality of independent care provision; regular meetings are held with Healthwatch[1] to agree activity relating to enter and view inspections to gather user and patient experiences. These are reported to CQC liaison meetings.

A review of Deprivation of Liberty Safeguards (DOLS) activity has been undertaken and the Director of Adult Social Services' (ADASS) risk matrix has been applied and included in the

[1] Healthwatch Shropshire is the health and social care champion for people and local communities in Shropshire

use of light tough assessments. These are reviewed by senior managers on a regular basis and the annual position has been reported to Directors and Cabinet; In addition, annual training for DOLS authorisers is undertaken.

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52. 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.

53. 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 primarily 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. This has now been the case for several years, and although it is acknowledged that significant resource and prioritisation has been applied to manage this risk, it was also accepted that it may take several years for the necessary improvements to be implemented and embedded sufficiently to attain appropriate assurance levels. The issues currently identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must continue to prioritise implementation of plans to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, it should be said, there has been no evidence of significant IT business failure or other error that could result in a material misstatement in the Council's accounts and reliance can still be placed upon it for that purpose.

54. Members and officers have been advised on the implications of the Audit Committee's review of the effectiveness of the governance framework, and that the issues identified are sufficient to warrant the Audit Service Manager qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address those issues. Audit Committee continue to monitor planned improvements.

55. In their Audit Findings for the year ended 31 March 2015, the External Auditor provided an unqualified opinion on the financial statements and an unqualified Value for Money (VFM) conclusion. In respect of internal controls a high level recommendation was made; 'Management should strengthen ICT resilience during a major event in relation to business continuity and disaster recovery to reduce the risk that access to and functionality of significant data could be considerably compromised.' Management actions have been agreed to address this risk.

56. The External Auditor also issued an unqualified opinion on the Pension Fund for the year ended 31 March 2015.

57. Given the uncertainty in relation to future funding mechanisms for Local Authorities and the Council's ability to set a sustainable budget for future years, a financial Health Check was commissioned from the Local Government Association. The outcomes and recommendations arising from that review have been considered and a small number of improvements to processes and governance have been implemented.

58. Cabinet monitors the effectiveness of the internal control system via consideration of regular performance and financial information reports from 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 highlighting matters which require improvement.

59. 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.

60. During 2015/16 all Shropshire Council's adult services, registered by the Care Quality Commission (CQC), maintained their compliance status with CQC. Four Rivers Nursing Home was inspected in autumn 2016 and achieved a good rating.

61. During the year a further registered service, Kempsfield, was transferred to an external provider. The service has maintained its registration and compliance status following transfer.

62. Adult Social Care services senior staff have participated in the regional peer review programme as peer assessors. The learning from being involved as a peer assessor will inform the Council's preparations for its own peer review later in 2016.

63. Adult Social Care continues to participate in regional and collaborative work. During 2015/16 adult social care participated in a review of carers support services commissioned by the NHS and examples of both good practice and where outcomes could have been different for carers have been include in the resulting report.

64. The Adult Social Care Senior Directorate Management team meetings have included regular reviews of the introduction the new Care Act Legislation and assured themselves of compliance.

65. The Health and Adult Social Care Scrutiny Committee continued to receive a variety of reports and reviews of adult social care. During 2015/16 two previously externalised care services, Community Living and Shared Lives, which are both CQC registered services, have been subject to Scrutiny which included Members meeting the service users that these services support as well as the care staff who deliver the service to hear their views first hand

66. Schools' performances, as measured by Ofsted inspections have continued to improve over the last two years. In December 2014 69 per cent of Shropshire secondary schools were judged by Ofsted to be good or outstanding and 75 per cent of pupils attended good or outstanding secondary schools. In March 2016 76 per cent of Shropshire secondary schools were judged by Ofsted to be good or outstanding and 78 per cent of pupils attended good or outstanding secondary schools. Over the same period the proportion of good and outstanding Shropshire primary schools has risen from 82 to 84 per cent and the proportion of pupils attending good or outstanding primary schools has remained at 84 per cent. In March 2016 one secondary academy and two primary schools were in special measures categories. When an LA maintained school is judged to require special measures 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.

67. Ofsted last 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 potential for good 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 improvements continue. 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 continued through 2015/16. In June 2015 a Peer Review took place conducted by the LGA. This is an extensive review and identified areas of good practice as well as areas for improvement. An Internal Improvement Board has been established to oversee the implementation of the Action Plan.

68. Shropshire's children's homes: Chelmaren and the new short breaks provision at Havenbrook were both inspected twice in 2015/16. Chelmaren was rated as outstanding at full inspection in November 2015 and the interim inspection in February 2016 adjudged that it had sustained effectiveness. Havenbrook was rated as "requires improvement" at full inspection in December 2015 but the interim inspection in February 2016 adjudged that it had improved effectiveness.

69. Direct quotations from the 2016 Chelmaren inspection include: "Staff have an excellent knowledge and understanding of safeguarding. They are extremely competent in identifying the risk factors that influence young people's behaviours and work with young people and other agencies to reduce these", "Staff receive excellent support and training from the registered manager" and "Partnership working arrangements between the home, education providers and health services are very effective". Direct quotations from the 2016 Havenbrook inspection include: "Young people are safe and say they feel safe. Staff provide support and assistance to create a safe and welcoming environment that helps them to feel at ease" and "The effective joint working with health, education and social services has enabled young people to improve their, social, emotional and physical well-being". During verbal feedback the inspector also described Havenbrook as having innovative development in edge of care provision for young people and she felt others would most certainly be following suit. She felt the need for such service had been known for some time but no one had been "visionary or brave" enough to take the first step and she noted the approach very positively as "a service that will be the envy of other LA's".

70. During 2015/16 two inspections of children's centres took place, a single area inspection of Severn Valley was graded as "good" and a Borders area group inspection was graded as "requires improvement". An action plan is in place and reviewed quarterly.

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 2016/17 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 strive to achieve the following outcomes:

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	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
1.	Regular Sound engagement is in place between health and social care for the future provision of services, which includes the agreement of Clinical Health Commissioning funding on a case by case level through to service redesign and commissioning through the Better Care Fund, the Transforming Care Partnership and the Strategic Transformation Plan.	Differences in culture and priority between the Council and key NHS partners leads to the risk of higher than necessary costs to both Health and Adult Social Care	Delivery against the BCF programme and Health and Well Being Board three Exemplar Projects	Rod Thomson	March 2017
			Agreement for Continuing Health Care funding agreed on a case by case basis using jointly agreed risk tool	Andy Begley	June 2016
			Service redesign and commissioning through the Better Care Fund, the Transforming Care Partnership and the Strategic Transformation Plan in conjunction with the Health and Wellbeing Board.	Andy Begley	April 2016 and onwards
			Public Health to be focussed on short term evidence based cost reducing interventions	Rod Thomson	June 2016
			Overspend on discharge from hospitals is brought under control	Andy Begley	June 2016
2.	The Council is considering	Failure to be	Involvement in three way	George Candler	June2016

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
	devolution opportunities with at least four partners: • The Marches • West Midlands Combined Authorities • Northern Gateway • Middle England Authorities	involved will weaken Shropshire's opportunity to maximise financial rewards that in turn will drive economic growth in the area.	discussions, shaping the devolution proposals with T&W and Herefordshire Councils		
			Involvement with WMCA to understand and be at the forefront of key strategic thinking decision making	George Candler	March 2017
			Partner on the Northern Gateway Partnership to maximise opportunities from the HS2 Crewe station development along the A500 corridor	George Candler	March 2017
			Exploring shared opportunities with other adjacent authorities (Staffs CC, Cheshire East, Powys) in areas such as shared services, skills or staff	George Candler	March 2017
	Shropshire Council has maximised all opportunities from the Marches LEP		Development of Local Growth Fund 3 Bids	George Candler	June 2016
			Submission for funding from the Local Majors Fund to develop an outline Business Case for the North west Relief Road	George Candler	July 2016

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
	There is an Economic Vision and Strategy for Shropshire		Economic Development Needs Assessment being delivered by Oxford Economics Shropshire Council working in partnership with IPPR (North) to co-design the vision and strategy	George Candler George Candler	July 2016 Sept 2016
3.	The Council is communicating where it is going to all stakeholders through an approved Corporate Plan and associated strategies (E.g. workforce and IT). There are clear links between service delivery and the Corporate Plan.	Failure to clearly articulate the strategic vision and strategy for the Council results in inability to deliver outcomes Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need.	Completion of Draft Corporate Plan Strategies, policies and service plans reviewed to ensure delivery of Corporate plan	Clive Wright Clive Wright	June 2016 December 2016
4.	The Council's IT Strategy is established and underpins the Corporate Plan. IT solutions and systems have robust controls embedded within them to ensure business continuity	Failure of existing systems could result in significant impact on service delivery and disruption to business activities.	IT strategy drafted Work completed on IT system controls and reported to Directors on a monthly basis.	Clive Wright Karen Davis / Paul Voogt	31 May 2016 Monthly

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
	in the event of a disaster.	Failure to implement an ICT Digital Transformation Programme to provide ICT solutions to support business applications, will impact the strategic direction of travel.			
5.	A balanced budget is achieved and resources allocated and managed effectively within known financial constraints.	Inability to set a sustainable budget with the resources available, resulting in services not being delivered. Lack of clarity from Central Government on the future funding levels and increased uncertainty re: local resources, which inhibits the ability to calculate future budgets. A funding methodology that disadvantages	Financial Strategy approved and communicated Service plans reflect any proposed changes to budgets and senior managers complete and report on regular budget monitoring reports to Directors Directors provide robust challenge of achievements against the financial strategy.	James Walton Clive Wright Clive Wright	July 2016 August 2016 August 2016

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
		Shropshire results and certain inability to deliver statutory duties.			
6.	Human resources are skilled, knowledgeable and appropriate to deliver the Council's Corporate Plan. Especially in the areas of ICT and commissioning. Structural changes aligned to business plans are consulted upon, supported by staff and members, implemented and monitored for effectiveness.	Inadequate retention and recruitment of experienced and qualified staff results in insufficient capacity and experience to sustain the Council's service provision. Insufficient mechanisms in place to report and manage work related stress results in increasing levels of staff absence and compromised service delivery. Risk of challenge from unions to required and proposed organisational restructures and	A Workforce Strategy is in place to complement and deliver the Corporate Plan.	Michele Leith	May 2016

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
		the possibility to gain support in a wider public arena against these changes.			
7.	Adults and children and children are safeguarded. There are supporting governance arrangements and processes in place and consultation with key stakeholders.	Failure to safeguard vulnerable adults and children	Performance measures are under development for inclusion in an annual adult safeguarding report	Andy Begley	March 2017

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, the Council propose to take steps to address the above matters to further enhance its governance arrangements. It is 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 its next annual review.

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Leader CEO/ Head of the Paid Service

Annex A

ANNUAL GOVERNANCE STATEMENT (AGS) ASSURANCE FRAMEWORK 2015/16

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

IA to evaluate the effectiveness of the risk management, control and governance processes

(Required by the Accounts and Audit Regulations 2015)

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

Key to levels of assurance
First line of defence
Second line of defence
Third line of defence

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