Cumbria County Council
Audited Annual Financial Report 2015/16

1. INTRODUCTION

1.1. The purpose of this Statement of Accounts is to present the Council's financial performance for the year 2015/16 and the overall financial position of the Council as at 31st March 2016. This is to give electors, local taxpayers, Elected Members of the Council, employees and other interested parties comprehensive information about the Council's finances.

1.2. This Narrative Statement provides an explanation of the Council's financial position, sets out key facts and figures about Cumbria and introduces the main influences affecting the 2015/16 accounts, to assist in the interpretation of the accounting statements. It also includes a general guide to the main aspects of the Statement of Accounts and summarises key aspects of the financial performance of the Council.

1.3. During the year the Council's financial position is reported to Elected Members on the position against the planned Net Revenue Budget and Capital Programme (agreed by Council in February 2015). At the year end the 'outturn position' is converted through a series of technical accounting adjustments to present an International Financial Reporting Standards (IFRS) compliant Statement of Accounts. Para 5.27 explains this in more detail.

1.4. As part of the development of the Statement of Accounts each year the content is reviewed for applicability and materiality. The aim being to 'declutter' the Accounts by only including relevant and material accounting policies and disclosure notes.

2. THE STATEMENTS

2.1 In accordance with the Code of Practice on Local Authority Accounting, the following financial statements are included in the Statement of Accounts (the Council's financial statements are set out in Section 4) :-

- ***Comprehensive Income and Expenditure Statement.*** This 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. Councils raise taxation to cover expenditure in accordance with statutory regulations and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- ***Movement in Reserves Statement.*** This identifies the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and other "unusable" reserves (i.e. not cash backed). 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. These are different from the statutory amounts required to be charged to the General Fund for council tax setting purposes.

- ***Balance Sheet***. This shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

- ***Cash Flow Statement.*** This 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.

2.2 In addition, the Statement of Accounts includes
- **Auditor's Report** (Section 3) – when available in September
- **Statement of Accounting Policies** of the Council (Section 5)
- **Notes and other explanatory information** (Section 6)
- **Group Accounting Statements** which set out the accounts of the Council and its subsidiary companies (Section 7)
- **Fire Fighters' Pension Scheme Accounts** which the Council administers (Section 8)
- **Glossary of Terms** to assist the reader to understand key words and financial terminology (Section 9)
- **Cumbria Local Government Pension Scheme** which the Council administers (Section 10)
- **Cumbria Local Government Pension Scheme Auditor's Report** (Section 11) – when available in September

2.3 The draft **Annual Governance Statement** which sets out the main features of the Council's corporate governance arrangements and its effectiveness is presented alongside, but separate to, the Statement of Accounts. The draft Annual Governance Statement is available on the Council's website.

3. Key messages and context

3.1. The Statement of Accounts for 2015/16 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts comply with International Financial Reporting Standards (IFRS) as interpreted by the Code.

3.2. The format of the accounts complies with CIPFA standards and is similar to that used in previous years. This Narrative Report (a change in requirements for 2015/16) replaces the Explanatory Foreword and provides information about Cumbria including the key influences on the accounts. It provides a summary financial position linked to performance information in order that the wider view of the Council's achievements can be understood.

3.3. The 2015/16 financial year has been another year of significant change across the Council. The Council budget set in February 2015 included £40m of savings which is the one of the highest planned reductions that the Council has had to deliver so far. Overall between 2011/12 and 2015/16 the Council has had to achieve £153m of savings and budget reductions in order to set a balanced budget each year i.e. to live within its means. This has meant significant changes across the Council, changes to the services that are delivered and reductions in staffing levels.

3.4. The challenge continues into 2016/17 where the Council has a further £45m of savings to deliver, so the outlook remains one of reduced funding from Central Government, difficult decisions and continued change.

3.5. For 2015/16 finance system improvements for revenue budget monitoring were fully implemented, establishing an on line budget monitoring approach. The objectives being to improve ownership of budgets and self-service for budget monitoring and provide a challenge on existing practices. The changes have resulted in increased ownership and improved challenge of financial monitoring across all Directorates and budget managers. Work is ongoing to roll this system out to include on line capital monitoring for 2016/17.

3.6. In respect of the closure of accounts process, deadlines have been achieved. This included changes to the process and deadlines to help move the Council towards the earlier closedown timetable required for 2017/18. The Accounts were handed to the Auditor on the 30th June 2016. Following the audit process the final audited accounts will be presented to Audit and Assurance Committee on 21st September 2016 for approval.

3.7. As the financial statements evidence, the Council continues to be in a robust position. The Council maintains effective financial management procedures, policies and approach that support the delivery of the Council's key priorities. For 2015/16 the Council has a positive Balance Sheet position and although Usable Reserves have reduced, the reduction in the pension liability has allowed a positive Balance Sheet.

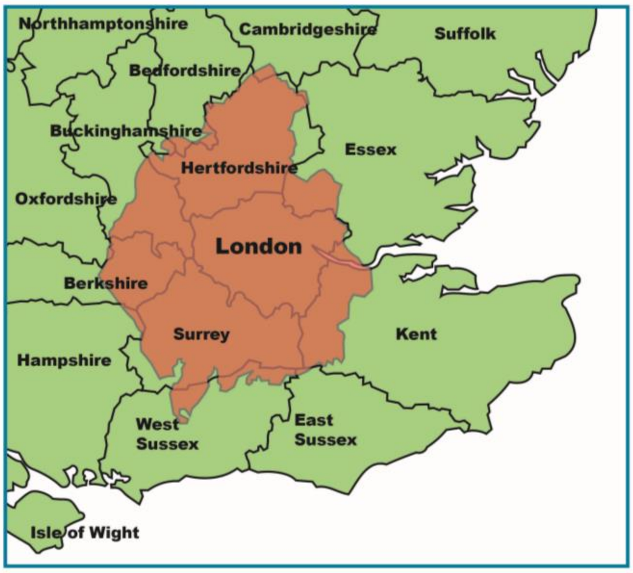
3.8. The use of reserves to finance change programmes and facilitate service improvements, as well as supporting ongoing planned revenue spend where required, has increased in 2015/16 to £14.6m from £6.7m in 2014/15 (see Table 1). In addition the value of Usable Reserves as at 31st March 2016 has reduced to £113.7m from £128.8m as at 31st March 2015. The Usable Reserves on the Balance Sheet are explained in note 35 and include Earmarked Reserves for specific purposes of £83.5m, General Fund Balance (Reserves) of £14.3m and capital reserves of £15.9m. The planned use of reserves forms part of the Medium Term Financial Plan process.

3.9. In 2014/15, due to the pension liability position the Council had a negative Balance Sheet. As stated in last year's Explanatory Foreword one of the key accounting concepts is that the accounts are prepared on a going concern basis in accordance with IAS1 notwithstanding the net liability position (negative Balance Sheet). The Council demonstrated that it could continue to meet its financial commitments as they occur via the delivery of its Medium Term Financial Plan (MTFP). The usable cash reserves position remained healthy and the Council addressed the pension liability position in accordance with external requirements and its accounting policies, over both the medium and longer term. As stated above the Council has a positive Balance Sheet position for 2015/16.

Cumbria Context

3.10. The County of Cumbria was established in 1974 and is one of the most sparsely populated counties in the United Kingdom. It is the most north westerly County in England and is the third largest county in England.

3.11. The map below shows the Cumbria boundary in comparison to the London and surrounding County boundaries.



3.12. Within Cumbria there is the County Council, six District Councils, two National Parks and six NHS organisations. In addition there are six MPs and over 250 Parish and Town Councils.

3.13. Cumbria County Council is responsible for many of the key services that are important to local communities such as education, libraries and youth services, social services, highways maintenance, waste disposal, emergency planning, consumer protection and the Fire and Rescue Service.

3.14. The Council:

- Arranges and delivers home care for more than 5,600 older people
- Looks after more than 600 children
- Supports over 300 schools
- Provides access to almost 730,000 library books, publications and public access computers
- Carries out more than 16,200 fire and home safety checks
- Maintains approximately 5,000 miles of road, 4,000 miles of public rights of way and over 44,000 streetlights
- Registers almost 4,700 births
- Recycles 50% of 230,000 tonnes of household waste generated in Cumbria
- Commissions all school nurses and health visitors for Cumbrian schools

3.15. The Council Plan sets the Council's priorities and these are further developed in service plans to set the focus for each area within the Council. The Council Plan Delivery Plan is the mechanism through which the delivery of the Council Plan priorities is monitored.

3.16. Supporting the Council Plan is the Medium Term Financial Plan (MTFP) and the Workforce Plan. The MTFP outlines the funding the Council receives and how it is planned to use it across the directorates whilst the workforce plan provides an essential framework to help efficiently and effectively utilise the workforce to help deliver the Council Plan.

3.17. In respect of the workforce the overall size has reduced from over 7,200 employees in March 2014 to just over 6,400 employees in March 2016. This trend is expected to continue given the ongoing budget reductions and savings planned and the need to achieve efficiencies in service delivery.

3.18. Note 14 of the Statement of Accounts shows that 402 employees left the organisation in 2015/16 with 248 employees leaving in 2014/15. Note 13 shows that there are less staff paid over £50,000 across both the Council and in schools. The figures show only a small reduction but when staff who are included in the note as a one off because of the inclusion of termination payments are removed from the numbers, the absolute reduction is more significant.

3.19. The number of 'permanent' staff paid over £50,000 has reduced from 377 to 359. In many service areas improvements have been introduced to reduce the transactional and processing elements of workloads and responsibilities at more senior levels have been reviewed and increased to reflect the increasing strategic and technical nature of the roles.

4. MAIN INFLUENCES ON THE 2015/16 ACCOUNTS

Cumbria Floods December 2015

4.1. Storm Desmond in December 2015 and subsequent storms over the Christmas period 2015 caused significant damage across Cumbria. This included damage to infrastructure, schools, businesses and homes. One person lost their life during the floods.

4.2. Overall it was estimated that over 7,000 homes were flooded. 2,000 business were affected by flooding impacting on over 22,000 employees (9.2% of all employment in Cumbria). In addition over 630 farms were affected and up to 2000 parcels of land flooded. 60 schools were effected and one care home was flooded and evacuated.

4.3. The most visible damage was to individual's homes, the closure of the A591 and the collapse of Pooley Bridge. There was significant disruption across the infrastructure network due to the extent of the damage. Overall across the County there were three bridges lost and a large numbers of bridges damaged and closed.

4.4. As at the 30th June 2016 there are still nine bridges closed and many that need further repair, whilst the recovery programme to repair the overall infrastructure network is progressing.

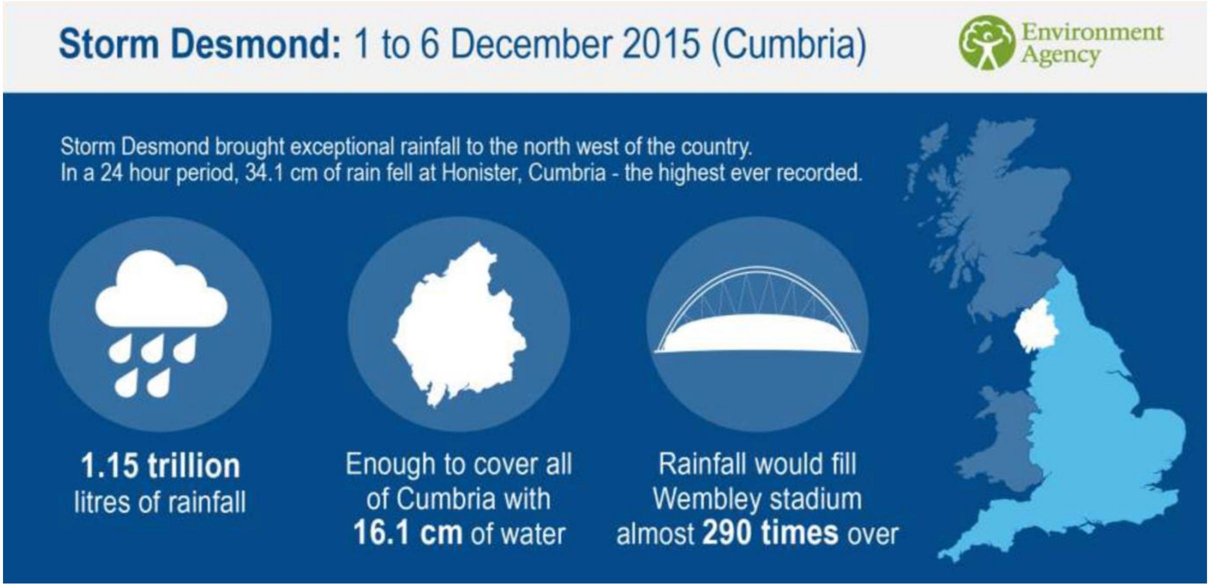
4.5. The County Council was asked to provide a high level financial estimate of the overall damage caused by flooding across the County immediately after the floods and at that time it was estimated that the total cost of damage across the County could be as high as circa £500m.

4.6. This figure has subsequently been revised to reflect more up to date estimates in relation to flood damage, exclude costs covered by insurance and exclude private sector costs. The revised estimated cost is £249m with and additional £4m of immediate response costs incurred. £3.2m of the response costs relate to the County Council. Funding has been received from Government and with European Funding, LEP Growth Deal support and County Council funding being provided the majority of the recovery costs are now financed. The present county wide funding gap is £46m and lobbying continues with Government to ensure all recovery work will be funded.

4.7. In respect of impairment of asset due to the floods this is minimal as the majority of the damage was to the highways network and that is valued at the moment at depreciated historic cost and hence there is no requirement to include impairment on the value of these assets. The Council did incur £0.924m of impairment losses on three Council owned assets and this is reported in Note 21 to the accounts.

4.8. The impact on the economy of Cumbria has been significant with potentially £200m+ of lost revenue to the Cumbria Tourism economy.

4.9. To put the Cumbria Floods into context the following diagram present the level of rainfall that fell in Cumbria during that time and the records that were broken.



Economic Climate

4.10 The Council's budget for 2015/16 was set within an extremely challenging economic context and continued reductions in funding from Government. The Chancellor's Budget Statement in March 2015 confirmed the continuation of the austerity programme and the extension of austerity measures into 2015/16 and through to 2019/20. The budget reflected the unprecedented reductions in government grants from Central Government as the Government seeks to rebalance public finances. The Council must take into account these expected reduced levels of funding as it plans its expenditure and service priorities over the medium term.

4.11 The Council set a balanced budget for 2015/16 in February 2015 and had savings still to identify of £17.6m in 2016/17 and £15.6m in 2017/18. Subsequently the 2016/17 budget was balanced and agreed by Council in February 2016 with a revised minimum budget gap of £13m for 2017/18 and further savings to identify of £15.6m in 2018/19. Therefore in February 2016, when the Medium Term Financial Plan was agreed, a further £29m of additional savings to be found was estimated.

4.12 The prevailing economic conditions have influenced the Council's approach to Treasury Management. It has also had a significant impact on the Council's Pensions Liability.

4.13 With respect to Treasury Management, the Council's strategy has been to continue its utilisation of short term cash balances (from reserves) to fund capital expenditure rather than raising new long term loans. This also reduces the risks from investment of cash with counterparties. This strategy, along with the impact of slippage in the 2014/15 capital programme i.e. expenditure occurring later than originally budgeted, helped deliver significant revenue savings in respect of Treasury Management costs during the year. This contributed to the overall net underspend for the Council in 2015/16.

4.14 This deferred borrowing strategy will not continue indefinitely and in the longer term the Council will need to raise new loans to fund its capital expenditure as revenue balances are utilised.

4.15 The current economic climate has also had a significant impact on the Council's net Pensions Liability and hence the Council's Balance Sheet. For 2015/16 there has been a reduction of £52m in the Council's net Pensions Liability to £569.684m (£621.770m in 2014/15). This has resulted in the Council having a Net Asset position (i.e. Assets greater than Liabilities) as at 31st March 2016. In 2014/15 the size of the Pension Liability resulted in the Council having a net Liability position as at 31st March 2015. The change from a negative to a positive Balance Sheet is primarily due to the change in Pensions Liability value.

4.16 Note 3 of the Accounts provides a summary of the potential impact that a 0.1% change in discount rate (used to calculate the Pensions Liability) could have on that pension deficit/ liability position. A 0.1% change can effect the liability position by £27.7m. From March 2015 to March 2016 there was a 0.2% increase in the discount rate which has contributed to the £52m improvement in the Pensions Liability position. This demonstrates the volatility of the liability calculation and its sensitivity to financial market changes.

5. Outturn (Year End) Position 2015/16

5.1. This section provides background to the Council's financial strategy and budget for 2015/16 and compares actual expenditure against the budget. It provides an indication of financial stewardship i.e. how well the Council has managed the resources allocated to services.

5.2. Council spending can be classified as revenue or capital. Revenue spending is on items which are generally consumed within a year and they are financed from Council Tax, Business Rate income, Government grants and other income. Capital expenditure generally relates to items of expenditure that will give benefits to the Council for a period of more than one year. The financing of capital expenditure is mainly from capital receipts, capital grants and contributions, revenue contributions or long term borrowing.

Revenue Expenditure

5.3. The Council agreed the net Revenue Budget for 2015/16 as part of the Medium Term Financial Plan (MTFP) at its meeting in February 2015. The net Revenue Budget requirement (gross expenditure less specific grants and fees and charges) was £380.967m. Council also agreed a 1.99% increase in Council Tax. The Council Tax levels set by the Council for 2015/16 therefore increased to £1,184.61 per Band D property. The Council Tax Requirement (income raised from Council Tax Payers) was £192.078m (excluding suepluses from previous years).

5.4. 2015/16 represented the sixth financial year of significant funding reductions from central government. After taking account of the full-year effect of existing savings being delivered in the MTFP of £7.325m, a further £32.558m of new savings was required for 2015/16.

5.5. These savings included further reducing and streamlining management across the Council, reshaping services to deliver continued efficiencies and improving the way services are commissioned and delivered. Within Health and Care a number of savings are to promote independence through the use of assistive technology and streamlining how care needs are reviewed.

5.6. A total of £33.351m (83.6%) of the 2015/16 savings target of £39.883m was delivered by 31st March 2016. The shortfall in the delivery of savings targets is being partially offset set by other mitigating actions within Directorates and savings against corporate budgets.

5.7. Following changes to the Budget throughout the year, as agreed by Cabinet, the revised total net expenditure budget 2015/16 for the Council was £404.252m.

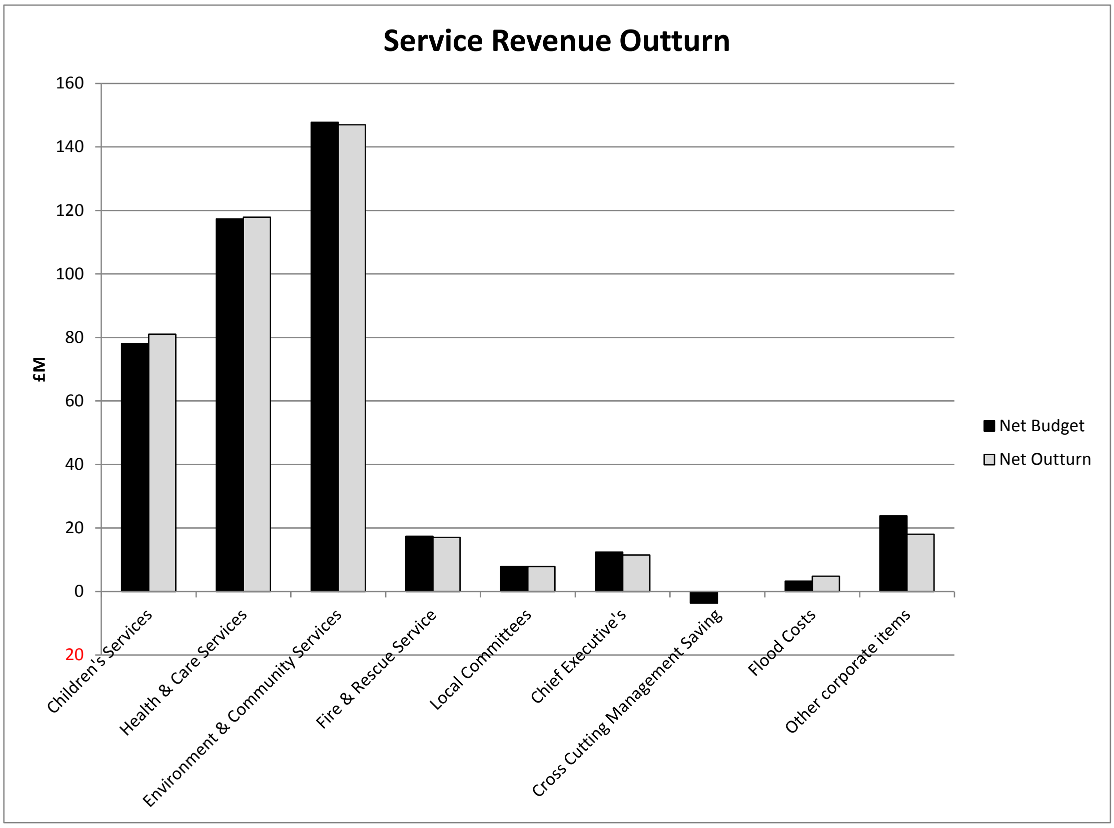
5.8. At the 31st March 2016 the ‘ordinary’ revenue budget underspent by £0.639m; as a percentage of the net budget this is an underspend of 0.16%.

5.9. When combining the ‘ordinary’ revenue budget underspend of £0.639m for the year, and the provisional flood related net revenue costs to the Council of £1.560m the provisional year end position is of an overall overspend of £0.921m. This is a variance of just 0.2% of the net budget. In short, the overspend reported for the Council can be attributed to the costs related to the flood event.

5.10. This demonstrates that the Council continues to manage its finances effectively despite the financial challenges it faces. The year-end position is the result of a combination of Directorate overspends and underspends offset by underspends on Corporate expenditure items such as Treasury Management and Inflation. In respect of the ‘ordinary’ revenue budget, the Directorate's net pressure of £5.061m is offset by a saving of (£5.700m) on the Other Corporate Items.

5.11. The main underspend within the other Corporate Items budget is the Treasury Management saving of £2.836m largely as a result of Council's agreed policy of utilising internal funds as a result of delaying borrowing externally, as explained in para 4.19 and 4.20.

5.12. The following graph shows the outturn position for the County Council in 2015/16 for each Directorate against the Net Revenue Budget Position.



5.13. The impact of the overall overspend of £0.921m is that General Fund balances at the end of the year reduces from £15.221m as at 1st April 2015 to £14.300m as at 31st March 2016; this is above the minimum level of General Reserve Balances target set by Council in February 2016 of £13m.

5.14. The original net Revenue Budget of £380.967m was financed from Government grant funding (£167.244m), Retained Business Rates (£19.420m) and Council Tax income (£194.961m). The budget also planned for a transfer of £6.691m from earmarked reserves resulting in a Total Net Expenditure of £388.316m (See Table 1).

5.15. The Actual Total Net Expenditure as at 31st March 2016 was £405.173m against a final budget of £404.252m resulting in a £0.921m overspend against budget. This overspend reduced the General Fund Balance.

5.16. The Council actively monitored and managed delivery of the 2015/16 budget throughout the year, reporting to Corporate Management Team monthly and Cabinet quarterly. The final budget position reflects the Council's proactive approach to financial management during the year and the need to effectively manage the use of reserves throughout the year.

5.17. The table below summarises the provisional outturn position (subject to external audit) for 2015/16 reported to Council at its meeting in June 2016.

Table 1 – Summary of Final Outturn Position 2015/16 as at 31st March 2016

	Original Budget £m	**Final Budget £m**	**Actual £m**	**Variance Overspend / (Underspend) £m**
Children's Services	74.657	78.095	81.053	2.958
Health & Care Services	115.416	117.326	117.879	553
Environment & Community Services	139.301	147.753	146.948	(804)
Fire & Rescue Service	18.673	17.426	17.022	(404)
Local Committees	8.407	7.850	7.850	0
Chief Executives	11.291	12.451	11.520	(931)
Flood Costs	0	3.265	4.825	1.560
Other Corporate Costs*	20.571	20.086	18.075	2.011
Total Net Expenditure	**388.316**	**404.252**	**405.173**	**921**
Financed by:				
Government Grants	167.244	176.469	176.469	0
Retained Business Rates	19.420	18.197	18.197	0
Council Tax	194.961	194.962	194.962	0
Transfer (to)/ from Reserves – Earmarked Reserves	6.691	14.624	14.624	0
Transfer (to) / from General Reserves	0	0	921	921
Total Financing	**388.316**	**404.252**	**405.173**	**921**

***Treasury managements costs, inflation, dividends received, insurance, cross cutting savings and residual and past service pensions costs

5.18. The areas where the Council experienced the greatest cost pressure were in Children's Services (£2.958m), Health & Care Services (£0.553m) and non-delivery of the cross cutting management savings (3.689m). There were underspends reported in Environment & Community Services (£0.804m), Fire and Rescue Services (£0.404m) and Chief Executives (£0.931m) resulting in a net cost pressure from Directorate budgets of £5.061m.

5.19. The most significant pressure within Children's Services was the cost of placements of Looked After Children. The total cost of supporting Looked After Children in 2015/16 was £28.244m which was in excess of the budget by £6.732m but this was offset by a transfer from inflation of £3.350m. The overspend is as a result of having more children looked after than projected. Other related costs were also higher than projected resulting in a net overspend for Children's Services of £2.958m.

5.20. Within Health and Care Services the overall pressure at year end results from pressures in Independent Sector Older Adults, Independent Sector Younger Adults and reduced personal contributions, these were offset by underspends in Health and Wellbeing and supporting people budgets. Overall there was a net overspend of £0.553m.

5.21. Within Environment and Community Services the net underspend was a combination of underspends in the highways and transport service areas, communities, capital programme and property, business services and people management. These have been offset by overspend in Environment and Regulatory services. Overall there was a net underspend of £0.804m.

5.22. The Council has mitigated these Directorate net pressures with underspends on Corporate budgets of £5.700m. This included £2.836m within Treasury Management (as referred to in paragraph 4.13), and £3.142m underspend on inflation and contingency budgets and an additional £0.5m dividend from the Council's 100% wholly owned trading company (Cumbria County Holdings Ltd). This was offset by £3.689m of cross cutting savings not achieved to reduce the overall underspend on corporate items to £2.011m.

5.23. As shown in Table 1 on the previous page the original budget planned the transfer of revenue from earmarked reserves of £6.691m. Adjustments during the year in respect of transfers to and from revenue earmarked reserves reflect the active management of resources and transfer of budgets between financial years. This resulted in a net transfer from revenue earmarked reserves to support revenue expenditure of £14.624m (including schools).

5.24. Included in the transfer to earmarked reserves are the Local Committee net revenue carry forwards of unspent balances to 2016/17 of £0.899m and Local Member Schemes carried forward of £0.657m totalling £1.556m.

5.25. Transfers to earmarked reserves will enable the continuation of agreed schemes and activities funded from resources which were allocated as part of the 2015/16 budget to be delivered in 2016/17.

5.26. The General Fund Balance reduced to £14.300m as at 31st March 2016 (Balance Sheet page 35) as a result of the £0.921m overspend in the year. This is higher than the target set by Council in February 2015 of holding General Fund balances of £13m and in line with the Reserves and Balances Strategy of the Council in the Medium Term Financial Plan.

Comprehensive Income and Expenditure (CIES)

5.27. This section explains the conversion of the Net Budget outurn position that is reported throughout the financial year to the Statement of Accounts position that reflects the technical accounting requirements as identified by the Code of Practice on Local Authority Accounting. Both are important financial positions as the Net Budget position determines (from a statutory perspective) the Council Tax Requirement each year, whilst the Statement of Accounts presents the financial position as compliant with International Financial Reporting Standards (IFRS), interpreted by the Code.

5.28. As stated earlier the CIES is required to comply with International Financial Reporting Standards in reporting costs and income and is also required to report costs in categories of spend defined by the Service Reporting Code of Practice (SeRCOP). The SeRCOP is designed to enhance comparability between Councils' Accounts. This means that there are a number of technical accounting adjustments that are required to convert that outturn position into the Statement of Accounts position.

5.29. The Council's approach to budget management reporting (outturn position), reflected in the summary in Table 1 differs from the figures presented in the Comprehensive Income and Expenditure Statement (CIES) (Page 33).

5.30. The overall net revenue position on the Comprehensive Income and Expenditure Statement is a net surplus of £55.285m, which compares with a net deficit of £211.444m in 2014/15. This is an improvement of £266.729m.

5.31. Another significant change is in respect of pension costs charged to the CIES. In respect of retirement benefits (pensions) accounting requirements determine that the Council must recognise the cost of retirement benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. Each year this cost of retirement benefits earned by employees is recalculated and an appropriate charge made to the CIES. Note 38.1 explains this in detail with some costs being charged to the Cost of Services whilst other are charged below the line.

5.32. As with all Pension costs the values, as defined by the actuary, are dependent upon economic factors and are heavily influenced by what can seem small changes in financial assumptions. One of the largest changes from 2015/16 is due to the remeasurement of the net defined benefit pensions liability of £132.111m in 2014/15 to an asset position of £82.883m in 2015/16. This reflects a reduced charge (below the line) to the CIES of £214.994m.

5.33. The other significant change from 2014/15 is the surplus/ deficit on property and plant revaluations charged to the CIES moving from a deficit of £23.072m in 2014/15 (ie revaluation losses) to a surplus of £6.415m in 2015/16 (i.e. a revaluation gain). The overall change was £29.487m.

5.34. Within the Cost of Services in the CIES there is overall a reduced level of spend of £48.464m. The Cost of Services was £442.993m in 2014/15 and is £394.529m in 2015/16.

5.35. There is increased spend in some Directorates and reduced spend in other Directorates compared to 2014/15. These changes partly reflect the under and over spends reported across Directorates for 2015/16 as reported in the outturn position (see Table 1), the implementation of the majority of the planned savings during 2015/16 and the inclusion of flood costs at Directorate level.

5.36. In addition a number of technical accounting adjustments have affected the Directorate service costs, these include:

- Education and Children's Services – overall there was a reduction in net expenditure of £47.7m between 2014/15 and 2015/16. The main reason for this is due to the inclusion of a significant level of de-recognition valuation losses (£51.5m) in 2014/15. In 2014/15 a revised methodology for valuing schools was implemented, as advised by the Council's Valuers, resulting in all of the Primary and Secondary schools that have assets on the Council's Balance Sheet being revalued in 2014/15. This included assets for schools that had been brought onto the Balance Sheet following the assessment of control. In 2015/16 the revaluation loss was £10.7m, a reduction of £40.8m.

- The Education and Children's Services reduction in spend is also due to the transfer of 10 schools to academy status and the merger of three existing schools (Stainburn, Southfield and Workington 6th Form) into one academy. Overall this net reduction in spend is circa £2m.

- Cultural & Related Services – overall there was a net increase of £2.2m in net expenditure due to a change in the capital accounting charges in relation to the revaluation of assets in this service.

- Environment & Regulatory Services – an increase in net expenditure of £4.5m linked to additional flooding costs and the need to account for potential contractual issues.

- Planning Services – a net decrease of £1.5m due to increased external income offset by other reductions due to technical accounting changes.

- Highways & Transport Services – an increase in net expenditure of £4.5m due to additional costs relating to an ongoing contractual disputes and lower than the expected external income as reported in the Council's outturn report. There has also been an increase in the capital depreciation charges.

- Adult Social Care – a decrease of £3.3m in net expenditure. This was as a result of decreased depreciation charges, reduced fees and charges income and reduced expenditure from delivery of savings. In addition there was £3.820m (see note 17) of Public Health Grant utilised to fund Public Health activities within Adult Social Care services.

- Fire & Rescue Service – a net decrease of £2.2m in net expenditure. The decrease is due to IAS19 (Retirement Benefits) technical accounting adjustments and a net reduction in revaluation costs.

- Public Health – The net decrease of £2.6m is due to the change in treatment of the unspent balance on the grant at the year end (see note 32).

5.37. Overall the Net Cost of Provision of Services has changed from £56.275m deficit in 2014/15 to a £33.390m deficit in 2015/16, a reduction of £22.885m.

5.38. Note 4 in the accounts explains the variations from one year to the next and also reports that although Net Expenditure has increased by £3.064m from £402.109m in 2014/15 to £405.173m the inclusion of the various technical accounting costs results in a Cost of Services position of £394.529m in 2015/16 compared to £442.993m in 2014/15. This is an overall reduction of £48.464m. The most significant change is the decrease in net revaluation losses from 2014/15 to 2015/16 as reported previously. This demonstrates the impact that technical accounting costs have on the Council's reported outturn position to the CIES position.

5.39. These technical accounting adjustments and costs are shown in the first table presented in Note 4 - Amounts Reported for Resource Allocation. It provides a reconciliation between the Net Expenditure reported to management (£405.173m in 2015/16 –see Table 1) and the Cost of Services reported in the CIES (£394.529m in 2015/16).

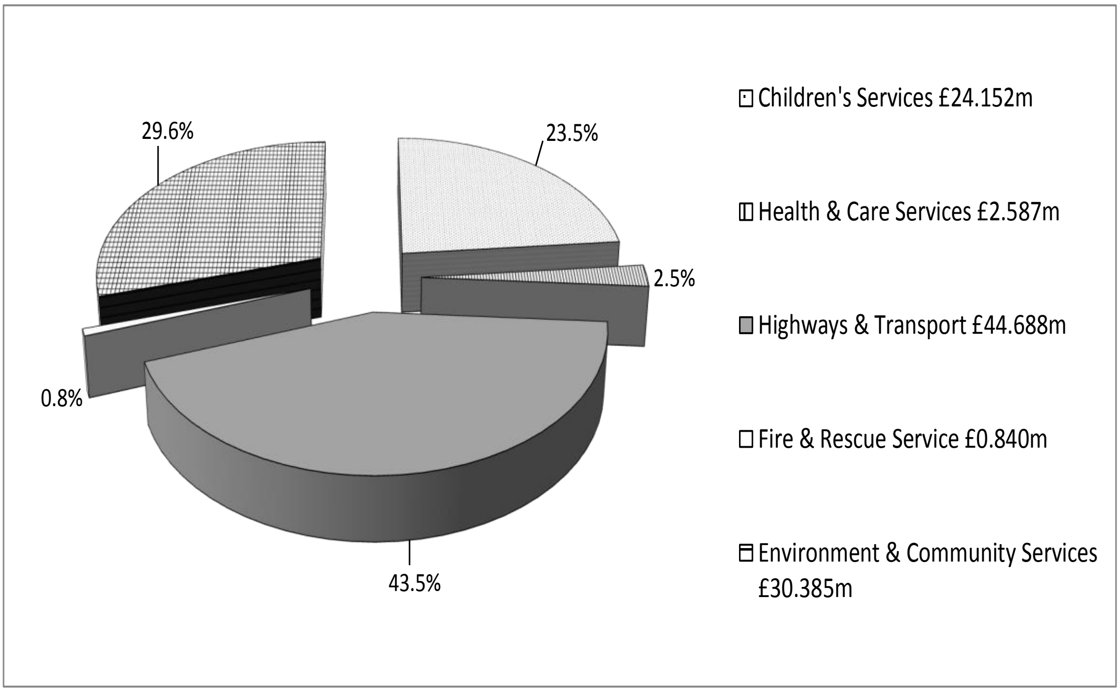
Capital Expenditure

5.40. Capital expenditure as defined in Accounting Policy xi on page 52 includes expenditure on buildings, adaptations, roads, equipment and intangible assets such as software and licences. Capital expenditure is defined by the Code of Practice and capital and revenue transactions must be accounted for separately.

5.41. In 2015/16, the Council's capital investment totalled £102.652m (£84.061m in 2014/15) as reported in Note 18. The Council approved an original capital programme of £103.579m for 2015/16 in February 2015. The capital programme was subsequently revised through the quarterly monitoring updates to £126.349m by the 31st March 2016. Following the reporting of the outturn position it was identified that an additional £0.031m of County Council capital spend was required to be reported, previously it had been reported as Accountable body capital spend resulting in a year end budget of £126.380m.

5.42. The year-end actual expenditure against the budet is £102.652m. This represents £103m of capital investment across Directorates to support the delivery of Council services. This is the highest level of capital investment achieved since 2011/12, when the Academies programme was being delivered. In the context of the Flooding event and its subsequent impact on highways capital schemes and other programmes, this expenditure is a significant achievement.

5.43. The capital investment is across the service directorates to support delivery of services and change programmes as planned and to deliver against the Council's key priorities.



5.44. Within Children's Services the Council has delivered significant capital investment in respect of priority maintenance schemes and individual school expansion schemes focusing on those in greatest need. A total of 52 Schools had maintenance works completed, primarily during the 2015 summer holidays to ensure schools are safe, wind and watertight.

5.45. The Transforming Learning programme of capital investment is a capital investment programme to transform the learning environment of 11 schools in Carlisle and Penrith (extensions and remodelling and one new build) which is now largely complete.

- Pennine Way School and Community Centre new build, both completed during the year;
- Ulverston Victoria High School remodelling, completed to schedule October 2015;
- Kingmoor Junior School, extension and remodelling, completed; and
- Kingmoor Nursery and Infant School, extension and remodelling, completed.

5.46. The Basic Need Programme of work includes a number of schemes designed to ensure that schools that need additional classroom accommodation to meet demand are extended, prioritised within the available budget. The schemes included:

- Rockcliffe Primary School, completed during the year;
- Inclusive Cumbria – Sandside Lodge, works to commence 2016/17;
- Inclusive Cumbria – James Rennie, feasibility work undertaken and strategy review to be finalised; and
- Queen Katherine School / Sandgate School - £3m capital scheme included in the Capital Programme from 2016/17.

5.47. Further Basic Need schemes will be delivered in 2016/17 recognising the ongoing demand for school places resulting in the need for school expansions/ development.

5.48. Within Health & Care Services, investment has been in supporting older and vulnerable people by investing in extra care housing to enable people to live independently for as long as possible. There are a number of Extra Care Housing schemes that are at various stages of delivery across Cumbria. Kirkby Stephen, Wigton and Maryport schemes are complete and Brampton is due for completion in 2016/17. The Council continued in the development of the new care home in Barrow. This is scheduled to be open in the summer 2016.

5.49. The Council also invested in the Fire Service by building a new fire station in Bootle.

5.50. Across the Highways network there was significant investment on infrastructure during 2015/16 (£14.7m) alongside Local Committee Highways Capital spend of (£22.8m) and the continued delivery of the Street Lighting – Lantern Improvement (£2.685m) and Column Replacement (0.320m) Programmes. Gilwilly access improvements were delivered (£1.444m) and Local Lead Flood Authority schemes (£0.977m).

5.51. The Connecting Cumbria Phase 1 programme is due to complete during 2016/17. ERDF funding from the programme has been claimed in full (less £2.8m released back to DCLG as previously reported to Cabinet). In addition, a further £1m underspend has been declared although programme targets will still be achieved. The contractual delivery targets for the scheme in respect of total homes passed (ie available to receive fibre broadband) have been achieved and the remaining budget will be utilised in 2016/17 to extend the coverage of phase 1 and also ensure the superfast target is achieved. This extension to the phase 1 scheme has received assurance from BDUK and will be delivered and completed in 2016/17. Phase 2 of Connecting Cumbria is progressing as planned.

5.52. The Better Places For Work programme will provide modern office accommodation and the Carlisle New Build Office is well underway and due to complete by the end of the summer 2016.

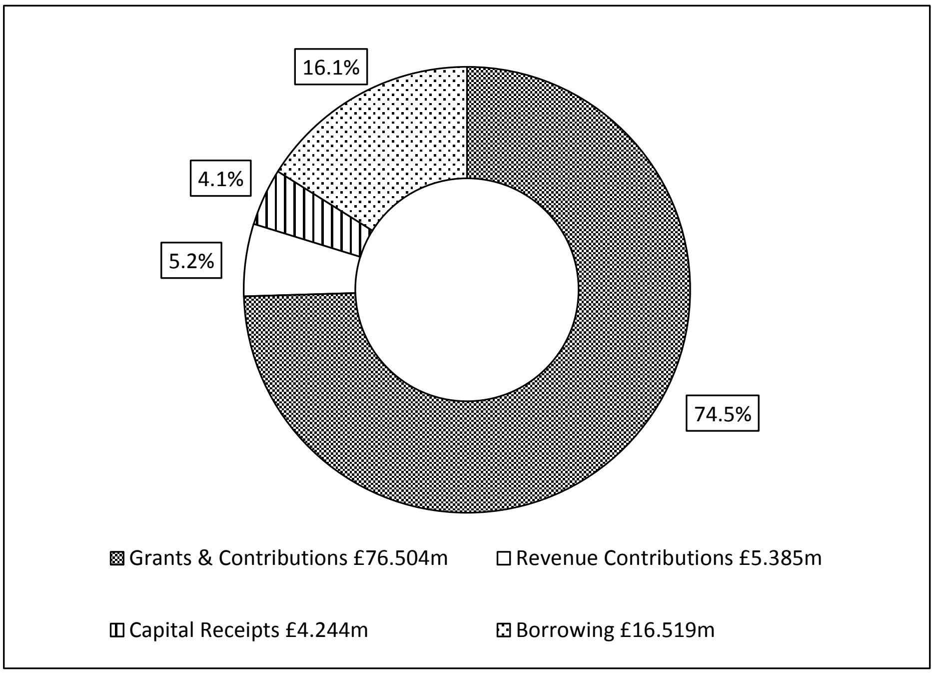
5.53. Overall there was a variance against the capital budget of £23.728m; the £102.652m spend compared to the revised capital budget of £126.380m. (See para 5.41). This variance is made up of slippage totalling (£23.918m), accelerated expenditure of £1.273m and an underspend position of (£1.083m). This position recognises the impact of the flooding, updates on the Connecting Cumbria project and the inclusion of year end positions for capital budget areas that are managed by the schools and other partners.

5.54. A summary of the capital expenditure and how it was financed is shown in Note 18 to the Statement of Accounts. The Council considers carefully capital financing to ensure it is prudent, affordable and sustainable in the medium and long term. The total capital receipts generated in 2015/16 totalled £5.128m (£5.349m in 2014/15), note 35.2 refers, whilst £4.244m of capital receipts were utilised in year to finance capital expenditure. Capital receipts are earmarked for specific schemes where appropriate.

5.55. The capital investment of £102.652m was financed as shown in the table below.

Table 3 – Capital Financing 2015/16

	£m
Capital Receipts	4.244
Government Grants and contributions	76.504
Revenue Contributions	5.385
Prudential Borrowing	16.519
Total Capital Financing	**102.652**



6.0 BALANCE SHEET

6.1 The Council's Balance Sheet demonstrates a net asset position of £42.343m for the Council at the end of 2015/16. This is an increase of £54.145m from 2014/15.

31st March 2015 £000		31st March 2016 £000
	Long Term Assets:	
992,770	Total Property, Plant and Equipment	994,895
12,887	Total Other Long Term Assets	14,018
1,005,657	Total Long Term Assets	1,008,913
177,257	Total Current Assets	280,893
(99,044)	Total Current Liabilities	(118,247)
(1,095,672)	Total Long Term Liabilities	(1,129,216)
(11,802)	**Net Assets / (Liabilities)**	**42,343**
	Reserves	
128,834	Total Usable Reserves	113,668
(140,636)	Total Unusable Reserves	(71,325)
(11,802)	**Total Reserves**	**42,343**

6.2 The increase in Net Assets of £54.145m from 2014/15 is due to a number of changes across all areas of the Balance Sheet but one key element is the reduction in the Pensions Reserve and the related reduction in the net pensions liability position. (See para 4.15).

6.3 The decrease in the shortfall on the Pensions Reserve of £62.518m from 2014/15. Note 36.3 explains how the Pensions Reserve works, in summary 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 provisions will ensure that funding will have been set aside by the time the benefits come to be paid. The Council currently has an agreed 19 year deficit recovery period in respect of the Cumbria Local Government Pension Fund consistent with actuarial advice. This supports the Council's going concern principle.

6.4 For 2015/16 there is a difference between the reduction in the net Pensions Liability on the Balance Sheet and the reduction in the Pensions Reserve. Likewise the balance on the Pensions Reserve is different to the figure stated for the pension liability.

6.5 The difference in 2014/15 reflects the impact of the early repayment of the three years LGPS deficit lump sum (£31.827m) by the Council to the Cumbria Local Government Pension Scheme in April 2014. Although the early repayment has already happened accounting standards require the Council to account for the payment of the LGPS deficit lump sum in the year that it falls due as assessed by the actuary. For 2015/16 the value was assessed to be £10.612m. The net Pensions Liability is therefore £10.481m lower than the shortfall reported in the Pensions Reserve reflecting that requirement; the £10.481m is the value of the prepayment that will be accounted for in 2016/17. By undertaking the early repayment and therefore paying in advance monies to the Pension Fund the Council has reduced the overall cost of repaying its employer's deficit to the LGPS by £2.643m over the three years (2013/14, 2014/15 and 2015/16). This saving has been reflected in the Council's revenue budget and MTFP.

6.6 There has been an increase in total Property, Plant and Equipment of £2.125m. Note 21 explains the movements in Property, Plant and Equipment (PPE) assets from 2014/15 to 2015/16.

6.7 Long term investments have not changed during the year whilst long term debtors decreased during the year to £7.174m from £7.950m in 2014/15 as shown in Note 25. £6.039m (£6.459m 2014/15) of this debt is in respect of residential care charges and is either secured on property or is part of a deferred payment agreement. Overall the long term debtors position is improving which has allowed the Council to reduce its bad debt provision.

6.8 Current Assets are greater than Current Liabilities so liquidity in the short term is positive. Cash and cash equivalents have increased significantly from 31st March 2015 position of £35.094m to £131.451m as at 31st March 2016. This is predominantly due to the £119.6m of flood recovery funding that the Council received from Government in the last quarter of the financial year.

6.9 Unusable reserves reflect the requirements of many of the technical accounting transactions (i.e not related to cash) included within the Statement of Accounts. The increase in the Pensions Reserve is reflective of the increase in the net Pensions Liabilities (see Para 6.3 to 6.5). It is the usable reserves position that is critical to the Council's going concern assumptions because these reserves are available for distribution (subject to commitments and plans).

6.10 The Accounting Statements show short term provisions of £4.636m which relate to insurance (motor, fire and MMI), Equal Pay commitments and Voluntary Redundancies as set out in Note 33. This is an increase in the short term provisions of £4.410m (from 31st March 2015) offset by the use of provisions of £1.611m.

6.11 The Accounting Statements show Long Term Provisions have reduced by a net £3.624m reflecting a reduced provision for insurance (employers and public liability) following independent advice received on expected future claims of £1.530m and a decrease for Business Rate Appeals of £3.165m as set out in Note 33.

6.12 The reduction in Long Term Borrowings relates to a £7.5m loan which is due to mature within the next twelve months and is therefore now shown in Current Liabilities.

6.13 The Prudential Code for Capital Finance in Local Authorities regulates Local Authority borrowing and gives freedom to Councils to borrow, providing they are capable of meeting the revenue costs of borrowing and the borrowing strategy is in keeping with Prudential Indicators and guidelines. The Council's borrowing strategy and limit is agreed annually, at the February Council meeting when the budget is set, and the strategy is part of the Treasury Management Strategy.

6.14 The Council's authorised limit for external debt for 2015/16 was £560m and the operational limit was £525m. In 2015/16 the Council operated within the agreed authorised limits.

Reserves

6.15 Reserves are reported as either usable or unusable. Usable reserves are those 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. They are cash backed. Unusable reserves are not available to fund services and include reserves that hold unrealised gains and losses (for example the revaluation reserve) where amounts may only become available when the assets are sold and others that reflect the timing difference of when certain transactions are accounted within the Statement of Accounts and act as a holding account for changes from one year to the next.

6.16 Usable reserves for the Council include the General Fund whose purpose is to provide a general contingency to cushion the impact of unplanned events or emergencies and to provide flexibility to manage short term fluctuations between planned and actual levels of income and expenditure and earmarked reserves. As at 31st March 2016 they are £113.668m.

Table 2 – Movement on Revenue Earmarked Reserves

	31st March 2015 £m	Transfers Between Reserves £m	Transfers Out £m	Transfers In £m	Net Movement £m	31st March 2016 £m
General Fund Balance	**15.221**	0	(0.921)	0	(0.921)	**14.300**
Earmarked Reserves						
Schools & DSG Reserves	**9.367**	(0.030)	(9.066)	4.941	(4.155)	**5.212**
Non School Reserves						
Revenue Grants	32.923	0	(2.574)	6.700	4.126	37.049
Modernisation Reserve	20.749	0	(5.631)	0.167	(5.464)	15.285
Insurance Reserve	7.052	0	0	1.649	1.649	8.701
Directorate Reserves	15.141	0.030	(8.765)	4.008	(4.726)	10.415
Other Reserves	7.591	0	(4.865)	1.419	(3.446)	4.145
	83.456	**0.030**	**(21.835)**	**13.944**	**(7.861)**	**75.595**
Total Earmarked Reserves	**92.823**	**0**	**(30.901)**	**18.885**	**(12.016)**	**80.807**

General Fund Balance

6.17 Council agreed a target of £13m for the General Fund Balance when setting the 2016/17 Budget in February 2016. The General Fund Balance as at 31st March 2016 is £14.300m which reflects a decrease of £0.921m of net overspend in 2015/16 added to the 31st March 2015 balance of £15.221m.

6.18 Overall usable reserves for the Council have reduced by £15.166m during 2015/16. This includes a reduction in earmarked revenue reserves of £12.016m, a decrease of £2.606m in the Earmarked Capital Reserve whilst there has been an increase of £0.884m in the Usable Capital Receipts Reserve. The most significant movements in earmarked revenue reserves are explained in Note 35.1 which sets out the Council's Earmarked Reserves. In respect of the DSG funded reserves, Revenue Grant Reserve and Directorate Reserves further information is provided below.

Dedicated School Grant (DSG) funded reserves

6.19 DSG funded reserves decreased by £4.155m to £5.212m as at 31st March 2016 (£9.367m as at 31st March 2015). This comprised a net increase in balances held by individual schools of £1.681m and a decrease of £3.456m relating to drawdown of centrally managed DSG budgets.

6.20 There is an increase of £1.681m in balances held by schools from £4.721m to £6.402m. The number of schools with a deficit has remained the same at 48 but the value of all school deficits has decreased from £4.940m to £3.4110m.The number of schools with surplus balances has reduced from 239 to 226, with the value of these surpluses increasing from £9.661m to £9.813m.

6.21 Schools are still facing significant challenges in respect of the overall level of funding available to them and this increase is set within the context of the National School Funding Reforms that are ongoing and the move towards a national funding formula. The overall total Dedicated School Grant value is set nationally with a complex formula used to allocate funding between schools. At the moment there is local discretion within that but this will be removed as the National Funding Formula is introduced, consultation on this change is ongoing.

Revenue grants reserve

6.22 During 2015/16 there was an increase in the Revenue Grants reserve of £4.126m to £37.049m. This reflects grants that have been received but which will not be applied until future years.

Directorate and Other Reserves

6.23 Overall the carry forward and drawdown from the directorate and other reserves, as detailed in Note 35.1, shows a net decrease of £7.861m from 2014/15. These include the carry forward of budget across financial years for various commitments into 2016/17 to enable the continuation of agreed schemes and activities. It also includes the net underspending on Local Committee budgets as explained in para 5.24.

7.0 PENSION COSTS

7.1 The Council is legally obliged to offer guaranteed pension benefits to its employees. The Accounting Policies (policy (vii)) explain the accounting treatment of retirement benefits and costs applicable to the Council and how they are reflected in the Comprehensive Income and Expenditure Statement and the Balance Sheet.

7.2 Under the International Accounting Standard (IAS) 19, the Council is required to recognise the cost of retirement benefits in the cost of services when earned by employees (shown in the Comprehensive Income and Expenditure Statement) rather than when the benefits are eventually paid as pensions. However, adjustments through the Movement in Reserves Statement ensure that the amount charged to taxpayers as Council Tax relate to cash payable in the year i.e. the employer’s contributions payable to the scheme.

7.3 As described earlier (para 5.31, 5.32 and 6.3) the accounting treatment and valuation of Pension Costs can have a significant impact on the Council's Statement of Accounts. Previous paragraphs have described the impact that the decrease in the pension liabilities in 2015/16 has had on both the CIES and the Balance Sheet and that statutory provision will ensure that funding will have been set aside by the time the benefits come to be paid.

7.4 In respect of past service costs the Council has previously (from 1st April 2011) used an annual lump sum corporate contribution to the Pension Fund to make payments to cover these past service liabilities, in line with the strategy to recover these liabilities over a period of 19 years. From 1st April 2014 however the Council, in agreement with the Actuary, opted to make a supplement (increase) to the employer's contribution to fund an allowance for the period 2014-2017.

8.0 PENSION FUND

8.1 The Council is the administering body for the Cumbria Local Government Pension Scheme (LGPS) which is managed by the Council on behalf of 134 employers, across the county, and the Firefighters' Pension Scheme, hence the Council's Statement of Accounts include supplementary financial statements for these pension funds. Section 10 sets out these financial statements and relevant notes for the LGPS and Section 8 for the Firefighters' Pension Scheme.

8.2 Following the enactment of the 2013 Public Sector Pensions Act, pensions across all the public sector have experienced a period of unprecedented change as they move from final salary benefit schemes to career average revalued earnings (CARE) benefits structures. This took place from April 2014 for the LGPS and April 2015 for the Firefighters' Scheme.

Cumbria LGPS

8.3 During the year to 31st March 2016 the Cumbria LGPS Fund value increased by £19.493m to £2,046.809m from £2,027.316m i.e. just over £2,000million i.e. £2bn. This compares to an increase of £252.586m during the year 2014/15. The Fund returned 1.9% (net of fees) for the year which was an outperformance of 2.1% on the Fund's bespoke benchmark for the year of -0.2%. This was attributable to active management outperformance in the investment portfolios and to the strategic increase of investment in alternative assets such as infrastructure and private equity.

8.4 2015/16 year was very volatile for many asset classes with individual months and quarters showing large swings, but for the twelve month period to March 2016, many markets showed pretty flat performance overall. Property was the exception, providing strong returns of 11.7%. UK index-linked gilts had a lower return than 2014/15 of 1.9%. The Global Equities Markets have in the main not performed well in 2015/16, averaging at -1.2% although there were variations by sector and geography. North American markets showed the strongest performance of 3.6%. Performance within the remaining areas were all negative, ranging from -3.3% for Japan to -5.4% for the Pacific.

8.5 The Fund has also performed well over the medium to longer term with the three-year return of 8.1% (net of fees) outperforming the bespoke hedged benchmark of 6.2% (per year) by 1.9%. The ten year Fund return was 6.2%, 0.5% above the benchmark of 5.7% (per year).

8.6 This performance has also been reflected in our comparator results across the LGPS, with the Cumbria Fund being ranked (out of 100) 9th for 1 Year, 8th for 3 years, 8th for 5 years and 16th for 10 years despite our more defensive investment strategy than the average LGPS.

9. NON FINANCIAL PERFORMANCE REPORTING

9.1 The Council actively monitors and manages corporate performance reporting to Corporate Management Team and Cabinet quarterly and are available on the Council's website at

http://councilportal.cumbria.gov.uk/documents/s51357/Q4%20Performance%20FINAL.pdf**.**

The report for 2015/16 include:

- progress on the 2015/16 Council Plan delivery plan for the 12 month period from 1st April 2015 to 31st March 2016.
- progress on other key service performance indicators for the 12 month period ended 31st March 2016, including Children's Improvement Plan performance indicators.

10. GROUP ACCOUNTS

10.1 The Group Accounting Statements are set out in Section 7 and show an increase of £54.880m in the total value of the Group net assets (from a net Liabilities of £2.925m at 31st March 2015 to a net asset position of £51.955m at 31st March 2016). The increase relates mainly to the decreased net Pension Liability of £51.884m, which reflects the Council's increased net Pension Liability of £51.906m and the increased net Pension Liability of Cumbria County Holdings Ltd of £0.022m.

10.2 The entities to be included within the group accounts have been re-considered this year with a careful regard to their materiality. The changes to the group boundary are detailed in note 7.2 on page 162.

11. EVENTS AFTER THE REPORTING PERIOD

11.1 The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 21st September 2016 in respect of the audited Statement of Accounts for 2015/16.

11.2 Following the EU referendum on 23rd June 2016, the UK has voted to leave the EU. The implications from the referendum will become clearer over time. The Council will continue to monitor the situation.

11.3 There have been no other material events after the reporting date that are required to be taken into account in the financial statements.

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 Chief Finance Officer (Assistant Director – Finance).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Corporate Directors' Responsibilities
- The Chief Executive and other Corporate Directors are each accountable to the Council for the financial management and administration of those services and activities allocated to them in accordance with Council policy, including effective ongoing budgetary control, with appropriate support and advice from the Assistant Director - Finance.
- Each Corporate Director is responsible for ensuring that adequate and effective systems of internal control are operated to ensure the accuracy, legitimacy and proper processing of transactions and the management of activities.

The Chief Finance Officer's Responsibilities
The Assistant Director – Finance 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 Assistant Director – Finance has:
- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Assistant Director – Finance has also:
- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the 31st March 2016 and its expenditure and income for the year ended the 31st March 2016.

Signed :

Julie Crellin, Assistant Director – Finance (S151 Officer)
21st September 2016

Certificate of Approval of the Council's Statement of Accounts

I certify that the accounts set out in this document have been considered by the Council's Audit and Assurance Committee at its meeting held on 21st September 2016 and have been approved by a resolution of this Committee.

Signed on behalf of Cumbria County Council

Mr. T Knowles
Chair of Audit and Assurance Committee

21st September 2016

GrantThornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

We have audited the financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, Section 5 Statement of Accounting Policies and the related notes 1 to 42 and group notes in section 7 and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3. 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 the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Assistant Director - Finance and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Assistant Director - Finance 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, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter. In May 2012, Ofsted and the Care Quality Commission issued a joint report on the inspection of the Authority's services for child protection. In May 2013, Ofsted issued a further report on child protection. The overall judgement in both reports was child protection arrangements were judged to be inadequate. In May 2015, Ofsted issued its report on the inspection of the Authority's services for looked after children. The report concluded that child protection had improved, but requires further improvement. The arrangements for looked after children was judged to be inadequate. The overall judgement on the arrangements for children's services was also inadequate.

This matter identifies weaknesses in the Authority's arrangements for responding to service delivery issues raised by regulators; and issues raised from regulatory reports have not been fully resolved.

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in understanding and using appropriate and reliable financial information and performance information, including information from regulatory bodies, to support informed decision making and performance management; as well as planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effect of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that in all significant respects the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Jackie Bellard

Jackie Bellard
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Section 4 sets out four accounting statements in respect of the Council’s activities in 2015/16, showing the previous year’s comparators.

Comprehensive Income and Expenditure 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. Councils raise taxation to cover expenditure in accordance with statutory regulations and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Movement in Reserves Statement which identifies the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and other “unusable” reserves (i.e. not cash backed). 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. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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 (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories – usable and unusable. 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 (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). Unusable reserves are those that the Council is not able to use to provide services. This includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), 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’ and detailed in note 9.

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 (i.e. borrowing) to the Council.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31st MARCH 2016

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000	Service	Note to the Accounts	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
			Services:				
2,892	(1,540)	1,352	Central Services to the Public		2,828	(1,525)	1,303
11,998	(520)	11,478	Cultural and Related Services		9,755	(509)	9,246
34,602	(1,273)	33,329	Environmental and Regulatory Services		38,790	(975)	37,815
18,824	(11,398)	7,426	Planning Services		25,230	(19,331)	5,899
61,483	(8,153)	53,330	Highways and Transport Services		64,475	(6,682)	57,793
476,958	(304,013)	172,945	Education and Children's Services		420,613	(295,417)	125,196
198,818	(58,593)	140,225	Adult Social Care		183,102	(46,229)	136,873
20,023	(222)	19,801	Fire & Rescue Services		17,740	(170)	17,570
15,403	(15,403)	0	Public Health		13,030	(15,649)	(2,619)
6,630	(4,183)	2,447	Corporate and Democratic Core		6,821	(4,356)	2,465
3,650	(2,990)	660	Non Distributed Costs		11,430	(8,442)	2,988
851,281	(408,288)	442,993	**Cost of Services**	4	793,814	(399,285)	394,529
2,861	0	2,861	Other Operating Expenditure	6	8,680	0	8,680
65,294	(4,984)	60,310	Financing and Investment Income and Expenditure	7	85,611	(6,049)	79,562
0	(449,889)	(449,889)	Taxation and Non Specific Grant Income	8	0	(449,381)	(449,381)
919,436	**(863,161)**	**56,275**	**(Surplus)/Deficit on Provision of Services**	4	**888,105**	**(854,715)**	**33,390**
		23,072	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	36.1			(6,415)
		0	Impairment Losses on Non-current Assets Charged to the Revaluation Reserve	36.1			636
		(14)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets	36.4			(13)
		132,111	Remeasurements of the net defined benefit liability / (asset)	38.1			(82,883)
		155,169	**Other Comprehensive Income and Expenditure**				**(88,675)**
		211,444	**Total Comprehensive Income and Expenditure**				**(55,285)**

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31st MARCH 2016

2014/15	Note to the Accounts	General Fund £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2014		15,133	95,900	5,324	9,027	2,916	2,813	131,113	124,960	452,969	(501,132)	(521)	457	(8,205)	68,528	199,641
Movement in Reserves during 2014/15																
Surplus or (deficit) on the provision of services		(56,275)	0	0	0	0	0	(56,275)	0	0	0	0	0	0	0	(56,275)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	(23,072)	0	(132,111)	14	0	0	(155,169)	(155,169)
Total Comprehensive Income and Expenditure		**(56,275)**	**0**	**0**	**0**	**0**	**0**	**(56,275)**	**(23,072)**	**0**	**(132,111)**	**14**	**0**	**0**	**(155,169)**	**(211,444)**
Adjustments between accounting basis and funding basis under regulations	9	53,292	0	0	1,796	(1,092)	0	53,996	(4,660)	(40,067)	(9,620)	0	424	(73)	(53,996)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		**(2,983)**	**0**	**0**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	**(211,444)**
Transfers (to) Earmarked Reserves		(16,460)	16,454	6	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves		19,531	(19,531)	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers (to)/from Capital Grants and Contributions Unapplied Reserves		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2014/15		**88**	**(3,077)**	**6**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	**(211,444)**
Balance at 31st March 2015		**15,221**	**92,823**	**5,330**	**10,823**	**1,824**	**2,813**	**128,834**	**97,228**	**412,903**	**(642,863)**	**(507)**	**881**	**(8,278)**	**(140,638)**	**(11,802)**
Adjustment to Opening Balance	36.3	0	0	0	0	0	0	0	0	0	(1,140)	0	0	0	(1,140)	(1,140)
Movement in Reserves during 2015/16																
Surplus or (deficit) on the provision of services		(33,390)	0	0	0	0	0	(33,390)	0	0	0	0	0	0	0	(33,390)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	5,779	0	82,883	13	0	0	88,675	88,675
Total Comprehensive Income and Expenditure		**(33,390)**	**0**	**0**	**0**	**0**	**0**	**(33,390)**	**5,779**	**0**	**82,883**	**13**	**0**	**0**	**88,675**	**55,285**
Adjustments between accounting basis and funding basis under regulations	9	17,847	0	0	884	(507)	0	18,224	(7,078)	3,282	(19,225)	0	2,940	1,857	(18,224)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		**(15,543)**	**0**	**0**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Transfers (to) Earmarked Reserves	35.1	(18,885)	18,885	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	35.1	33,507	(30,901)	(2,606)	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2015/16		**(921)**	**(12,016)**	**(2,606)**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Balance at 31st March 2016		**14,300**	**80,807**	**2,724**	**11,707**	**1,317**	**2,813**	**113,668**	**95,929**	**416,185**	**(580,345)**	**(494)**	**3,821**	**(6,421)**	**(71,325)**	**42,343**

BALANCE SHEET AS AT 31st MARCH 2016

31st March 2015 £000		Notes to the Accounts	31st March 2016 £000
	Long Term Assets:		
	Property, Plant and Equipment		
488,983	Other Land and Buildings		459,660
24,665	Vehicles, Plant, Furniture and Equipment		26,635
450,205	Infrastructure		478,101
65	Community Assets		54
11,822	Assets Under Construction		15,881
17,030	Surplus Properties Not Held For Sale	22	14,564
992,770	**Total Property, Plant and Equipment**	21	994,895
543	Heritage Assets		543
225	Investment Properties	23	2,285
986	Intangible Assets	24	833
3,183	Long Term Investments		3,183
7,950	Long Term Debtors	25	7,174
1,005,657	**Total Long Term Assets**		1,008,913
	Current Assets:		
2,866	Current Assets Held for Sale	26	1,048
1,098	Inventories		1,040
62,875	Short Term Debtors and Prepayments	27	62,153
75,324	Short Term Investments	28.1	85,201
35,094	Cash and Cash Equivalents	30	131,451
177,257	**Total Current Assets**		280,893
	Current Liabilities:		
(10,110)	Short Term Borrowings	28.1	(11,938)
(419)	Short Term PFI Liability	20	(517)
(70,807)	Short Term Creditors	31	(79,570)
(13,485)	Revenue Grants Receipts in Advance	32	(10,847)
(1,837)	Short Term Provisions	33	(4,636)
(2,386)	Bank Overdraft	28.1 & 30	(10,739)
(99,044)	**Total Current Liabilities**		(118,247)
	Long Term Liabilities:		
(302,886)	Long Term Borrowings	28	(295,361)
(4,310)	Long Term Creditors		(4,424)
(117,618)	Long Term PFI Liability	20	(117,184)
(37,456)	Capital Grants Receipts in Advance	34	(134,375)
(11,632)	Long Term Provisions	33	(8,008)
(621,770)	Net Pensions Liability	38.2	(569,864)
(1,095,672)	**Total Long Term Liabilities**		(1,129,216)
(11,802)	**Net Assets / (Liabilities)**		**42,343**
	Usable Reserves		
15,221	General Fund Balance		14,300
92,823	Earmarked Reserves	35.1	80,807
5,330	Earmarked Capital Reserve	35.1	2,724
10,823	Usable Capital Receipts Reserve	35.2	11,707
1,824	Capital Grants and Contributions Unapplied Reserve	35.2	1,317
2,813	Long Term Investment Reserve	35.2	2,813
128,834			113,668
	Unusable Reserves		
97,228	Revaluation Reserve	36.1	95,929
412,903	Capital Adjustment Account	36.2	416,185
(642,863)	Pensions Reserve	36.3	(580,345)
(507)	Financial Instruments Adjustment Account	36.4	(494)
881	Collection Fund Adjustment Account	36.5	3,821
(8,278)	Accumulated Absences Account	36.6	(6,421)
(140,636)			(71,325)
(11,802)	**Total Reserves**		**42,343**

CASH FLOW STATEMENT AS AT 31st MARCH 2016

2014/15			2015/16	
£000	£000		£000	£000
	(56,275)	Net Surplus/(Deficit) on the Provision of Services		(33,390)
		Adjust net surplus or (deficit) on provision of services for non cash movements		
31,874		Depreciation and impairments	30,331	
2,124		Amortisation	331	
64,479		Net Revaluations downwards	11,635	
(14)		Adjustments for effective interest rates	(13)	
(57)		Increase/(Decrease) in Interest Creditors	(172)	
(1,328)		Increase/(Decrease) in Creditors	(4,334)	
(96)		Increase/(Decrease) in Interest and Dividend Debtors	37	
(18,576)		(Increase)/Decrease in Debtors	6,297	
336		(Increase)/Decrease in Inventories	58	
(11,473)		Pension Liability	29,837	
619		Contributions to Provisions	(825)	
(40)		Movement in Investment Property values	(732)	
19,816		Carrying Amount of non current assets sold	45,468	
	87,664			**117,918**
		Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing or financing activities		
(50,323)		Capital grants credited to surplus or (deficit) on the provision of services	(56,797)	
(5,349)		Proceeds from the sale of property, plant and equipment, investment properties or intangible assets	(5,128)	
	(55,672)			**(61,925)**
	(24,283)	**Net Cashflows from Operating Activities *****		**22,603**
		Net Cashflows from Investing Activities		
(69,514)		Purchase of PPE, Investment property and intangible assets	(72,897)	
(158,250)		Purchase of short term and long term investments	(144,914)	
(10)		New Long Term Loan	0	
5,349		Proceeds from the sale of PPE, Investment property and intangible assets	5,128	
138,200		Proceeds from short term and long term investments	135,000	
46,562		Other receipts from investing activities	148,932	
	(37,663)			**71,249**
		Net Cashflows from Financing Activities		
150		Payments for the reduction on PFI liability	(336)	
(7,512)		Payment for the reduction of long term borrowing	(5,512)	
	(7,362)	Net cashflows from Financing Activities		(5,848)
	(69,308)	**Net Increase or (Decrease) in Cash and Cash Equivalents**		88,004
	102,016	Cash and Cash Equivalents at the Beginning of the Reporting Period		32,708
	32,708	**Cash and Cash Equivalents at the End of the Reporting Period (Note 30)**		**120,712**

*** The Net Cashflows from Operating Activities in 2015/16 include interest received of £1.158m (2014/15 £0.944m), dividends received £1.500m (2014/15 £2.000m) and interest paid of £28.629m (2014/15 £29.352m).

Section 5 provides details of the significant accounting policies and estimation techniques used in the preparation of the Council's accounts.

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its overall financial position as at 31st 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 for Local Authorities 2015/16, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost i.e. expenditure is included on the basis of price actually paid rather than the additional allowance being made for changes in purchasing power of money, modified by the revaluation of certain categories of non current assets and financial instruments.

ii. Accounting Concepts

<u>Accruals of Income and Expenditure</u>

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. 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 (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for 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.

ii. Accounting Concepts continued

Accruals of Income and Expenditure continued

- Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Relevant

The information in the accounts is useful in assessing the Council's stewardship of public funds and for making economic decisions.

Reliable

The information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors.

Comparable

A consistent approach to accounting policies is used in preparing the accounts to ensure that they may be compared to previous years. Where there is a change in accounting policy that has a material effect on the information, this has been disclosed.

Understandable

The Council endeavours to ensure that an interested reader can understand the accounts.

Materiality

In using its professional judgment, the Council considers the size and nature of any transaction, or set of transactions. An item is considered material where its omission could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Going Concern

The accounts are prepared on a going concern basis which assumes that the Council will continue in existence for the foreseeable future and that there is no intention to significantly reduce operations.

Primacy of Legislative Requirements

The Council operates through the power of statute. Where specific legislative requirements conflict with accounting principles, legislative requirements are applied.

iii. 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 material errors.

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. In addition a third Balance Sheet is required where the Prior Period Adjustment is material.

Where the basis for measurement of an amount is uncertain, the Council will use a suitable estimation technique determined by the Assistant Director - Finance. Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Assistant Director - Finance will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

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

iv. Charges to Revenue for Non Current Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible non current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment and revaluation losses or amortisations. However, it is required to make an annual contribution from fund balances towards the reduction in its overall borrowing requirement. This amount is known as the Minimum Revenue Provision (MRP) and is calculated by the Council on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, impairment and revaluation losses and amortisations are therefore reversed and replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

For all borrowing incurred before 1st April 2008 and "Supported Borrowing" after 1st April 2008 the MRP is calculated at 4% per annum. For borrowing incurred after 1st April 2008 MRP is calculated by equal instalments over the life of the assets.

v. 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 (SeRCOP). Costs are apportioned on the basis of time spent, space occupied or facilities used.

The following two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services:

Corporate and Democratic Core - Costs relating to the Council's status as a multi functional, democratic organisation.

Non Distributed Costs – Changes in employees past service costs and any depreciation and impairment losses chargeable on assets held for sale.

vi. Principal and Agent Transactions

The Council's financial statements have regard to the general principle of whether the Council is acting as the Principal or Agent.

Where the Council acts as a Principal, i.e. it is acting on its own behalf, transactions are included in the Council's financial statements.

Where the Council acts as an Agent i.e. it is acting as an intermediary, transactions are not reflected in the Council financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position being included in financing activities in the cash flow statement.

vii. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those falling due wholly within 12 months after the end of the period in which the employees render the related service. These include items such as wages and salaries, paid annual leave, paid sick leave and non monetary benefits for current employees, and are recognised as an expense in services in the year. An accrual is made for the cost of holiday entitlements not taken before the year end and which employees can carry forward into the next financial year.

The accrual is charged to services in the Comprehensive Income and Expenditure Statement. It is then reversed out through the Movement in Reserves Statement. This ensures that holiday benefits are charged to revenue in the financial year in which the absence occurs.

vii. Employee Benefits continued

Termination Benefits

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. These benefits are charged on an accruals basis to the relevant service(s) line within the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw an offer relating to the termination of the employment of an officer or group of officers, or to encourage voluntary redundancy.

Post Employment Benefits

The majority of employees of the Council are members of one of four separate pension schemes designed to meet the needs of employees in particular services (further details are provided in the Notes to the Accounts). All four schemes (there are four individual firefighters' schemes) provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Council.

a) Teachers' Pensions

This scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating the employers' contributions. The Council contributes at rates determined by the Department for Education. The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is, therefore, accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Children's service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

b) Firefighters' Pensions

There are currently four Fire Fighters Pension Schemes:

- the 1992 scheme which came into effect on 1st March 1992 but became a closed scheme on 6th April 2006;

- the 2006 scheme which came into effect on 6 April 2006;

- the Modified scheme which is open to all Retained Firefighters who were employed between 1st July 2000 and 5th April 2006. Retained firefighters employed between these dates were not given the opportunity to join the membership of the 1992 Scheme. The Modified scheme is a modified section of the 2006 Scheme which gives membership to retained firefighters employed within the above period;

- the 2015 Scheme which came into effect on 1st April 2015 and is available to firefighters appointed on or after that date.

vii. Employee Benefits continued

Post Employment Benefits continued

b) Firefighters' Pensions continued

Transfer to 2015 Scheme

The 2015 scheme is open to all firefighters appointed on or after 1st April 2015. Serving firefighters who have an interest in the 1992, 2006 or Modified schemes will either remain in their existing scheme until retirement, transfer into the 2015 scheme on 1st April 2015, or transfer into the 2015 Scheme at a later date dependent on their age.

Firefighters who transfer into the 2015 Scheme have protected rights in the earlier schemes, dependent on their age.

Firefighters who did not transfer into the 2015 scheme on 1st April 2015 will transfer into the scheme on defined taper dates based on their age. During 2015/16 265 firefighters transferred into the 2015 scheme. Of these 48 transferred from the 1992 scheme, 196 transferred from the 2006 scheme, and 21 were new members.

The Firefighters' schemes are accounted for as defined benefits schemes. Although contributions are made into the schemes and they are based on final salary, they are unfunded to the extent that assets are not specifically held to meet pension liabilities. The Department for Communities and Local Government provide funds to top up contributions collected from employers and employees to ensure that normal pension liabilities can be paid. The Council is responsible for meeting the cost of additional injury and ill health awards and pensions. The liabilities of the schemes are included in the Council's Balance Sheet.

c) The NHS Pension Scheme

The NHS Scheme is administered by EA Finance NHS Pensions. The arrangements for the NHS scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is, therefore, accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Public Health revenue account is charged with the employer's contributions payable to NHS pensions in the year.

vii. Employee Benefits continued

Post Employment Benefits continued

d) The Local Government Pension Scheme

All other full time and most part time employees of the Council are eligible to join the Local Government Pension Scheme administered by Cumbria County Council on behalf of the local authorities of Cumbria and other admitted bodies.

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The assets and liabilities are included net in the Balance Sheet:

1. The liabilities of the scheme 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 measured on an actuarial basis discounted to present value using the projected units method. The discount rate to be used is determined in reference to market yields at the Balance Sheet date of high quality corporate bonds.

2. The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
   - Equities
   - Government and Other Bonds
   - Property
   - Cash and Other

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

a) 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 will be 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 i.e. net interest expense for the authority*** - the change during the period in the net defined benefit liability 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 at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

vii. Employee Benefits continued

Post Employment Benefits continued

b) Re-measurement comprising:

- ***the return on plan assets*** – excluding amounts included in net interest on the net defined benefit liability – 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.

c) Contributions paid to the Cumbria Local Government Pension Scheme – 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 appropriations 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.

viii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed as specified or returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. If there is reasonable assurance that the condition will be met, but this has not yet occurred, any grant / contributions received will be held on the Balance Sheet as Grant Receipts in Advance (in Liabilities).

When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure. A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate. Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution. To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the Comprehensive Income and Expenditure Statement as an expense.

Revenue Grants

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement and the grant has yet to be used to finance revenue expenditure, and there are restrictions as to how the monies are to be applied, an earmarked reserve will be established and the monies transferred into the earmarked reserve through the Movement in Reserves Statement. When the grant is applied, an amount equal to the expenditure may then be transferred back from the earmarked reserve to the General Fund.

ix. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Buildings

Where a lease agreement is for greater than 750 years the asset will be automatically treated as freehold and accounted for as a Council asset.

Where a lease agreement is for between 100 years and 749 years the lease will automatically be treated as finance lease and accounted for appropriately.

Where a lease agreement is between 26 years and 99 years it will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

Where a lease agreement is for 25 years or less the lease will automatically be treated as an operating lease and accounted for appropriately.

Land

Where a lease agreement is for greater than 750 years the asset will be automatically treated as freehold and accounted for as a Council asset.

All other leases will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease’s inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

ix. Leases continued

Finance Leases continued

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid in the year under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

<u>The Council as Lessor</u>

Buildings

Where a lease agreement is for greater than 750 years the asset will be automatically treated as freehold and not included as a Council asset.

Where a lease agreement is for between 100 years and 749 years the lease will automatically be treated as finance lease and accounted for appropriately.

Where a lease agreement is between 26 years and 99 years it will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

Where a lease agreement is for 25 years or less the lease will automatically be treated as an operating lease and accounted for appropriately.

Land

Where a lease agreement is for greater than 750 years the asset will be automatically treated as freehold and not included as a Council asset.

All other leases will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

ix. Leases continued

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a long term debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are charged as an expense as they occur.

x. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the 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) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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 on 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; and
- lifecycle replacement costs – are either recognised immediately as additions to Property, Plant and Equipment on the Balance Sheet when the relevant works are carried out or if required a prepayment is posted to the Balance Sheet for the lifecycle costs payable in that year and then recognised as additions to PPE when the relevant works are carried out. Where it is not possible to evidence that lifecycle replacements costs meet the capital expenditure definition then it is treated as revenue.

xi. Property, Plant and Equipment

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 are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Expenditure that adds to an asset's potential to deliver future economic benefits or service potential but costs less than £12,000 in total (deemed to be de minimis) can be charged direct to service revenue accounts as it is incurred.

Componentisation

IAS 16 – Property, Plant and Equipment (PPE) states that each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. This is applicable to both enhancements and acquisition expenditure incurred and revaluations carried out from 1st April 2010. It is not retrospective. This includes specific infrastructure assets.

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. Significant components will be separately accounted for where there are different useful lives and / or depreciation methods.

Individual PPE assets with a Net Book Value of less than and including £2.5m will be classed as de minimis and be excluded from the requirement to be componentised.

Where a component of an asset is replaced or restored, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price; and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

xi. Property, Plant and Equipment continued

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost; and

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Where non property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued at intervals of not greater than five years via a rolling programme of asset revaluations to ensure that their carrying amount is not materially different from their fair value at the year end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>Revaluation losses</u>

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 as detailed above), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

xi. Property, Plant and Equipment continued

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

Disposals and Non Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Within the Council's accounts these assets will only be reclassified at 31st March of the financial year. The following criteria have to be met before an asset can be classified as held for sale:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

xi. Property, Plant and Equipment continued

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where the assets of a school are recognised on the Councils balance sheet prior to a transfer to an Academy they are treated as a derecognition in year. The assets are treated as a disposal with nil sale proceeds to be recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, Heritage and Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged on a straight line basis based upon asset values at the beginning of the year of account. The Council uses the following assumptions in assessing the useful life of assets. Because of the diverse nature of the Council's assets individual asset lives have been assigned as appropriate within the ranges shown below.

Operational Buildings	Up to 60 years
Waste Disposal Sites	30 years
Infrastructure assets	Up to 40 years
Vehicles, Plant, Furniture & Equipment	Up to 50 years
Assets Under Construction	Not charged until brought into use
Community Assets / Investment properties	No depreciation charged
Land	Infinite life and therefore no depreciation charged

xi. Property, Plant and Equipment continued

Depreciation continued

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Components have been recognised in the financial year 2015/16 where:

- there has been a revaluation of assets;
- there has been an acquisition of assets within the financial year;
- enhancement expenditure has been incurred within the financial year.

Components have also been depreciated over different lives than the host (main) asset and recognised where they have a significant value when compared to the value of the host assets.

Non Current Assets - Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Schools Non-Current Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Where the Council undertakes the rebuilding of a school on behalf of an Academy the assets are included on the Council's Balance Sheet during the construction phase as assets under construction. They are treated as a disposal when the school is complete and transferred to the Academy. The assets are not reclassified as assets held for sale.

xii. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax. REFCUS includes, for example, capital expenditure on assets not owned by the Council, such as voluntary aided schools.

xiii. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. 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.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Financial Instruments

xiv. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

<u>Borrowing</u>

The Council’s borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long term liability, repayable after 12 months or longer, or a current liability if it is repayable within 12 months. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the period in which the repurchase or settlement is made. Through the Movement in Reserves Statement this will then be adjusted to neutralise the effect on the amounts to be raised through council tax in the year, by charging or crediting the Financial Instruments Adjustment Account. This reserve will in turn be written off over the remaining life of the new loan through the Movement in Reserves Statement as permitted by statute.

Financial Instruments continued

xiv. Financial Liabilities

Creditors are recognised when a supplier has provided goods and services to the Council for an agreed price. The value of the creditors recognised in the Balance Sheet represents the current value of the outstanding liabilities of the Council as at 31st March as a proxy for amortised cost.

xv. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

<u>Loans and Receivables</u>

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in 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. The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

<u>Debtors</u>

Debtors are recognised when goods and services have been provided by the Council for an agreed price. The value of the debtors recognised in the Balance Sheet represents the current value of the outstanding asset of the Council as at 31st March as a proxy for amortised cost.

Financial Instruments continued

xv. Financial Assets

Available for Sale Assets

Available for sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis

Changes in fair value are balanced by an entry in the Available for sale Reserve and the gain/loss is recognised in the 'surplus or deficit on revaluation of available for sale financial assets' within the Other Comprehensive Income and Expenditure part of the Comprehensive Income and Expenditure Statement. Impairment losses are debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Statement of Recognised Gains and Losses under UK GAAP accounting. In future such gains / losses will be recognised in the other comprehensive income and expenditure part of the Comprehensive Income and Expenditure Statement.

Where fair value cannot be measured reliably (such as the investment in Cumbria County Holdings Ltd) the instrument is carried at cost (less any impairment losses).

xvi. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Cash equivalents will only be money market fund deposits, as fixed maturity deposits have penalties built in for early redemption.

xvii. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, 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. They are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties, and are classified as current or non current liabilities on the Balance Sheet.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes likely that a payment will not be made or the estimated liability is reduced, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received.

xviii. Reserves

In addition to its General Balances the Council sets aside specific amounts as reserves for future policy purposes, to cover contingencies or for specific areas of future risk. This allows the Council to manage the impact of its spending in a planned and prudent way. The Council continually reviews these reserves to ensure that they remain appropriate and aligned to the Council's priorities.

The Council's main usable reserves are as follows:

- The General Fund is set aside to meet general future revenue expenditure and to protect the Council against exposure to unexpected events.

- Under the Government's Fair Funding arrangements individual schools manage their own budgets and are allowed to carry forward accumulated surpluses and deficits as reserves.

- Earmarked reserves are set aside to meet specific items of future expenditure.

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement to specific reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue service in that year to score against the Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into General Fund Balance Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Unusable Reserves

Certain reserves are maintained to manage the accounting processes for non current assets and retirement benefits and do not represent usable resources for the council – these reserves are explained within the relevant accounting policies in this statement.

Further detail in respect of the Council's reserves is set out in the Notes to the Accounts.

xix. Interests in Companies and Other Entities

An assessment of the Council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors.

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint arrangements and require it to prepare group accounts.

The Council has majority and minority interests in a number of companies. Of the Council's investments in related companies, only the investment in Cumbria County Holdings Ltd is material and shown in the Council's Balance Sheet at cost. Contributions to other companies have been charged as expenditure in the year in which they were made. Any profit or loss on realisation is only taken into account at the time of realisation.

Within the Group Accounts, separate accounting policies have been applied in accordance with CIPFA recommendations and are shown in this section of the Statement of Accounts.

xx. Joint Arrangements

Joint Arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangement can be classed as:

- A Joint Venture
- A Joint Operation

Joint Venture

A Joint Venture is an arrangement under which two or parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

Joint Operation

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

xxi. 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 disclosed in a note to the accounts.

xxii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

Adjusting Events

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and

Non Adjusting Events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

xxiii. Value Added Tax

Value Added Tax payable is included only to the extent that it is not recoverable from HM Revenue & Customs. Value Added Tax receivable is excluded from income.

xxiv. Pooled Funds

Both Health & Care Services and Children's Services work with authorities outside the Council to ensure that a coordinated approach to service delivery is achieved. Operating surpluses or deficits are shared in accordance with the agreements between the parties. The Council only accounts for its own share of income, expenditure and assets and liabilities in accordance IFRS 11 Joint Arrangements.

xxv. Council Tax and Business Rates

Both Council Tax and Business Rates are collected by District Councils on behalf of the County Council. The Council's share of income from both of these sources will be recognised in the Comprehensive Income and Expenditure Statement in the Taxation and Non Specific Grant Income line. The difference between the income which has been recognised in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. The Balance Sheet will include all creditor and debtor balances relating to the Council's share of Council Tax and Business Rates balances.

Cumbria has a Business Rate Pool, established on 1st April 2014, it comprises the County Council, Allerdale Borough Council, Barrow Borough Council, Eden District Council, South Lakeland District Council and Carlisle City Council. Government treats the Pool as a single body with the County Council acting as the lead authority. The Cumbria Business Rate Pool has a formal agreement and a financial protocol agreed by all members. At the financial year end, alongside the reporting of the Business Rate income for the Council as reported above, the financial protocol requires that each member retains its relative proportion of the Cumbria Business Rate Pool Local Volatility Reserve on its own Balance Sheet. An element of the Net Retained Levy for the Pool is set aside each year to provide protection for Pool members from falls in business rate income.

xxvi. Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets, 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council 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.

xxvi. Fair Value Measurement continued

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets and liabilities that the Council 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.

1. Accounting Standards that have been Issued but have not yet been Adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following Accounting Standards have been issued but have yet to be adopted.

- Amendments to IAS19 Employee Benefits
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendments to IFRS11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS16 Property, Plant & Equipment and IAS38 Intangible Assets
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendment to IAS1 Presentation of Financial Statements
- The change to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

The effect of these changes will be assessed and where necessary figures will be restated in the Financial Statements for 2016/17.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1st April 2016. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of works, which would have been built up over a significant time period.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

2. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Section 5, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement is required for the accounts, in many cases the approach has been to document the accounting guidance and focus the judgements made by the relevant officers.

Private Finance Initiatives (PFI) and Public Private Partnership (PPP) Arrangements

The Council is deemed to control the services provided under the three PFI/PPP type agreements in relation to the Carlisle Northern Development Route (CNDR), the replacement of five fire stations and the Waste PPP arrangement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets are recognised as Property, Plant and Equipment on the Balance Sheet when they are brought into use.

Land and Buildings

The Council has to decide whether land and buildings owned by the Council are investment properties. The Council's valuers make judgements in accordance with IAS 40 Investment Property and IFRS13 Fair Value Measurement which was introduced into the Code of Practice on Local Authority Accounting 2015/16. In 2015/16 it has been determined that the Council has eight investment properties from which £0.189m net income was generated in 2015/16 (2014/15 one property, net income £0.020m).

The Capital Programme & Property Team are required to exercise judgement in determining the carrying value of land and buildings on the Council's Balance Sheet. The Council owns a large and diverse range of property assets. All properties are revalued on a five year rolling programme and reflect the fair value. Throughout 2015/16 the valuers have assessed that there has been no further general impairment, although there have been specific impairments to three Council properties as a result of the flooding experienced in December 2015.

Judgement is required in determining the significant components of property, plant and equipment assets and their related useful lives for accurate depreciation purposes. The Council's quantity surveyors, valuers and accountants worked together to determine this. It has been judged that the useful lives of the Council's properties as they currently stand provide a depreciation charge that is an accurate proxy for component accounting purposes.

Group Accounts

The Council has to decide whether there is a group relationship between the Council and other entities. Finance staff assess each relationship that exists between the Council and other entities that may result in a group accounts relationship using a flowchart of decisions based on CIPFA group accounting guidance. It has been determined that there is one material group relationship that requires the production of group accounts. Further details of the Group Accounts are in Section 7.

2. Critical Judgements in Applying Accounting Policies continued

<u>Investments</u>

The Council has an investment valued at £3.183m representing a 100% shareholding in Cumbria County Holdings Limited (CCHL), a private limited company. It has been determined that the Council does have control of the company and it is accounted for as a subsidiary of the Council. As the fair value of the shares cannot be determined and it does not have a quoted market price in an active market, the investment is carried at cost as a proxy for fair value. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data.

<u>Provisions and Contingent Liabilities</u>

The Council has to decide whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability. These decisions are taken by a combination of the Council's finance staff, solicitors and departmental officers based on their detailed knowledge of the circumstances.

<u>Grants Receivable</u>

Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non expenditure, the income is not recognised until the expenditure is incurred.

<u>Schools</u>

Accounting for Schools – Consolidation

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the County are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

The timetable for the closure of the Council's accounts requires the 84 schools that operate a "cheque book" arrangement locally i.e. they manage the day to day accounting for income and payments close their accounts by mid March. Therefore they have to make use of estimates for their March payroll costs.

Accounting for Schools – Balance Sheet Recognition of Schools

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 schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

2. Critical Judgements in Applying Accounting Policies continued

Accounting for Schools – Balance Sheet Recognition of Schools continued

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 it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

The table below sets out the number and type of schools within the County as at 31st March 2016.

Type of School	No. of Primary Schools	No. of Secondary Schools	No. of Nursery Schools	No of Special Schools	No. of Pupil Referral Units	Total No. of Schools	On Council's Balance Sheet	Off Council's Balance Sheet
Community	113	9	6	4	3	135	135	0
Voluntary Controlled (VC)	48	1	0	0	0	49	0	49
Voluntary Aided (VA)	70	4	0	0	0	74	0	74
Foundation	14	2	0	0	0	16	12	4
Total Maintained Schools	**245**	**16**	**6**	**4**	**3**	**274**	**147**	**127**
Academies	25	21	0	1	0	47	0	47
Total	**270**	**37**	**6**	**5**	**3**	**321**	**147**	**174**

Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

<u>Accounting for Schools - Transfers to Academy status</u>

When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status. The Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. The resultant gain or loss is recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the Asset is transferred to Other Land and Buildings (within Property Plant & Equipment), on the date of transfer to Academy the Council accounts for this as a disposal for nil consideration.

2. Critical Judgements in Applying Accounting Policies continued

Closed Landfill Sites

Consideration of the Issue

The sites have already been returned to the levels/standards required of any original planning consent; most are already in use for example as grazing land. The only spend that is being incurred is on environmental monitoring and routine site maintenance. A reliable estimate of the future costs that relate to the closed landfill sites cannot be made because of the age of the sites and lack of information on the type and volumes of waste disposed of and they are not engineered sites.

The Council has considered this issue again in 2015/16 and has concluded that no provision is required for the 2015/16 accounts but will continue to make disclosure in contingent liabilities (note 41).

3. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are either 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. The items in the Council's Balance Sheet at 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Provisions

Uncertainties	**Consequences if actual results differ from assumption**
Insurance The insurance provision represents the sum estimated to meet motor, employers liability, public liability and education related fire claims identified and also claims incurred. The estimate is based on the advice of consulting actuaries – Marsh Risk Consulting.	The long term and short term provisions are estimated at £7.205m at 31st March 2016. If the estimate of the insurance provision was underestimated by 10% then the charge to the accounts would increase by £0.721m.
Business Rates Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2015/16 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have challenged up to 31st March 2016. The Council's provision for the Business Rates appeals is a 10% share of the provision calculated by each of the six District Councils in Cumbria.	The provision as at 31st March 2016 is £0.957m (31st March 2015 £4.122m), if the District Councils had either under or over estimated their provisions by 10% then the Council provision would be increased or decreased respectively by £0.096m.

Other short term provisions represent amounts calculated and expected to be paid within the next 12 months. For future years, where it is difficult to provide a reliable estimate, contingent liabilities have been disclosed in addition to long term provisions.

3. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty continued

Property, Plant and Equipment

Uncertainties	Consequences if actual results differ from assumption
Useful Life of Assets Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to deliver the backlog maintenance programme following the condition surveys recently undertaken, bringing into doubt the useful lives assigned to assets.	The largest elements of the Council's annual depreciation charge of £30m are operational buildings £12m and infrastructure £14m. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £0.795m and infrastructure by £0.502m for every year that useful lives had to be reduced.
Fair Value Measurement When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using the following valuation techniques: 1. For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;	Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.

3. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty continued

Pensions Liability

Uncertainties	Consequences if actual results differ from assumption
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercers, a firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For the LGPS a 0.1% increase in the discount rate assumption would result in a decrease in the net pension deficit of £27.730m, a 0.1% increase in inflation would result in an increase of £28.243m in the net pension deficit and a 1 year increase in life expectancy would increase net deficit by £29.263m. For the Fire Pension Schemes a 0.1% increase in the discount rate assumption would result in a decrease in the net pensions deficit of £3.607m and a 1 year increase in life expectancy would result in an increase of £4.516m in the net pensions deficit.

4. 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 resource allocation are taken by the Council on the basis of budget reports analysed across Directorates, which are prepared on a different basis from the accounting policies used in the financial statements.

The net revenue position at 31st March 2016 is summarised in the Narrative Statement (Table 1) and this shows net expenditure of £405.173m (£402.109m in 2014/15). This is expanded in the segmental analysis on page 77 showing the subjective analysis (the main categories of income and expenditure) by Directorate. There is an increase of £3.064m in net expenditure. The main changes between the years in the Net Expenditure (directorate) subjective analysis are shown below and mainly reflect the savings delivered in the year and the under and overspend positions reported in paragraphs 5.18 to 5.22 of the Narrative Statement.

2014/15 Restated £000		2015/16 £000	Movement between years £000
	Directorate Income		
(73,424)	Fees and Charges	(67,923)	5,501
(26,625)	Other Income	(21,911)	4,714
(10,500)	Other Income – Better Care Fund	(36,013)	(25,513)
(23,798)	Internal Income	(22,279)	1,519
(3,093)	Interest and Investment Income	(2,621)	472
(299,902)	Service Specific Grant Income	(297,545)	2,357
(437,342)	**Total Income**	**(448,292)**	**(10,950)**
	Expenditure		
327,494	Employee Costs	316,357	(11,137)
62,809	Employee Costs of VA and Foundation Schools	62,479	(330)
29,282	Interest Payable	28,814	(468)
784	Precepts Paid	799	15
419,082	Running Expenses	445,016	25,934
839,451	**Total Expenditure**	**853,465**	**14,014**
402,109	**Net Expenditure**	**405,173**	**3,064**

The £5.5m decrease in fees and charges is due primarily to a net £2.8m decrease in residential and home care income from personal contributions and £1m decrease in schools income (mainly school meals income) which has reduced due to schools converting to Academies during the year.

Due to the increasing materiality of the Better Care Fund income, this is now being shown separately in the table above. 2014/15 has been restated to reflect this re-categorisation. This income has increased by £25.513m in 2015/16. Other income has decreased by £4.7m predominantly due to separate funding streams now being incorporated into the Better Care Fund.

There were other increases and decreases to specific grants from 2014/15 and the main service specific grants received in the year are detailed in note 17.

4. Amounts Reported for Resource Allocation Decisions continued

The decrease of £11.137m in employee costs is a combination of the result of the effect of schools becoming Academies in 2015/16 and the overall reduction in Council staffing as part of delivering the Council's savings. This is offset by the 1% pay award for staff and an increase in employers contributions for the Teachers Pensions Scheme.

The increase in running expenses is mainly as a result of an increase of £7.2m in third party payments in Children's Services and £12.2m in Health & Care Services, together with a £3.6m increase in Direct Payments in Health & Care Services.

4. Amounts Reported for Resource Allocation Decisions continued

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

2015/16 Segmental Reporting

Directorate income and expenditure Reported to Management 2015/16	Children's Services £000	Health & Care Services £000	Environment & Community Services £000	Fire & Rescue Service £000	Local Committees £000	Chief Executive's Office £000	Other Corporate and Miscellaneous £000	Flooding £000	Total £000
Fees and charges	(14,547)	(38,643)	(13,557)	(52)	(103)	(672)	(349)	0	(67,923)
Other income	(4,493)	(11,283)	(4,617)	(122)	(10)	(200)	(60)	0	(20,785)
Other income - Better Care Fund	0	(36,013)	0	0	0	0	0	0	(36,013)
Internal income	(574)	(3)	(20,207)	0	0	(415)	(1,080)	0	(22,279)
Interest & Investment Income	(66)	0	0	0	0	(1)	(2,554)	0	(2,621)
Service Specific Grant income	(265,810)	(19,827)	(9,046)	0	(113)	(112)	(1,431)	(2,332)	(298,671)
Total Income	**(285,490)**	**(105,769)**	**(47,427)**	**(174)**	**(226)**	**(1,400)**	**(5,474)**	**(2,332)**	**(448,292)**
Employee costs	167,512	61,134	47,356	13,419	3,009	9,362	13,456	1,109	316,357
Employee Costs of Voluntary Aided and Foundation Schools	62,479	0	0	0	0	0	0	0	62,479
Interest Payable	0	0	15,240	0	0	0	13,574	0	28,814
Precepts Paid	0	0	0	0	0	0	799	0	799
Running expenses	136,552	162,514	131,780	3,777	5,067	3,558	(4,280)	6,048	445,016
Total Expenditure	**366,543**	**223,648**	**194,376**	**17,196**	**8,076**	**12,920**	**23,549**	**7,157**	**853,465**
Net Expenditure	**81,053**	**117,879**	**146,949**	**17,022**	**7,850**	**11,520**	**18,075**	**4,825**	**405,173**

Reconciliation of directorate income & Expenditure to Cost of Services in CI&ES	2015/16 £000	£000
Net expenditure in directorate analysis above		405,173
Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES		
Trading accounts Port of Workington - included in Environment	(991)	
Precepts - included in Other Corporate	(799)	
Interest and Dividend received	2,621	
Interest paid included in CoS transferred to Financing & Investment Income	(13,576)	
PFI Interest paid included in CoS to Financing & Investment Income	(15,238)	
Investment property income from CoS to Financing & Investment Income	283	
Investment property expenditure from CoS to Financing & Investment Income	(94)	
		(27,794)
Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES		
PFI Principal (MRP) included in CoS moved to MIRS	(336)	
Pooled Budget adjustment - Income	43,946	
Pooled Budget adjustment - employee costs	(8,831)	
Pooled Budget adjustment - running exps	(35,115)	
RCCO included above moved to MIRS	(5,385)	
		(5,721)
Amounts included in Cost of Services not reported to Management		
MRP included above moved to MIRS	(15,953)	
IAS19 Adjustment - current service cost	(4,603)	
IAS19 Adjustment - past service cost and curtailments	8,369	
IAS19 Adjustment - Settlements expenditure	3,061	
IAS19 Adjustment - Settlements income	(8,442)	
Employee benefit accrual	(1,857)	
Capital charges	30,662	
Adjustments in directorate depreciation charge post outturn	(434)	
Adjustments in other depreciation charge post outturn	434	
Investment Properties revaluation	731	
Revaluation (gains) / losses	10,903	
REFCUS Expenditure	19,185	
REFCUS Grants	(19,185)	
		22,871
Cost of Services in Comprehensive I&E Statement		**394,529**

4. Amounts Reported for Resource Allocation Decisions continued

2014/15 Segmental Reporting (Restated to reflect the change in the Council's reporting structure in 2015/16 and to show Other Income – Joint User Arrangements separately)

Directorate income and expenditure Reported to Management 2014/15	Children's Services £000	Health & Care Services £000	Environment & Community Services £000	Fire & Rescue Service £000	Local Committees £000	Chief Executive's Office £000	Other Corporate and Miscellaneous £000	Total £000
Fees and charges	(15,767)	(41,569)	(14,700)	(65)	(63)	(927)	(333)	(73,424)
Other income	(4,532)	(18,173)	(3,593)	(82)	(30)	(309)	94	(26,625)
Other income - Better Care Fund	0	(10,500)	0	0	0	0	0	(10,500)
Internal income	(837)	(239)	(20,814)	0	0	(1,079)	(829)	(23,798)
Interest & Investment Income	(54)	0	(55)	0	0	0	(2,984)	(3,093)
Service Specific Grant income	(274,126)	(14,966)	(9,130)	(76)	(52)	(113)	(1,439)	(299,902)
Total Income	**(295,316)**	**(85,447)**	**(48,292)**	**(223)**	**(145)**	**(2,428)**	**(5,491)**	**(437,342)**
Employee costs	180,924	61,898	50,174	14,232	2,846	9,191	8,229	327,494
Employee Costs of Voluntary Aided and Foundation Schools	62,809	0	0	0	0	0	0	62,809
Interest Payable	0	0	15,173	0	0	0	14,109	29,282
Precepts Paid	0	0	0	0	0	0	784	784
Running expenses	133,725	148,072	134,289	4,372	5,571	4,487	(11,434)	419,082
Total Expenditure	**377,458**	**209,970**	**199,636**	**18,604**	**8,417**	**13,678**	**11,688**	**839,451**
Net Expenditure	**82,142**	**124,523**	**151,344**	**18,381**	**8,272**	**11,250**	**6,197**	**402,109**

Reconciliation of directorate income & Expenditure to Cost of Services in CI&ES	2014/15 £000	£000
Net expenditure in directorate analysis above		402,109
Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES		
Trading accounts Port of Workington - included in Environment	(738)	
Precepts - included in Other Corporate	(784)	
Interest and Dividend received	3,040	
Interest paid included in CoS transferred to Financing & Investment Income	(14,109)	
PFI Interest paid included in CoS to Financing & Investment Income	(15,173)	
Investment property income from CoS to Financing & Investment Income	53	
Investment property expenditure from CoS to Financing & Investment Income	(33)	
		(27,744)
Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES		
PFI Principal (MRP) included in CoS moved to MIRS	150	
Pooled Budget adjustment - Income	11,787	
Pooled Budget adjustment - employee costs	(296)	
Pooled Budget adjustment - running exps	(11,491)	
RCCO included above moved to MIRS	(2,511)	
		(2,361)
Amounts included in Cost of Services not reported to Management		
MRP included above moved to MIRS	(16,182)	
IAS19 Adjustment - current service cost	(12,039)	
IAS19 Adjustment - past service cost and curtailments	2,607	
IAS19 Adjustment - Settlements expenditure	1,043	
IAS19 Adjustment - Settlements income	(2,990)	
Employee benefit accrual	73	
Capital charges	33,998	
Adjustments in directorate depreciation charge post outturn	(572)	
Adjustments in other depreciation charge post outturn	572	
Investment Properties revaluation	40	
Revaluation (gains) / losses	64,439	
REFCUS Expenditure	14,655	
REFCUS Grants	(14,655)	
		70,989
Cost of Services in Comprehensive I&E Statement		**442,993**

4. Amounts Reported for Resource Allocation Decisions continued

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

The reconciliation below shows how the figures in the analysis of Net Expenditure -Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

The budget reports and Directorate analysis 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 pensions contributions) rather than current service cost of benefits accrued in the year.

2014/15 £000	Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (CIES)	2015/16 £000	Movement Between Years £000
402,109	Net expenditure in the Directorate Income & Expenditure Reported to Management	405,173	3,064
(27,744)	Amounts included in Directorate Income & Expenditure reported to Management reported below Cost of Services in CIES	(27,794)	(50)
374,365	**Sub Total**	**377,379**	**3,014**
(2,361)	Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES	(5,721)	(3,360)
70,989	Amounts included in Cost of Services not reported to Management	22,871	(48,118)
442,993	**Cost of Services in Comprehensive Income and Expenditure Statement**	**394,529**	**(48,464)**

Further details of the amounts included in Cost of Services not reported to Management are shown on the previous pages in the reconciliation of directorate Income & Expenditure to Cost of Services in CI&ES. The most significant movement between years are:

- a decrease in the revaluation losses charged to Cost of Services of £53.536m (from £64.439m to £10.903m). The 2014/15 revaluation losses reflected the outcome of the review of accounting treatment for schools' non current assets.
- An increase of £7.436m in the IAS19 pension costs charged to services (from £4.603m in 2014/15 to £12.039m in 2015/16). The IAS19 pension costs are the difference between employers contributions paid in the year and the current service cost calculated by the Actuary.
- An increase of £2.328m in non distributed costs which is the net effect of IAS19 pension adjustments, in the main being a decrease of £3.434m in respect of schools becoming Academies and £5.108m increase in past service gain, the bulk of which relates to Firefighters pension schemes and is explained in more detail on page 146.

4. Amounts Reported for Resource Allocation Decisions continued

Reconciliation to subjective analysis

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

2015/16 Subjective Analysis

Subjective Analysis 2015/16	Directorate Income & Expenditure Reported to Management £000	Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES £000	Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES £000	Amounts included in Cost of Services not reported to Management £000	Cost of Services - Sub Total £000	Amounts Reported Below Cost of Services in CIES £000	(Surplus) or deficit on the provision of services £000
Reconciliation to subjective analysis							
Fees, charges and other service income	(124,721)	7,788	43,946	(8,442)	(81,429)	(2,413)	(83,842)
Interest and investment income	(2,621)	2,621	0	0	0	(3,636)	(3,636)
Income from council tax	0	0	0	0	0	(195,874)	(195,874)
Government grants and contributions	(298,671)	0	0	(19,185)	(317,856)	(253,507)	(571,363)
Total Income	**(426,013)**	**10,409**	**43,946**	**(27,627)**	**(399,285)**	**(455,430)**	**(854,715)**
Employee expenses	316,357	(731)	(8,831)	(6,045)	300,750	731	301,481
Employee Costs of Voluntary Aided and Foundation Schools	62,479	0	0	(415)	62,064	0	62,064
Other service expenses (less Internal income)	422,737	(6,941)	(40,836)	14,662	389,622	1,849	391,471
Depreciation, amortisation and impairment	0	(918)	0	30,662	29,744	918	30,662
Revaluation (gains)/losses	0	0	0	11,634	11,634	0	11,634
Interest Payable	28,814	(28,814)	0	0	0	48,865	48,865
Precepts and levies	799	(799)	0	0	0	799	799
IAS19 Administration Expenses	0	0	0	0	0	789	789
(Gain) or loss on disposal of non current assets	0	0	0	0	0	40,340	40,340
Total Expenditure	**831,186**	**(38,203)**	**(49,667)**	**50,498**	**793,814**	**94,291**	**888,105**
(Surplus) or deficit on the provision of services	**405,173**	**(27,794)**	**(5,721)**	**22,871**	**394,529**	**(361,139)**	**33,390**
(Surplus) or deficit on the provision of services from CI&ES					**394,529**	**(361,139)**	**33,390**

4. Amounts Reported for Resource Allocation Decisions continued

2014/15 Subjective Analysis (Restated to reflect the change in the Council's reporting structure in 2015/16 and for the re-categorisation of income between fees & charges and Other Income)

Restated Subjective Analysis 2014/15	Directorate Income & Expenditure Reported to Management £000	Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES £000	Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES £000	Amounts included in Cost of Services not reported to Management £000	Cost of Services - Sub Total £000	Amounts Reported Below Cost of Services in CIES £000	(Surplus) or deficit on the provision of services £000
Reconciliation to subjective analysis							
Fees, charges and other service income	(110,548)	8,020	11,787	(2,990)	(93,731)	(1,884)	(95,615)
Interest and investment income	(3,093)	3,093	0	0	0	(3,100)	(3,100)
Income from council tax	0	0	0	0	0	(188,272)	(188,272)
Government grants and contributions	(299,902)	0	0	(14,655)	(314,557)	(261,617)	(576,174)
Total Income	**(413,543)**	**11,113**	**11,787**	**(17,645)**	**(408,288)**	**(454,873)**	**(863,161)**
Employee expenses	327,493	(711)	(296)	(12,331)	314,155	711	314,866
Employee Costs of Voluntary Aided and Foundation Schools	62,809	0	0	365	63,174	0	63,174
Other service expenses (less Internal income)	395,284	(8,080)	(13,852)	2,123	375,475	1,911	377,386
Depreciation, amortisation and impairment	0	0	0	33,998	33,998	0	33,998
Revaluation (gains)/losses	0	0	0	64,479	64,479	0	64,479
Interest Payable	29,282	(29,282)	0	0	0	49,550	49,550
Precepts and levies	784	(784)	0	0	0	784	784
IAS19 Administration Expenses	0	0	0	0	0	731	731
(Gain) or loss on disposal of non current assets	0	0	0	0	0	14,468	14,468
Total Expenditure	**815,652**	**(38,857)**	**(14,148)**	**88,634**	**851,281**	**68,155**	**919,436**
(Surplus) or deficit on the provision of services	**402,109**	**(27,744)**	**(2,361)**	**70,989**	**442,993**	**(386,718)**	**56,275**
(Surplus) or deficit on the provision of services from CI&ES					**442,993**	**(386,718)**	**56,275**

5. Material Items of Income and Expense

The Council has considered items within the Comprehensive Income and Expenditure Statement and the following payments to contractors are included but have not been disclosed separately.

- Shanks Waste Management Ltd of £28.042m which comprises £21.574m unitary charge and £6.468m for services (2014/15 total £26.203m, £20.802m unitary charge and £5.401m for services) in respect of the Public Private Partnership for Waste Management.
- Connect CNDR Ltd of £13.671m (2014/15 £13.490m) in respect of the Carlisle Northern Development Route PFI scheme.

The Council received income from Cumbria Clinical Commissioning Group in respect of the Joint Commissioning Pooled Budget. Note 11 sets out pooled budget arrangements.

6. Other Operating Expenditure

Other operating expenditure included in Comprehensive Income and Expenditure Statement.

2014/15 £000	Other Operating Expenditure	2015/16 £000
784	Precepts	799
1,346	(Gains)/losses on the disposal of non current assets	7,092
731	IAS 19 Administration Expenses	789
2,861	**Total**	**8,680**

The net gains/losses on disposal in 2015/16 is predominantly as a result of de-recognising Southfield School (£4.027m).

7. Financing and Investment Income and Expenditure

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement.

2014/15 £000		Financing and Investment Income and Expenditure	2015/16 £000	
		Trading Operations		
(1,884)		Port of Workington – Income from charges	(2,413)	
1,717		Port of Workington – Expenditure	2,487	
905		Port of Workington - Depreciation	917	
	738	Net deficit on Port of Workington Trading Operations		991
		Expenditure		
	29,282	Interest payable and similar charges		28,813
	20,268	Pensions interest cost and expected return on pensions assets		20,051
	13,122	Losses on the disposal of Academies		33,248
		Income		
	(1,040)	Interest receivable and similar income		(1,121)
	(20)	Income and expenditure in relation to investment properties		(189)
	(40)	Revaluation increase investment properties		(731)
	(2,000)	Investment Income – CCH Ltd dividend received		(1,500)
	60,310	**Total**		**79,562**

7. Financing and Investment Income and Expenditure continued

Financing and Investment Expenditure

Further details on the Pension interest cost and return on pension assets can be found in note 38. When a school becomes an Academy the Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. Net assets are therefore written off to revenue. The resultant loss is recognised in the Financing and Investing Income and Expenditure line of the Consolidated Income and Expenditure Statement. Further details on the schools that have transferred to Academy status during the year are included in note 10.

Financing and Investment Income

Interest receivable has increased as a result of the higher cash balances. Following the implementation of IFRS 13 Fair Value Measurement the Council has reviewed the classification of all properties resulting in an increase in the number of investment properties from one to eight with a consequent increase in net income and expenditure in relation to investment properties. The investment income is the ordinary share dividends received from Cumbria County Holdings Ltd.

8. Taxation and Non Specific Grant Income

The Council raises Council Tax, Business Rates and receives grants from central government each year to support revenue expenditure which is not attributable to specific services. The grants, Business Rates and Council Tax received for 2015/16 were:

2014/15 £000	Taxation and Non Specific Grant Income	2015/16 £000
146,209	Non ring fenced government grants	129,329
50,338	Capital grants and contributions	56,812
196,547		186,141
188,272	Council tax income	195,874
17,935	Retained Business Rates	19,238
699	Retained Levy from Business Rates Pool	787
179	Share of Business Rate Pool Volatility Reserve	201
46,257	Top up Grant Payments from Districts	47,140
449,889	**Total**	**449,381**

Cumbria Business Rates Pool

Cumbria has a Business Rate Pool that comprises the County Council, Allerdale Borough Council, Barrow Borough Council, Eden District Council, South Lakeland District Council and Carlisle City Council. Government treats the Pool as a single body with the County Council acting as the lead authority. The arrangements came into effect from 1st April 2014 and have a formal agreement and a financial protocol agreed by all members. Due to Government treating the Pool as a single body, the District Councils pay their tariff payments direct to the County Council (rather than paying it to Government) and where the value of the tariff payments is less than the value of the County Council's expected Top Up Grant for that year the Council receives the difference as a grant from Government. For 2015/16 the total value of the Council's Top Up Grant was £61.533m, with £47.140m from the Districts and £14.393m from Government (see note 17).

8. Taxation and Non Specific Grant Income continued

By working together the Pool Members retain a greater proportion of business rate growth within the Pool area, providing opportunities to promote economic growth as well as building financial resilience. As a Pool the members retain any Levy that would have been paid to Government on business rate growth locally and it is allocated across the members in accordance with the financial protocol. The distribution of the retained levy for the Council is shown within Business Rate Retention income in the Comprehensive Income and Expenditure Statement and is shown in the Table below.

The financial protocol also requires that an element of the Net Retained Levy for the Pool is set aside each year to provide protection for Pool members from falls in business rate income. Each member retains its relative proportion of the Cumbria Business Rate Pool Local Volatility Reserve on its own Balance Sheet. The Council's cumulative share of the volatility reserve (£0.381m) is held on the balance sheet as an earmarked reserve.

The amount of Retained Levy retained by the Pool and how that is redistributed is as follows:

2014/15 £000	Cumbria Business Rate Pool	2015/16 £000
	Retained Levy:	
360	Allerdale Borough Council	539
350	Barrow Borough Council	45
334	Carlisle City Council	657
320	Eden District Council	157
692	South Lakeland District Council	938
2,056	**Total Retained Levy**	**2,336**
	Pooling Distribution of Retained Levy	
170	Allerdale Borough Council	246
163	Barrow Borough Council	46
158	Carlisle City Council	289
140	Eden District Council	77
291	South Lakeland District Council	391
30	Cumbria County Council – Lead Authority role	30
699	Cumbria County Council	796
405	Total Pool Volatility Reserve – see table below	461
2,056	**Total**	**2,336**

Respective Shares of Pool Volatility Reserve

2014/15 £000		2015/16 £000
42	Allerdale Borough Council	61
40	Barrow Borough Council	11
39	Carlisle City Council	71
34	Eden District Council	19
72	South Lakeland District Council	96
178	Cumbria County Council	203
405	**Total**	**461**

9. Adjustments Between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement

	General Fund £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2015	15,221	92,823	5,330	10,823	1,824	2,813	128,834	97,228	412,903	(642,863)	(507)	881	(8,278)	(140,636)	(11,802)
Adjustment to opening balance (note 36.3)	0	0	0	0	0	0	0	0	0	(1,140)	0	0	0	(1,140)	(1,140)
Movement in Reserves during 2015/16															
Surplus/(deficit) on the provision of services	(33,390)	0	0	0	0	0	(33,390)	0	0	0	0	0	0	0	(33,390)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	5,779	0	82,883	13	0	0	88,675	88,675
Total Comprehensive Income and Expenditure	**(33,390)**	**0**	**0**	**0**	**0**	**0**	**(33,390)**	**5,779**	**0**	**82,883**	**13**	**0**	**0**	**88,675**	**55,285**
Adjustments between accounting basis and funding basis under regulations (Note 9)															
Reversal of items debited / credited to CI&E statement															
Depreciation and impairments of non current assets	30,331	0	0	0	0	0	30,331	0	(30,331)	0	0	0	0	(30,331)	0
Depreciation and impairment of Intangible assets	331	0	0	0	0	0	331	0	(331)	0	0	0	0	(331)	0
Net Revaluation (Gains) / Losses on Property, Plant & Equipment	10,903	0	0		0	0	10,903	0	(10,903)	0	0	0	0	(10,903)	0
Revenue Expenditure Funded from Capital Under Statute	19,185	0	0	0	0	0	19,185	0	(19,185)	0	0	0	0	(19,185)	0
Grants on Revenue Expenditure Funded from Capital under Statute	(19,185)	0	0	0	0	0	(19,185)	0	19,185	0	0	0	0	19,185	0
Net (Gains) and losses on disposal of non current assets	40,340	0	0	5,128	0	0	45,468	0	(45,468)	0	0	0	0	(45,468)	0
Insertion of items not debited / credited to CI&E statement															
Minimum Revenue Provision	(16,289)	0	0	0	0	0	(16,289)	0	16,289	0	0	0	0	16,289	0
Capital expenditure charged to the general fund balance	(5,385)	0	0	0	0	0	(5,385)	0	5,385	0	0	0	0	5,385	0
Other adjustments															
Collection fund adjustment account	(2,940)	0	0	0	0	0	(2,940)	0	0	0	0	2,940	0	2,940	0
Accumulated Absences Adjustment	(1,857)	0	0	0	0	0	(1,857)	0	0	0	0	0	1,857	1,857	0
Employers contributions payable to pension funds	(47,387)	0	0	0	0	0	(47,387)	0	0	47,387	0	0	0	47,387	0
IAS 19 retirement benefit charges	66,612	0	0	0	0	0	66,612	0	0	(66,612)	0	0	0	(66,612)	0
Receipts used in financing	0	0	0	(4,244)	0	0	(4,244)	0	4,244	0	0	0	0	4,244	0
Capital Grants Unapplied - used in financing	(56,812)	0	0	0	(507)	0	(57,319)	0	57,319	0	0	0	0	57,319	0
Write off revaluation gains previously recognised on non current assets now disposed	0	0	0	0	0	0	0	(4,295)	4,295	0	0	0	0	0	0
Write off revaluation gains previously recognised on non current assets now reclassified to Investment properties	0	0	0	0	0	0	0	(965)	965	0	0	0	0	0	0
Difference between current value and historic cost depreciation on revalued assets	0	0	0	0	0	0	0	(1,818)	1,818	0	0	0	0	0	0
Adjustments between accounting basis and funding basis under regulations (Note 9)	**17,847**	**0**	**0**	**884**	**(507)**	**0**	**18,224**	**(7,078)**	**3,282**	**(19,225)**	**0**	**2,940**	**1,857**	**(18,224)**	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(15,543)**	**0**	**0**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Transfers (to) Earmarked Reserves (Note 35.1)	(18,885)	18,885	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves (Note 35.1)	33,507	(30,901)	(2,606)	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2015/16	**(921)**	**(12,016)**	**(2,606)**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Balance at 31st March 2016	**14,300**	**80,807**	**2,724**	**11,707**	**1,317**	**2,813**	**113,668**	**95,929**	**416,185**	**(580,345)**	**(494)**	**3,821**	**(6,421)**	**(71,325)**	**42,343**

9. Adjustments Between Accounting Basis and Funding Basis under Regulations continued

2014/15 Movement in Reserves Statement

2014/15	General Fund £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2014	15,133	95,900	5,324	9,027	2,916	2,813	131,113	124,960	452,969	(501,132)	(521)	457	(8,205)	68,528	199,641
Movement in Reserves during 2014/15															
Surplus/(deficit) on the provision of services	(56,275)	0	0	0	0	0	(56,275)	0	0	0	0	0	0	0	(56,275)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(23,072)	0	(132,111)	14	0	0	(155,169)	(155,169)
Total Comprehensive Income and Expenditure	**(56,275)**	**0**	**0**	**0**	**0**	**0**	**(56,275)**	**(23,072)**	**0**	**(132,111)**	**14**	**0**	**0**	**(155,169)**	**(211,444)**
Adjustments between accounting basis and funding basis under regulations (Note 9)															
Reversal of items debited / credited to CI&E statement															
Depreciation of non current assets	31,874	0	0	0	0	0	31,874	0	(31,874)	0	0	0	0	(31,874)	0
Depreciation and impairment of Intangible assets	2,124	0	0	0	0	0	2,124	0	(2,124)	0	0	0	0	(2,124)	0
Net Revaluation (Gains) and Losses on Property, Plant & Equipment	64,439	0	0	0	0	0	64,439		(64,439)	0	0	0	0	(64,439)	0
Revenue Expenditure Funded from Capital Under Statute	14,655	0	0	0	0	0	14,655	0	(14,655)	0	0	0	0	(14,655)	0
Grants on Revenue expenditure funded from capital under statute	(14,655)	0	0	0	0	0	(14,655)	0	14,655	0	0	0	0	14,655	0
Net (Gains) and losses on disposal of non current assets	14,467	0	0	5,349	0	0	19,816	0	(19,816)	0	0	0	0	(19,816)	0
Insertion of items not debited / credited to CI&E statement															
Minimum Revenue Provision	(16,032)	0	0	0	0	0	(16,032)	0	16,032	0	0	0	0	16,032	0
Capital expenditure charged to the general fund balance	(2,511)	0	0	0	0	0	(2,511)	0	2,511	0	0	0	0	2,511	0
Other adjustments															
Collection fund adjustment account	(424)	0	0	0	0	0	(424)	0	0	0	0	424	0	424	0
Accumulated Absences Adjustment	73	0	0	0	0	0	73	0	0	0	0	0	(73)	(73)	0
Employers contributions payable to pension funds	(43,233)	0	0	0	0	0	(43,233)	0	0	43,233	0	0	0	43,233	0
IAS 19 retirement benefit charges	52,853	0	0	0	0	0	52,853	0	0	(52,853)	0	0	0	(52,853)	0
Receipts used in financing	0	0	0	(3,553)	0	0	(3,553)	0	3,553	0	0	0	0	3,553	0
Capital Grants Unapplied - used in financing	(50,338)	0	0	0	(1,092)	0	(51,430)	0	51,430	0	0	0	0	51,430	0
Write off revaluation gains previously recognised on non current assets now disposed	0	0	0	0	0	0	0	(2,078)	2,078	0	0	0	0	0	0
Difference between current value and historis cost depreciation on revalued assets	0	0	0	0	0	0	0	(2,582)	2,582	0	0	0	0	0	0
Adjustments between accounting basis and funding basis under regulations (Note 9)	**53,292**	**0**	**0**	**1,796**	**(1,092)**	**0**	**53,996**	**(4,660)**	**(40,067)**	**(9,620)**	**0**	**424**	**(73)**	**(53,996)**	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(2,983)**	**0**	**0**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	**(211,444)**
Transfers (to) Earmarked Reserves	(16,460)	16,454	6	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	19,531	(19,531)	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2014/15	**88**	**(3,077)**	**6**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	**(211,444)**
Balance at 31st March 2015	**15,221**	**92,823**	**5,330**	**10,823**	**1,824**	**2,813**	**128,834**	**97,228**	**412,903**	**(642,863)**	**(507)**	**881**	**(8,278)**	**(140,636)**	**(11,802)**

10. Discontinued Operations

The transfer of schools to Academy status continued with 10 schools (5 in 2014/15) converting during the year, this resulted in a reduction in gross income of £13.915m (2014/15 £2.618m) and expenditure of £15.349m (2014/15 £3.123m). This transfer of responsibility also resulted in a reduction of £33.248m (2014/15 £13.122m) in the net book value of land, buildings and equipment recorded on the Balance Sheet. The schools that converted during 2015/16 were:

- George Hastwell, Barrow
- Braithwaite Primary School
- Yewdale Primary School, Carlisle
- Greengate Infants School, Barrow
- Victoria Junior School, Barrow
- Ambleside Primary School
- Yarlside Primary School
- Heversham Primary School
- Fairfield Primary School
- Cockermouth Secondary School

In addition three schools closed on 31st August 2015 (Stainburn, Southfield and Workington 6th Form). The Workington Academy opened on 1st September 2015.

11. Pooled Budgets

There are occasions where the needs of service users cannot be met in full from within the Council. In particular, there is a need to work with the Cumbria Clinical Commissioning Group (Cumbria CCG) as well as the Police and Probation services. The Council has entered into a number of arrangements with these agencies to ensure proper care is provided in a coordinated manner. These arrangements are known as 'Pooled Funds' and the Council and these agencies contribute to the costs of care. Grants are also received from Government.

Surpluses and deficits are shared in accordance with the agreements made with the agencies and the Council's share of overall surpluses or deficits are credited or charged to health and Care Services and Children's Services.

Youth Offending Service

The Council acts as a lead agency for the Youth Offending Service within Cumbria, established in April 2000. The purpose of the Youth Offending Service is to work with young offenders and reduce the level of offending and reoffending amongst young persons.

11. Pooled Budgets continued

The Council operates two pooled funds (detailed below) in partnership with Cumbria CCG under section 75 of the Health Act 2006. Both funds are hosted by the Council.

Better Care Fund

The Better Care Fund creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services. Locally, the primary aims of the fund are:

- Supporting independence in the community by placed-based activity.
- Reducing non-elective admissions and reducing residential admissions by providing the right care and support within the community.
- Facilitating earlier hospital discharge.

The Integrated Community Equipment Service (ICES) fund and the Locality pooled fund are part of the Better Care Fund with effect from 1st April 2015.

Specialised Commissioning Pooled Fund
(previously known as Learning Disabilities Pooled Fund)

The Specialised Commissioning Pooled Fund allows for joint commissioning of statutory social care and some clinical services to improve general well-being and life chances of adults with a learning disability.

The Council's share of the results of each of the above Pooled funds is:

2015/16 **Pooled Funds**	**Youth Offending Service £000**	**Specialised Commissioning Fund £000**	**Better Care Fund £000**
Income			
Cumbria County Council	(612)	(14,701)	(4,187)
Youth Justice Board	(838)	0	0
Police Authority Home Office Grant	(60)	0	0
Cumbria CCG	(145)	(7,659)	(36,013)
Cumbria Police Service	(153)	0	0
Cumbria Probation Service	(117)	0	0
	(1,925)	(22,360)	(40,200)
Expenditure	1,855	23,131	40,200
(Surplus)/Deficit for year	(70)	771	0
Council's share of (surplus)/deficit	(70)	507	0

11. Pooled Budgets continued

2014/15 Pooled Funds	Youth Offending Service (Restated) £000	Learning Disability Pooled Fund £000	Integrated Community Equipment Services £000	Locality £000
Income				
Cumbria County Council	(613)	(13,999)	(387)	(3,330)
Youth Justice Board	(919)	0	0	0
Police Authority Home Office Grant	(59)	0	0	0
Cumbria CCG	(145)	(7,753)	(383)	(3,522)
Cumbria Police Service	(153)	0	0	0
Cumbria Probation Service	(117)	0	0	0
	(2,006)	(21,752)	(770)	(6,852)
Expenditure	1,910	22,139	772	6,834
(Surplus)/Deficit for year	(96)	387	2	(18)
Council's share of (surplus)/deficit	(96)	249	1	(7)

The Youth Offending Service pooled fund income and expenditure for 2014/15 have been restated to include the funding from the Youth Justice Board and associated expenditure.

12. Members' Allowances

Allowances and expenses paid to elected Members (Councillors) during 2015/16 were:

2014/15 £000	Type of Allowance	2015/16 £000
677	Basic Allowances	688
254	Special Responsibility Allowance	221
127	Expenses	124
1,058		**1,033**

In September 2015 Council approved an increase of 1% in both the basic and special responsibility allowances for with effect from 1st August 2015.

The allowances and expenses are published in full on the Council's website at www.cumbria.gov.uk.

13. Officers' Remuneration

The Accounts and Audit Regulations 2015 sets out the disclosure requirements for Senior Employees remuneration. The requirements provide transparency in respect of the total remuneration package for the senior team charged with the stewardship of the organisation. Senior employees include the Chief Executive, Corporate Directors, the Monitoring Officer and the Chief Finance Officer whose post titles are Assistant Director – Corporate Governance and Assistant Director - Finance respectively. The remuneration paid to the Council's senior employees (as members of Corporate Management Team) is shown in the table on the next page.

<u>Definitions</u>

- *Salary* - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.
- *Benefits in Kind* – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2015/16 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2015/16.
- *Employer's Current Service Pension Contribution* - LGPS 13.0%, NHS Pension Scheme 14.3%, Firefighters' Pension Scheme 21.7% - on continuing employment and in relation to the salary thereof.

13. Officers' Remuneration continued

2015/16 Senior Officers' Remuneration

Post Title	Name	Salary £	Total Remuneration excluding pension contributions £	Employer's Pension contributions £	Total Remuneration including pension contributions £
Chief Executive	Diane Wood	140,000	140,000	18,200	158,200
Corporate Director – Environment & Community Services	Dominic Donnini	130,000	130,000	16,250	146,250
Corporate Director – Children's Services	John Macilwraith	125,000	125,000	16,250	141,250
Assistant Director – Finance (Chief Finance Officer)	Julie Crellin	91,800	91,800	11,934	103,734
Monitoring Officer (interim arrangements to 30/4/15)	Caroline Elwood (note 2)	10,800	10,800	0	10,800
Assistant Director- Corporate Governance (Monitoring Officer) (from 1/5/15)	Dawn Roberts (note 3)	84,150	84,150	10,884	95,034
Assistant Director – Health & Wellbeing (Director – Public Health)	Colin Cox	96,900	96,900	13,857	110,757
Assistant Director - Fire (Chief Fire Officer)	Jim Onions (note 4)	107,148	107,148	23,251	130,399
		785,798	785,798	110,626	896,424

Notes

1. In January 2015, following a failed recruitment process to appoint a Statutory Director of Adult Services, the Council contracted Gatenby Sanderson to provide the services of an interim Corporate Director – Health & Care Services. This arrangement continued throughout 2015/16. The total fee payable to Gatenby Sanderson in 2015/16 was £181,972 (2014/15 £49,714). In April 2016 the Council appointed Brenda Smith to the post of Corporate Director – Health & Care Services with effect from 6/6/16.

2. Caroline Elwood acted as Monitoring Officer from 1/4/15 to 30/4/15.

3. Dawn Roberts took over the responsibility for the Monitoring Officer post with effect from 1/5/15.

4. Jim Onions was Chief Fire Officer during the year, he retired on 5/4/16. Paul Hancock, the Chief Fire Officer and Chief Executive of Cheshire Fire Authority, took up the post of Chief Fire Officer in a joint arrangement with Cheshire Fire Authority.

13. Officers' Remuneration continued

2014/15 Senior Officers' Remuneration

Post Title	Name	Salary £	Total Remuneration excluding pension contributions £	Employer's Pension contributions £	Total Remuneration including pension contributions £
Chief Executive	Diane Wood	140,000	140,000	18,200	158,200
Corporate Director – Resources (to 8/2/15)	Dominic Donnini **(note 1)**	109,375	109,375	14,219	123,594
Interim Corporate Director – Environment & Community Services (from 9/2/15)	Dominic Donnini **(note 1)**	15,625	15,625	2,031	17,656
Corporate Director – Health & Care Services (to 25/1/15)	Richard Parry **(note 2)**	105,688	105,688	13,280	118,968
Corporate Director – Environment & Community Services (to 6/2/15)	Jim Savege **(note 3)**	109,747	109,747	14,627	124,374
Acting Director – Public Health (to 11/4/14)	Rebecca Wagstaff **(note 4)**	3,281	3,281	459	3,740
Assistant Director – Health & Wellbeing (Director Public Health) (from 14/4/14)	Colin Cox **(note 4)**	92,044	92,044	12,886	104,930
Corporate Director - Children's Services (to 30/4/14)	Julia Morrison **(note 5)**	20,032	20,032	1,354	21,386
Corporate Director – Children's Services (Acting to 1/5/14)	John Macilwraith (**note 5)**	125,000	125,000	16,250	141,250
Assistant Director – Finance	Julie Crellin	90,450	90,450	11,758	102,208
Monitoring Officer (interim arrangements)	Caroline Elwood **(note 6)**	100,170	100,170	0	100,170
Assistant Director of Fire (Chief Fire Officer) to 28/2/15)	Ian Cartwright **(note 7)**	110,759	110,759	20,683	131,442
Assistant Director of Fire (Chief Fire Officer) from 1/3/15)	Jim Onions **(note 7)**	8,833	8,833	1,882	10,715
		1,031,004	**1,031,004**	**127,629**	**1,158,633**

13. Officers' Remuneration continued
2014/15 Senior Officers' Remuneration continued

Notes

1. Dominic Donnini also acted as Interim Corporate Director – Environment & Community Services from 9/2/15. The post of Corporate Director – Resources was not filled on an interim basis between 9/2/15 and 31/3/15 and this post was subsequently removed from the extended leadership team structure.

2. Richard Parry left the post of Corporate Director – Health & Care Services on 25/1/15. In January 2015 following a failed recruitment process to appoint a Statutory Director of Adult Services, the Council contracted Gatenby Sanderson to provide the services of an interim Corporate Director – Health & Care Services. The total fee payable to Gatenby Sanderson in 2014/15 was £49,714.

3. Jim Savege left the post on 6/2/15, the Annualised salary for 2014/15 was £125,000.

4. Rebecca Wagstaff left the post of Acting Director Public Health on 11/4/14. Colin Cox was appointed as Director Public Health 14/4/14.

5. Julia Morrison was Corporate Director – Children's Services for the period 1/4/14 until 30/4/14 but was absent from 7/11/13 and left the Authority on 30/4/14. John Macilwraith was Acting Corporate Director – Children's Services until 1/5/14 when he was appointed as Corporate Director.

6. Caroline Elwood acted as Monitoring Officer for 1/4/14 to 31/3/15.

7. Ian Cartwright was Assistant Director of Fire (Chief Fire Officer) and left the post on 28/2/15. His salary amount included £13,658 for holiday pay owed to him at the 28/2/15. Jim Onions was appointed from 1/3/15.

13. Officers' Remuneration continued

In addition to the Senior Officer's Remuneration details, the number of officers who received annual remuneration of more than £50,000 during the year is shown in the table below.

Remuneration for these purposes consists of gross pay, sums due by way of expense allowances, payments in connection with the termination of employment and the money value of any benefits received other than in cash, employer's pension contributions are excluded.

There were 33 non-school staff (16 for 2014/15) whose salary is less than £50,000 but have been included in the note as they received or were due payments upon the termination of their employment that brought their total remuneration above £50,000.

	2014/15 Number of Staff			2015/16 Number of Staff		
	School Staff	**Other Staff**	**Total**	**School Staff**	**Other Staff**	**Total**
£50,000 - £54,999	87	76	163	80	66	146
£55,000 - £59,999	68	25	93	58	29	87
£60,000 - £64,999	36	18	54	35	19	54
£65,000 - £69,999	16	19	35	24	33	57
£70,000 - £74,999	6	6	12	6	9	15
£75,000 - £79,999	7	4	11	5	4	9
£80,000 - £84,999	0	1	1	1	4	5
£85,000 - £89,999	1	13	14	2	2	4
£90,000 - £94,999	2	2	4	2	6	8
£95,000 - £99,999	0	3	3	0	3	3
£100,000 - £104,999	0	0	0	1	0	1
£105,000 - £109,999	0	1	1	0	0	0
£110,000 - £114,999	0	1	1	0	0	0
£115,000 - £119,999	0	0	0	0	1	1
£130,000 - £134,999	0	0	0	1	1	2
£160,000 - £164,999	0	1	1	0	0	0
	223	**170**	**393**	**215**	**177**	**392**

14. Exit Packages and Termination Benefits

Exit Packages

The Code of Practice on Local Authority Accounting includes a requirement to disclose the number and total cost of exit packages which the Council "can no longer withdraw from" in bands of £20,000. Exit package payments include all redundancy costs, pension strain costs, payment in lieu of notice or any other departure costs.

14. Exit Packages and Termination Benefits continued

The Council has undergone a considerable programme of rationalisation and restructuring in recent years, to reflect a reduction in total grant funding from Government. This has led to the redundancy of a number of employees. The tables below gives further details of the number of employees and the value of the packages, including, where applicable, the pension strain costs due from the Council to the Pension Fund attributable to the departure costs of some of the employees that were made redundant.

The total value of exit packages agreed in 2015/16 was £8.954m for 402 employees, an average of £22.3k (£4.870m for 248 employees in 2014/15, an average of £19.6k). The value of exit packages related to schools in 2015/16 was £1.091m for 84 employees (£1.159m for 66 employees in 2014/15).

Schools

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 £'000	2015/16 £'000
£0-£20,000	1	1	42	66	43	67	380	572
£20,001-£40,000	0	0	16	15	16	15	410	424
£40,001-£60,000	0	0	5	2	5	2	233	95
£60,001-£80,000	0	0	2	0	2	0	136	0
Total	**1**	**1**	**65**	**83**	**66**	**84**	**1,159**	**1,091**

Non-Schools

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 £'000	2015/16 £'000
£0-£20,000	0	0	127	196	127	196	1,121	1,509
£20,001-£40,000	0	0	27	64	27	64	752	1,832
£40,001-£60,000	0	0	14	24	14	24	693	1,133
£60,001-£80,000	0	0	9	14	9	14	603	953
£80,001-£100,000	0	0	2	6	2	6	182	514
£100,001-£150,000	0	0	3	10	3	10	360	1,209
£150,001-£200,000	0	0	0	3	0	3	0	505
£200,001-£250,000	0	0	0	1	0	1	0	208
Total	**0**	**0**	**182**	**318**	**182**	**318**	**3,711**	**7,863**

Total

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 £'000	2015/16 £'000
£0-£20,000	1	1	169	262	170	263	1,501	2,081
£20,001-£40,000	0	0	43	79	43	79	1,162	2,256
£40,001-£60,000	0	0	19	26	19	26	926	1,228
£60,001-£80,000	0	0	11	14	11	14	739	953
£80,001-£100,000	0	0	2	6	2	6	182	514
£100,001-£150,000	0	0	3	10	3	10	360	1,209
£150,001-£200,000	0	0	0	3	0	3	0	505
£200,0010-£250,000	0	0	0	1	0	1	0	208
Total	**1**	**1**	**247**	**401**	**248**	**402**	**4,870**	**8,954**

14. Exit Packages and Termination Benefits continued

Termination Payments

Termination payments to employees include: redundancy payments, payment in lieu of notice, or any other departure payments, but do not include any pension costs. In 2015/16 the termination payments made to employees totalled £5.144m and related to 396 staff. In 2014/15 the termination payments made to employees totalled £3.360m and related to 246 staff.

15. 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 other services provided by the Council's external auditors, Grant Thornton:

2014/15 £000	External Audit Costs	2015/16 £000
153	Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor	115
(16)	Rebate on audit fee received from Audit Commission	0
137	**Total External Audit Costs**	**115**
5	Fees payable to the Grant Thornton for the certification of grant claims and returns	9
0	Fees payable in respect of other services	0
142	Total Including Fees for Additional Work	**124**

The rebate on the audit fee received in 2014/15 was as a result of the Audit Commission passing on the benefits of the efficiencies and cost savings they achieved in the final year of the operation of the Commission to the audited bodies. The Audit Commission closed on 31st March 2015.

16. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund Academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the School Finance (England) Regulations 2011. 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 maintained school

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000	Total Carry Forward £000
DSG figure as issued by the Department in July 2015			334,160	
Academy Figure Recouped for 2015/16			(93,877)	
Total DSG After Academy Recoupment for 2015/16			240,283	
Add Brought Forward from 2014/15			4,155	
Less Carry forward to 2016/17 agreed in advance			(3,401)	3,401
Agreed initial budgeted distribution in 2015/16	31,520	209,517	241,037	
Add In Year Adjustments 2015/16	0	0	0	
Final Budgeted Distribution for 2015/16	31,520	209,517	241,037	
Less Actual central expenditure	(37,012)		(37,012)	
Less Actual ISB deployed to schools		208,616	(208,616)	
Add Council contribution for 2016/17	0	0	0	
Carry forward to 2016/17	**(5,492)**	**901**		(4,591)
Total Carry Forward				**(1,190)**

At its meeting on 2nd December 2015, the Schools Forum agreed a strategy to repay the DSG deficit of £1.190m in 2016/17 and 2017/18.

17. Grant Income

Specific grants are credited to services and shown as Gross Income in the Comprehensive Income and Expenditure Account. The Council received the following specific grants in 2015/16 that were credited to Services.

The Council is required to disclose the following two specific grants individually to meet the terms and conditions of the grants:

- £41,863 Police and Crime Panel Grant from the Home Office in 2015/16 (£41,710 2014/15). This grant is made to Cumbria County Council**,** as the host authority, for the maintenance of the police and crime panel for the Cumbria police area in 2015/16.
- £40,000 in 2014/15 and 2015/16 towards the salary of Independent Domestic Violence Advisors (IDVA).
- HEADSTART grant from Big Lottery Fund of £0.611m

2014/15 £000	**Grants Credited to Services**	**2015/16 £000**
249,202	Dedicated Schools Grant	240,283
107	Dedicated Schools Grant – adjustment re previous years	27
13,163	Pupil Premium	12,571
1,909	Primary PE and Sports Funding	2,066
9,502	Sixth Form Funding from YPLA	7,494
2,632	Adult & Community Learning	2,326
3,411	Universal Free School Meals	5,408
0	Business Recovery Grant	2,332
922	Youth Offending Teams	838
15,030	Public Health	19,554
42	Police and Crime Panel Grant	42
40	IDVA Grant	40
3,942	Other grants	5,690
14,655	Revenue Expenditure Funded from Capital Under Statute (REFCUS) grants	19,185
314,557	**Total Grants Credited to Services**	**317,856**

The Dedicated Schools Grant adjustment re previous years shown in the table above relates to adjustments to the early years block of the grant updated to reflect pupil numbers on the January census which was notified to the Council in the following May.

The Public Health grant received in 2015/16 has been credited to the following services in the Comprehensive Income & Expenditure Statement, reflective of where the public health services have been delivered as the public health service continues to integrate with other Council services:

- £0.200m Education & Childrens' Services
- £3.820m Adult Social Care
- £15.534m Public Health

In 2014/15 all the grant was attributed to the Public Health line in the Comprehensive Income & Expenditure Statement.

17. Grant Income continued

The Council received the following Non ring fenced Government Grants and Capital Grants and contributions in 2015/16 which were credited to taxation and non specific grant income in the CIES and summarised in note 8.

2014/15 £000	Credited to Taxation and Non Specific Grant Income	2015/16 £000
100,792	Revenue Support Grant (RSG)	78,615
14,123	Top Up Grant	14,393
13,536	PFI Grant	13,536
2,103	Council Tax Freeze Grant 2013/14	0
399	Extended Rights to Free Travel	297
178	Local Lead Flood Authority	119
975	New Homes Bonus	1,325
268	New Homes Bonus RSG Top Slice Refund	262
404	Adoption Reform Grant	0
257	Fire Revenue Grant	245
6,693	Education Services Grant	5,087
453	Local Reform and Community Voice Grant	382
1,371	Local Welfare Assistance Grant	0
1,999	NNDR Small Business Relief Grant	2,387
1,088	Troubled Families	1,322
564	Special Educational Needs Reform	283
391	New Burdens Grant	0
0	Independent Living Fund	2,819
0	Bellwin Claim re December 2015 Floods	2,559
0	DfT Highways Surveys (Flood related)	2,000
615	Other General Grants	3,698
50,338	Capital Grants	56,812
196,547	**Total Credited to Taxation and Non Specific Grant Income**	**186,141**

The main changes in the grants credited to Taxation and Non Specific Grant Income are:

- £22.177m reduction in Revenue Support Grant (RSG) is determined by the overall reduction of the Settlement Funding Assessment (SFA).

- £2.819m: Independent Living Fund, the responsibility for this was transferred from the Department for Works and Pensions in July 2015.

- The Bellwin Claim grant submitted on 2nd June 2016 to CLG and the DfT Highways survey grant are additional one off grants received in 2015/16 as a result of the December 2015 flooding in the County.

18. Capital Expenditure and Capital Financing

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

Movements on Capital Financing Requirement

2014/15 £000	Movement on Capital Financing Requirement	2015/16 £000
491,752	Opening Capital Financing Requirement	487,632
	Capital Investment:	
69,216	Property, Plant and Equipment	83,465
0	Assets Held for Sale	2
190	Intangible Assets	0
14,655	Revenue Expenditure Funded From Capital Under Statute	19,185
84,061		102,652
	Sources of Finance:	
(3,553)	Capital Receipts	(4,244)
(66,085)	Government Grants and Contributions	(76,504)
	Sums set aside from revenue:	
(16,032)	Minimum Revenue Provision	(16,289)
(2,511)	Revenue Contributions	(5,385)
487,632	**Closing Capital Finance Requirement**	**487,862**
	Explanations of Movement in Year:	
	Increase/ (Decrease) in underlying need to borrow	
(16,032)	- Supported by Government Financial Assistance	(16,289)
11,912	- Unsupported by Government Financial Assistance (Prudential Borrowing)	16,519
(4,120)	**Increase/(decrease) in Capital Financing Requirement**	**230**

Minimum Revenue Provision

The Council is required to set aside a minimum revenue provision (MRP) for the redemption of external debt in accordance with its MRP Policy which is approved by Council for each financial year. The difference between the MRP and depreciation is transferred to the Capital Adjustment Account to ensure capital charges do not impact on the amount to be raised by Government grant and local taxation. For 2015/16 this amount was £16.289m (2014/15 £16.032m).

19. Leases

<u>Council as Lessee</u>

Finance Leases

The Council has acquired a number of assets using finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet in Other Land and Buildings. The Net Book Value at 31st March 2016 was £15.152m (31st March 2015 £15.000m).

Minimum Lease Payments

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

For all the Council's finance lease property assets there are minimum rentals paid (maximum annual payment £25 pa) hence the payments have not been split between financing costs and principal elements. The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 there were no contingent rents payable by the Council (None in 2014/15).

The Council sub lets part of one of the buildings which it leases in. Income of £0.565m was received in 2015/16 (£0.565m 2014/15) and a further £1.314m is expected in future years.

Operating Leases

The Council leases a number of buildings and land as operating leases over varied time periods. The Council also leases in vehicles, plant and equipment. Operating leases give the Council the right to use the assets for a period of time, but do not give similar ownership rights as for assets acquired under finance leases.

The future minimum lease payments due under non cancellable leases in future years are:

	31st March 2015			31st March 2016		
	Op. Land & Buildings £000	**Eqpt & Other Leases £000**	**Total £000**	**Op. Land & Buildings £000**	**Eqpt & Other Leases £000**	**Total £000**
Not later than one year	582	826	1,408	589	959	1,548
Later than one year but not later than five years	1,528	1,314	2,842	1,411	1,324	2,735
Later than five years	3,960	3	3,963	7,097	6	7,103
	6,070	**2,143**	**8,213**	**9,097**	**2,289**	**11,386**

19. Leases continued

Operating Leases continued

The expenditure is allocated to the appropriate service in accordance with SeRCOP within the Comprehensive Income and Expenditure Statement for 2015/16. Lease payments of £2.445m (2014/15 £2.341m) were recognised as an expense in the Comprehensive Income and Expenditure Statement. No contingent rents were payable.

<u>Council as lessor</u>

The Council has a number of leased out properties all of which are operating leases. It leases out these properties for the following purposes:

- the provision of community services, such as sports facilities and community centres
- For economic development purposes to provide suitable office accommodation for local businesses.

Operating leases

The future minimum lease payments receivable under non cancellable leases for operational land and buildings in future years:

	31st March 2015	**31st March 2016**
	Operational Land & Buildings £000	**Operational Land & Buildings £000**
Not later than one year	849	814
Later than one year but not later than five years	1,998	1,573
Later than five years	3,131	4,223
	5,978	**6,610**

The income is allocated to the appropriate service in accordance with SeRCOP within the Comprehensive Income and Expenditure Statement for 2015/16. Lease income of £1.082m (2014/15 £1.357m) were recognised as income in the Comprehensive Income and Expenditure Statement.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no contingent rents receivable by the Council in 2015/16 or 2014/15.

20. Private Finance Initiatives and Similar Contracts

The Council currently has three PFI/PPP contracts which are detailed below, the liability at 31st March 2016 is:

Short Term Liability at 31st March 2015 £000	Long Term Liability at 31st March 2015 £000	Total PFI Liability at 31st March 2015 £000	Contract	Short Term Liability at 31st March 2016 £000	Long Term Liability at 31st March 2016 £000	Total PFI Liability at 31st March 2016 £000
0	42,530	42,530	Waste Management PPP	0	42,614	42,614
179	59,282	59,461	Carlisle Northern Development Route PFI	258	59,022	59,280
240	15,806	16,046	Fire Station Replacement PFI	259	15,548	15,807
419	**117,618**	**118,037**		**517**	**117,184**	**117,701**

Although the payments made to the contractors are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable, whilst the capital expenditure remains to be reimbursed. The liability is established at the same time that the assets are recognised on the Balance Sheet i.e. when they become operational.

<u>Waste Management Contract</u>
The Waste Management Contract was signed in June 2009, it is a 25 year Public Private Partnership (PPP) contract between the Council and Shanks Waste Management Ltd. The cost to the Council over the remaining life of the contract is expected to be £504m. The overall aim of the project is to reduce the volume of waste sent to landfill and hence reduce landfill taxes and potential fines arising from the Government's Landfill Allowance Trading Scheme.

To achieve this aim, Shanks constructed two waste treatment facilities; one in the North and one in the South of the County, these are designed to dramatically reduce the amount of residual waste sent to landfill. Shanks are also responsible for managing, maintaining and operating the existing 14 Household Waste Recycling Centres across the County. At the end of the concession period the waste treatment plants will be transferred to the Council's ownership.

The waste treatment facility in the North became operational in December 2011 and the facility in the South in January 2013. Shanks have taken over responsibility for disposing of the County's residual waste via landfill.

Property, Plant and Equipment
Both waste treatment facilities are on the Council's Balance Sheet at a Net Book Value of £39.508m (2014/15 £40.093m).

20. Private Finance Initiatives and Similar Contracts continued

Waste Management Contract continued

Payments

The Council is paying for these services via an annual unitary charge which is made up of fixed and variable elements. The unitary charge is subject to annual indexation, some prices, such as landfill, will be market tested regularly. The Council paid £21.574m gross unitary charge in 2015/16 (£20.802m in 2014/15).

The Council is committed to making the following payments under the waste management PPP scheme:

	Service charges £000	Lifecycle Additions £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2016/17	15,800	377	61	7	5,942	22,187
Payable within 2 and 5 years	69,474	1,606	471	(385)	23,668	94,834
Payable within 6 and 10 years	98,740	2,245	5,313	(897)	28,108	133,509
Payable within 11 and 15 years	113,103	2,540	16,695	(1,314)	21,287	152,311
Payable within 16 and 20 years	75,574	1,681	20,015	(1,007)	5,230	101,493
Total	**372,691**	**8,449**	**42,555**	**(3,596)**	**84,235**	**504,334**

Carlisle Northern Development Route

The Carlisle Northern Development Route (CNDR) contract was signed in July 2009, it is a 30 year Private Finance Initiative (PFI) contract between the Council and Connect CNDR Ltd. The cost to the Council over the remaining life of the contract is expected to be £386m. The contract is an essential component of the economic regeneration of West Cumbria, one of the most economically deprived parts of the North West.

The primary aim of the contract was to design, build, finance and operate a new 8.3km largely single carriageway road to connect the North and West of Carlisle. The intention is to relieve pressure on radial routes within Carlisle City, which is key to realising development of the strategic employment site at Kingmoor Park to its full potential of 5,500 jobs. The CNDR was scheduled to be fully completed, contractually, by 2013, but was completed and became operational in February 2012 and was recognised on the Council's Balance Sheet at £60.091m. The current net book value on the Council's Balance Sheet is £52.711m (2014/15 £54.137m).

Connect CNDR are also responsible for the management, maintenance and operation of some 150km of the existing principal road network in the surrounding area. At the end of the concession period the road will be transferred to the Council's ownership.

20. Private Finance Initiatives and Similar Contracts continued

Carlisle Northern Development Route continued

Payments

The Council is paying for these services via an annual unitary charge which is made up of fixed and variable elements and is subject to annual indexation. The Council will receive financial support from the Department for Transport in the form of PFI grant totalling £353m over the life of the contract, the abated PFI credits i.e. the net present value using the Government interest rate of 6.3% is £158m.

The Council paid £13.671m gross unitary charge in 2015/16 (£13.490m in 2014/15) and is committed to making the following payments in future years under the CNDR PFI scheme:

	Service charges £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2016/17	5,691	258	674	7,306	**13,929**
Payable within 2 and 5 years	21,447	3,532	4,039	28,725	**57,743**
Payable within 6 and 10 years	31,839	6,179	6,218	32,939	**77,175**
Payable within 11 and 15 years	36,754	11,070	7,841	27,729	**83,394**
Payable within 16 and 20 years	41,971	19,596	9,847	19,007	**90,421**
Payable within 21 and 25 years	31,835	19,894	7,144	4,920	**63,793**
Total	**169,537**	**60,529**	**35,763**	**120,626**	**386,455**

Fire Station Replacement PFI Scheme

The Council is involved in a PFI project, with Merseyside and Lancashire Fire and Rescue Authorities, to deliver sixteen new fire stations, five of which are in Cumbria. The basis of the partnership is set out in a joint working agreement. Contracts were signed between Balfour Beatty Fire and Rescue NW Ltd in February 2011, with construction commencing in 2011/12 and completion in 2013/14. The cost to the Council of the Cumbria element of the contract is expected to be £52m. At the end of the concession period the fire stations will be transferred to the Council's ownership. The contract will run for 25 years from the date of final handover, and the Council pays a unitary payment. The stations built in Cumbria are:

- Carlisle - 2 sites - Carlisle East and Carlisle West.
- Workington –includes the Locality Headquarters.
- Penrith - includes the Council’s Resilience Unit and Fire & Rescue Service Headquarters & Learning & Development Department.
- Patterdale.

20. Private Finance Initiatives and Similar Contracts continued

Property, Plant and Equipment

Patterdale and Carlisle West Fire Stations were completed and became operational in 2011/12. Carlisle East and Penrith were completed in 2012/13 and became operational in May 2012 and August 2012 respectively. The final fire station, Workington, was completed in 2013/14 and became operational in June 2013. The five fire stations are included in the Council's Balance Sheet at a net book value of £13.895m (2014/15 £14.244m).

Payments

The Council is paying for these services via an annual unitary charge which is made up of fixed and variable elements and is subject to annual indexation. The whole project will receive financial support from the Department for Communities and Local Government in the form of PFI Credits totalling £66.4m over the life of the contract. The Council paid £2.038m gross unitary charge in 2015/16 (£1.959m in 2014/15) and is committed to making the following payments in future years under the Fire Station Replacement PFI scheme:

	Service charges £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2016/17	498	259	31	1,321	2,109
Payable within 2 and 5 years	2,133	1,274	191	5,038	8,636
Payable within 6 and 10 years	3,035	2,285	395	5,566	11,281
Payable within 11 and 15 years	3,510	3,420	572	4,383	11,885
Payable within 16 and 20 years	4,067	5,142	753	2,607	12,569
Payable within 21 and 25 years	2,141	3,065	352	372	5,930
Total	**15,384**	**15,445**	**2,294**	**19,287**	**52,410**

21. Property, Plant and Equipment

21.1 Movement on Balances – Movement 2015/16

2015/16	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Properties Not Held for Sale £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1st April 2015	498,440	64,091	547,778	65	11,822	17,163	1,139,359	115,355
Additions	17,656	4,606	41,834		18,758	611	83,465	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,179	0	0	(31)	0	1,899	4,047	0
Revaluation increases / (decreases) recognised in the surplus/deficit on the provision of services	(14,243)	0	0	(74)	0	(2,639)	(16,956)	(1,057)
Derecognition – disposals	(258)	(178)	0	0	0	(667)	(1,103)	0
Derecognition	(42,799)	(1,025)	0	0	0	(1,213)	(45,037)	0
Assets reclassified to/from Held for Sale	138	0	0	0	0	(200)	(62)	0
Reclassifications – other	11,825	1,662	0	94	(14,699)	(390)	(1,508)	0
At 31st March 2016	**472,938**	**69,156**	**589,612**	**54**	**15,881**	**14,564**	**1,162,205**	**114,298**
Accumulated Depreciation								
At 1st April 2015	(9,457)	(39,426)	(97,573)	0	0	(133)	(146,589)	(6,881)
Depreciation charge	(11,983)	(4,029)	(13,939)	0	0	(92)	(30,043)	(3,374)
Depreciation written out to the Revaluation Reserve	2,028	0	0	0	0	129	2,157	0
Depreciation written out to the surplus/deficit on the provision of services	5,274	0	0	2	0	61	5,337	2,071
Impairment (losses)/reversals recognised in the Revaluation Reserve	(636)	0	0	0	0	0	(636)	0
Impairment(losses) / reversals written out to surplus/deficit on the provision of services	(288)	0	0	0	0	0	(288)	0
Derecognition – disposals	3	177	0	0	0	7	187	0
Derecognition	1,770	760	0	0	0	25	2,555	0
Assets reclassified to/from Held for Sale	0	0	0	0	0	7	7	0
Depreciation on reclassifications - other	11	(3)	1	(2)	0	(4)	3	0
At 31st March 2016	**(13,278)**	**(42,521)**	**(111,511)**	**0**	**0**	**0**	**(167,310)**	**(8,184)**
Net Book Value								
at 31st March 2016	**459,660**	**26,635**	**478,101**	**54**	**15,881**	**14,564**	**994,895**	**106,114**
at 1st April 2015	**488,983**	**24,665**	**450,205**	**65**	**11,822**	**17,030**	**992,770**	**108,474**

21. Property, Plant and Equipment continued
21.2 Movement on Balances - Comparative Movements in 2014/15

2014/15	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Properties Not Held for Sale £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1st April 2014	593,133	61,051	507,312	59	3,318	43,279	1,208,152	115,355
Additions	14,577	4,509	40,466	0	9,569	95	69,216	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(23,029)	0	0	6	0	(15,391)	(38,414)	0
Revaluation increases / (decreases) recognised in the surplus/deficit on the provision of services	(61,351)	0	0	0	0	(9,020)	(70,371)	0
Derecognition – disposals	(345)	(920)	0	0	0	(2,590)	(3,855)	0
Derecognition	(16,933)	(551)	0	0	0	(1,666)	(19,150)	0
Assets reclassified to/from Held for Sale	(4,557)	0	0	0	0	(1,665)	(6,222)	0
Reclassifications – other	(3,055)	2	0	0	(1,065)	4,121	3	0
At 31st March 2015	**498,440**	**64,091**	**547,778**	**65**	**11,822**	**17,163**	**1,139,359**	**115,355**
Accumulated Depreciation								
At 1st April 2014	(20,672)	(36,603)	(84,602)	0	0	(1,205)	(143,082)	(3,507)
Depreciation charge	(14,334)	(4,027)	(12,970)	0	0	(543)	(31,874)	(3,374)
Depreciation written out to the Revaluation Reserve	15,184	0	0	0	0	1,735	16,919	0
Depreciation written out to the surplus/deficit on the provision of services	7,481	0	0	0	0	71	7,552	0
Derecognition – disposals	0	857	0	0	0	11	868	0
Derecognition	2,292	347	0	0	0	110	2,749	
Assets reclassified to/from Held for Sale	263	0	0	0	0	18	281	0
Depreciation on reclassifications - other	329	0	(1)	0	0	(330)	(2)	0
At 31st March 2015	**(9,457)**	**(39,426)**	**(97,573)**	**0**	**0**	**(133)**	**(146,589)**	**(6,881)**
Net Book Value								
at 31st March 2015	**488,983**	**24,665**	**450,205**	**65**	**11,822**	**17,030**	**992,770**	**108,474**
at 1st April 2014	**572,461**	**24,448**	**422,710**	**59**	**3,318**	**42,074**	**1,065,070**	**111,848**

21. Property, Plant and Equipment continued

21.3 Depreciation

The useful lives and depreciation rates that have been used in the calculation of depreciation are detailed in the accounting policies – policy xi Property, Plant and Equipment – Depreciation.

21.4 Capital Commitments

At 31st March 2016 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £11.431m. Similar commitments at 31st March 2015 were £6.376m. The major commitments are:

2014/15 £000	Capital Project	2015/16 £000
	School Projects:	
400	Priority Maintenance (Schools)	300
0	Whitehaven Education campus	100
0	Inclusive Cumbria –Sandside Lodge	20
0	Inclusive Cumbria – James Rennie	20
308	West Lakes Academy	0
197	Early Education for Two Year Olds	0
877	Completed Projects (Schools)	158
	Other Projects:	
1,137	Connecting Cumbria	660
1,272	Extra Care Housing	200
0	Barrow Elderly Persons Home	500
1,362	Highways Schemes	1,467
0	Street Lighting improvements	1,199
0	Flood Recovery	390
0	LEP - Devolved Major Transport Scheme Funding	1,560
0	LEP – Barrow Waterfront	49
0	LEP – Kendal Infrastructure	220
0	LEP – Optimsing Connectivity	15
0	Better Places for Work	3,900
0	Co-located Emergency Response Centre - Ulverston	380
823	Other Minor commitments	293
6,376		**11,431**

The Council has further contractual commitments in respect of PFI/PPP schemes that are detailed in Note 20.

21.5 Effects of Changes in Estimates

In 2015/16 the Council has not made any material changes in estimates methodology used.

In 2014/15 the Council made a material change in the estimates methodology used relating to the changes in the design guidance published in Building Bulletin 103: Area Guidelines for Mainstream Schools’ (BB103) which was released in April 2014. All Primary and Secondary schools were revalued in 2014/15 in line with these changes.

21. Property, Plant and Equipment continued

21.6 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. The officers who undertook these valuations in 2015/16 were:

- D Kirkwood, BSc (Hons) MRICS
- D Wiggins, BSc (Hons) MRICS
- P Robinson, MSc MRICS
- D Rawle, BSc (Hons) MRICS
- E McQuillan, MRICS

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 and in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset. Furniture and equipment is only treated as a non current asset when purchased as part of a capital project, otherwise it is treated as de minimis expenditure and is a direct charge to the revenue account in the year of purchase. The exception to this is schools' equipment funded from capital grant.

The significant assumptions applied in estimating the fair values are:

- That all required, valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with.
- That no deleterious or hazardous materials or techniques have been used, that there is no contamination in or from the ground, and it is not landfilled ground.
- That the properties are connected to, and there is a right to use, the reported mains services on normal terms.
- That sewer, main services and the roads giving access to the property have been adopted.
- Unless otherwise stated, the Valuers will take no account of any form of taxation, grants or costs that may arise on acquisition or disposal of the properties.

Property assets are classified as:

- Property plant and equipment
- Leases and lease type arrangements
- Investment property
- Assets held for sale
- Surplus Assets

21. Property, Plant and Equipment continued
21.6 Revaluations

Fair Value is reported or measured as follows:

Category	Basis
Property plant and equipment (except infrastructure community assets and assets under construction)	Current Value (EUV)
Specialised property	Current Value (DRC) or Existing Use Value (EUV)
Investment Property	Fair Value (highest and best use) (IFRS 13)
Assets held for sale	Lower of carrying amount and fair value less costs to sell (IFRS 13)
Surplus Assets	Fair Value (IFRS 13)

The Council has set in place a five year rolling programme of asset revaluations.

The history of asset valuations is as follows:

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Properties Not Held for Sale £000	Total £000
Carried at Historic Cost	0	23,701	0	23,701
Valued at fair value (Net Book Value) as at:				
31/3/2016	177,198	0	14,564	191,762
31/3/2015	178,829	0	0	178,829
31/3/2014	22,301	0	0	22,301
31/3/2013	52,901	247	0	53,148
31/3/2012	28,431	2,687	0	31,118
Total	**459,660**	**26,635**	**14,564**	**500,859**

There were impairment losses of £0.924m in 2015/16 as a result damage caused to three Council properties in the December 2015 flooding. The affected properties were the Whinfell Centre, Kendal, Mintsfeet Depot, Kendal and Edenside Care Home, Appleby.

Due to the valuation methodology in place for 2015/16 there is no requirement to impair the infrastructure (i.e. Highways network) assets as a result of the December 2015 flooding. This will change for 2016/17 when the Code of Practice on Local Authority Transport Infrastructure Assets (Transport Code) is implemented and the infrastructure assets are valued at depreciated replacement cost.

There were no impairment losses in 2014/15.

22. Surplus Assets

All the Council's surplus assets have been value assessed as Level 2 of the fair value hierarchy for valuation purposes. The fair value of surplus assets has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's asset portfolio. 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 as Level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year. In estimating their fair value, the Council's surplus assets have been valued to their highest and best use. The net book value at 31st March 2016 was £14.564m (31st March 2015 £17.030m).

23. Investment Properties

Following the introduction of IFRS13 in the Code of Practice on Local Authority Accounting 2015/16, the Council has reviewed the categorisation of all its land and buildings. The outcome of this review has resulted in seven properties being re-classified as investment properties. There is now a total of eight 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:

Investment Properties	2014/15 £000	2015/16 £000
Rental Income from Investment Properties	(53)	(283)
Direct Operating Expenses	33	94
	(20)	**(189)**

The movement in the value of investment properties are analysed below:

Investment Properties	2014/15 £000	2015/16 £000
Balance at start of year:	185	225
Net gains/losses from fair value adjustments	40	732
Transfer from Property Plant & Equipment	0	803
Transfer from Surplus Properties	0	525
Balance at 31st March	**225**	**2,285**

All the Council's investment properties have been value assessed as Level 2 of the fair value hierarchy for valuation purposes. The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's asset portfolio.

23. Investment Properties continued

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 as Level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year. In estimating their fair values, the Council's investment properties have been valued at their highest and best use.

24. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and software. All software is given a finite useful life of five years, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.331m charged to revenue in 2015/16 (£2.124m 2014/15) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Cost of Services in the Comprehensive Income and Expenditure Statement. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The reclassification from Assets Under Construction in 2015/16 of £0.178m related to new software. The movement on Intangible Asset balances during the year is as follows:

Intangible Assets	**2014/15 £000**	**2015/16 £000**
Balance at start of year:		
Gross carrying amount	20,010	20,200
Accumulated amortisation	(17,090)	(19,214)
Net carrying amount at start of year	2,920	986
Purchases	190	0
Reclassification from Assets under Construction	0	178
Amortisation for the period	(2,124)	(331)
Net carrying amount at end of year	**986**	**833**
Comprising:		
Gross carrying amount	20,200	20,378
Accumulated amortisation	(19,214)	(19,545)
	986	**833**

25. Long Term Debtors

Long Term Debtors	Balance at 31st March 2015 £000	Net In Year Transactions £000	Balance at 31st March 2016 £000
Charlotte Mason & Barrow 6th Form Colleges	419	(29)	390
Magistrates Court Service	568	(22)	546
Residential Care Charges	6,459	(420)	6,039
Other Long Term Debtors	350	(350)	0
Staff Car Loans	154	46	200
	7,950	**(776)**	**7,174**

The long term debtor on Charlotte Mason represents sums due from the University of Cumbria, in relation to pre 1990 and earlier debts, incurred financing capital schemes. The debt is repayable at 4% per annum in accordance with the Minimum Revenue Provision (MRP) rules, namely at 4% per annum of a reducing balance.

The long term debtor for Magistrates is being repaid by HM Courts and Tribunals service in accordance with MRP rules. The grant is at 80% of the full cost. The debt repayable in respect of Barrow 6th Form College is being repaid, over 25 years, in equal instalments.

The Council also has outstanding debtors owed by individuals in respect of residential care charges. Of this debt £6.039m is considered as long term debt in 2015/16 (£6.459m 2014/15), as it is either secured by a charge on property or is part of a deferred payment agreement.

26. Current Assets Held For Sale

Current Assets held for Sale	2014/15 £000	2015/16 £000
Balance outstanding at start of year	600	2,866
Purchases	0	2
Assets newly classified as held for sale:		
Property, Plant & Equipment	6,041	644
Revaluation gains / (losses) recognised in the Revaluation Reserve	(1,586)	208
Revaluation gains / (losses) recognised in the surplus/deficit on provision of services	(1,659)	(13)
Assets declassified as held for sale:		
Property, Plant & Equipment	(100)	(589)
Assets Sold	(430)	(2,070)
Balance outstanding at year end	**2,866**	**1,048**

27. Short Term Debtors and Prepayments

An analysis of sums due to the Council as at 31st March 2016 is as follows:

31st March 2015 £000	Debtors and Prepayments	31st March 2016 £000
	Debtors:	
11,836	Central Government Bodies	18,780
(42)	Central Government Bodies – doubtful debt allowance	(66)
6,497	Other Local Authorities	9,477
0	Other Local Authorities – doubtful debt allowance	(32)
13,675	NHS Bodies	1,530
(6)	NHS Bodies – doubtful debt allowance	(56)
1	Public Corporations and Trading Funds	0
29,260	Other Entities and Individuals	28,284
(8,087)	Other Entities and Individuals – doubtful debt allowance	(7,478)
53,134		**50,440**
	Prepayments:	
27	Other Local Authorities	19
9,714	Other Entities and Individuals	11,694
9,741		**11,713**
62,875	**Total Debtors and Prepayments**	**62,153**

The increase in short term debtors is due to the following:

BREAKDOWN OF LARGE VARIANCES	31st March 2015 £000	31st March 2016 £000	Variance
E5 Accounts Receivable System – see note below	16,872	4,198	(12,674)
Non Domestic Rates – net balance owed by Billing Authority	1,901	4,098	2,197
CLG Bellwin Scheme	0	2,559	2,559
Council Tax – net balance owed by Billing Authority	2,088	2,542	454
Other Entities and Individuals – doubtful debt allowance	(8,087)	(7,478)	609
Flood Related Insurance Claims	0	1,359	1,359
Out of County Placements	430	900	470
Debtors - Other	39,930	42,262	2,332
	53,134	**50,440**	**(2,694)**
Prepayments - Direct Payments	1,077	1,883	806
Prepayments - Other	8,664	9,830	1,166
	9,741	**11,713**	**1,972**
Total Debtors and Prepayments	**62,875**	**62,153**	**(722)**

The E5 Accounts Receivable System balance for 31st March 2015 included an invoice for £11.491m that was raised in March 2015 to the NHS which was subsequently paid on 1st April 2015.

27. Short Term Debtors and Prepayments continued

The bad debt provision for the Council is calculated depending on the length of time that the debt has been outstanding, and the type of debt. The bad debt provision as shown in the Council's accounts at 31st March is analysed below:

Bad Debt Provision	31st March 2015 £000	31st March 2016 £000
Central Bad Debt Provision	1,050	687
Residential Accounting System (RAS) and Home Care System (NAS)	1,815	1,657
Business Rates Payers	297	289
Council Tax Payers	4,973	4,999
Total	**8,135**	**7,632**

The District Councils (as the billing authorities) act as agent on behalf of the the County Council and central government collecting Council Tax and Business Rates. The County Council and central government share proportionately the risks and rewards that the amount of Council Tax and Business Rates collected could be less or more than predicted.

All the Council Tax and Business Rates transactions including debtor and creditor balances, any bad debts written off, provision for appeals or movement in the impairment allowance are allocated proportionately between the District Councils, the County Council and central government, applying agent and principal treatments as appropriate.

The six District Councils provide this information to the County Council for inclusion in the Statement of Accounts.

28. Financial Instruments

Categories of Financial Instruments

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

28.1 Financial Instruments Balances
Long Term Financial Instruments

	31st March 2015 £000	31st March 2016 £000
Long Term Investments:		
Unquoted equity at cost	3,183	3,183
Long Term Debtors:		
Loans and receivables	7,950	7,174
Long Term Borrowings:		
Financial liabilities at amortised cost	(302,886)	(295,361)
Other Long Term Liabilities:		
PFI liabilities	(117,618)	(117,184)

Current Financial Instruments

	Current	
	31st March 2015 £000	31st March 2016 £000
Short Term Investments:		
Loans and receivables	75,324	85,201
Cash and Cash equivalents	35,094	131,451
Total Short Term Investments	**110,418**	**216,652**
Short Term Debtors:		
Loans and receivables (contractual debtors only)	15,579	14,899
Short Term Borrowings:		
Financial liabilities at amortised cost	(10,110)	(11,938)
Bank Overdraft	(2,386)	(10,739)
Total Short Term Borrowings	**(12,496)**	**(22,677)**
Short Term Creditors:		
Financial liabilities at amortised cost (contractual creditors only)	(44,882)	(39,149)
PFI Liability	(419)	(517)
Total Short Term Creditors	**(45,301)**	**(39,666)**

Reclassifications

There were no reclassifications in the year.

28. Financial Instruments continued

28.2 – Income, Expense, Gains and Losses On Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

2015/16	PFI Liability £000	Financial Liabilities (measured at amortised costs) £000	Financial Assets (Loans & Receivables) £000	Total £000
Interest Expense	15,238	13,576	0	28,814
Impairment Losses	0	0	854	854
Total expense in (surplus) or deficit on the provision of services	**15,238**	**13,576**	**854**	**29,668**
Interest and Investment Income	0	0	(2,621)	(2,621)
Total income in (surplus) or deficit on the provision of services	**0**	**0**	**(2,621)**	**(2,621)**
Net (Gain)/Loss for year	**15,238**	**13,576**	**(1,767)**	**27,047**

2014/15 Restated	PFI Liability £000	Financial Liabilities (measured at amortised costs) £000	Financial Assets (Loans & Receivables) £000	Total £000
Interest Expense	15,173	14,109	0	29,282
Impairment Losses	0	0	577	577
Total expense in (surplus) or deficit on the provision of services	**15,173**	**14,109**	**577**	**29,859**
Interest and Investment Income	0	0	(3,040)	(3,040)
Total income in (surplus) or deficit on the provision of services	**0**	**0**	**(3,040)**	**(3,040)**
Net (Gain)/Loss for year	**15,173**	**14,109**	**(2,463)**	**26,819**

2014/15 has been restated to include impairment losses in the above table.

28. Financial Instruments continued

28.3 Fair Value of Financial Assets and Financial Liabilities that are not Measured at Fair Value.

Fair Value Of Assets And Liabilities

The Council has a number of financial assets and liabilities on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For Public Works Loan Board (PWLB) debt, new borrowing rates as per PWLB rate sheet number 124/16 have been applied to provide the fair value under PWLB debt redemption procedures.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques between available rates have been used where the exact maturity period was not available.
- No early repayment or impairment is recognised. Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair values calculated are as follows:

Fair Value of Liabilities	31st March 2015 Carrying Amount £000	31st March 2015 Fair Value £000	31st March 2016 Carrying Amount £000	31st March 2016 Fair Value £000	Input Level in Fair Value Hierarchy
Financial Liabilities:					
PWLB borrowings	282,700	343,714	277,200	341,011	Level 2
Market Loans	25,507	31,606	25,494	31,564	Level 2
Local Authorities	179	179	167	167	
Accrued Interest	4,610	4,610	4,438	4,438	
Creditors – contractual	44,882	44,882	39,149	39,149	
Bank Overdraft	2,386	2,386	10,739	10,739	
PFI Liability	118,037	207,384	117,701	226,798	Level 2

The fair value of the PWLB borrowings and Market Loans is higher than the carrying amount because the majority of the Council's portfolio of loans are at a fixed rate which is higher than the prevailing rate at the Balance Sheet date.

28. Financial Instruments continued

28.3 Fair Value of Financial Assets and Financial Liabilities that are not Measured at Fair Value continued.

Fair Value of Assets	31st March 2015		31st March 2016		
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Input Level in Fair Value Hierarchy
Loans and Receivables:					
Cash	9,038	9,038	9,542	9,542	
Deposits with banks and building societies	101,019	101,083	206,826	206,970	Level 2
Accrued Interest	293	293	237	237	
Deposit with Insurer	68	68	47	47	
Unquoted Equity	3,183	3,183	3,183	3,183	
Long Term Debtors	7,950	7,950	7,174	7,174	
Debtors – contractual	15,579	15,579	14,899	14,899	

The fair value of the deposits with banks and building societies is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the prevailing rates for similar deposits at the Balance Sheet date.

The Council's shareholding in Cumbria County Holdings Ltd – the shares (representing 100% of the Company's capital) are carried at a cost of £3.183m and have not been valued, as a fair value cannot be measured reliably. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shareholding.

As a result of Government legislation, Cumbria Waste Management Ltd (CWM) was created in 1993 as a wholly owned company tendering for the waste disposal business within Cumbria in competition with the private sector. The majority of the waste disposal assets of the Council were transferred to the company in exchange for £2,813,000 of shares. In 2012/13, the Council exchanged shares in CWM for shares in the new Cumbria County Holdings Ltd (CCH), which is also wholly owned by the Council. This company now owns the shares in CWM.

On 1st April 2013 the Council purchased 370,000 ordinary £1 shares in Orian Solutions Ltd for a consideration of £0.370m. Orian Solutions Ltd is wholly owned by Cumbria County Holdings Ltd. There was no movement in 2015/16 and the balance as at 31st March 2016 is £3.183m (31st March 2015 £3.183m).

In June 2009, the Council selected a waste management partner, Shanks Waste Management Ltd, in a 25 year Public Private Partnership (PPP) contract. CWM Ltd is a subcontractor to Shanks, under this contract.

29. Nature and Extent of Risks Arising From Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy which requires that deposits are only placed with institutions that meet specific creditworthiness criteria. The credit ratings of investments as at 31st March 2016 are detailed below:

Credit ratings of Investments as at 31st March 2016

Deposits with Banks and Financial Institutions	Fitch Rating	Amount at 31st March 2016 £'000
Schools Investments		50
Bank of Scotland (Lloyds Group)	A+	15,000
National Bank of Abu Dhabi	AA-	10,000
Landesbank Hessen-Thuringen London	A+	20,000
Goldman Sachs International Bank	A	5,000
Nationwide	A	15,000
Coventry Building Society	A	10,000
Royal Bank of Scotland	BBB+	9,913
Barclays Bank	A	15,021
Goldman Sachs MMF	AAA	13,702
Aberdeen (EX SWIP) MMF	AAA	5,098
Standard Life MMF(EX IGNIS)	AAA	10,011
Standard Life Cash Plus Fund	AAA	10,038
Royal London Asset Mgt Cash Plus Fund	AAA	9,981
J P Morgan MMF Sterling Liquidity Fund	AAA	20,003
BNP Paribas MMF - Insticash	AAA	20,009
Svenska Handelsbanken	AA-	18,000
	Total	**206,826**

29. Nature and Extent of Risks Arising From Financial Instruments continued

Credit Risk continued

The Treasury Management Strategy, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These counterparties are chosen, by officers, using credit rating data supplied by the Council's treasury advisers (based on data from the three main credit rating agencies, overlaid by:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads (i.e. insurance policies) to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there is no evidence at 31st March 2016 that this was likely to crystallise.

Debtors

The table below analyses the age of the outstanding debt within the Accounts Receivable system for those debtors that are classed as financial instruments. The Council generally allows 30 days credit for customers, such that £1.315m (£1.986m 2014/15) of the £2.796m (£3.425m 2014/15) balance is past its due date for payment. This analysis does not include all contractual debtors. The Council also has £12.526m and £1.538m owed by individuals in respect of outstanding residential and non residential care charges (RAS and NAS) (£13.517m and £1.476m in 2014/15). Of this debt £6.039m (2014/15 £6.459m) is considered as long term debt, as it is either secured by a charge on property or on deferred payment agreements.

Analysis of Accounts Receivable Debt classed as Financial Instruments

Age of Debt	**31st March 2015 £000**	**31st March 2016 £000**
Less than one month	1,439	1,481
One to two months	338	351
Two to six months	451	223
Six months to one year	275	123
More than one year	922	618
Total	**3,425**	**2,796**

29. Nature and Extent of Risks Arising From Financial Instruments continued

Debtors continued

The bad debt provision for the Council is calculated depending on the length of time that the debt has been outstanding and the type of debt. The bad debt provision that relates to financial instruments as at 31st March is analysed below:

Provision	31st March 2015 £000	31st March 2016 £000
Central Bad Debt Provision	1,001	533
RAS and NAS	1,815	1,656
Total	**2,816**	**2,189**

<u>Liquidity Risk</u>

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All financial assets investments sums owing (£206.826m) are due to be paid in less than one year.

<u>Refinancing and Maturity Risk</u>

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;

29. Nature and Extent of Risks Arising From Financial Instruments continued

Refinancing and Maturity Risk continued

- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The Council has safeguards in place to ensure that no more than 10% of its borrowings mature for repayment in any one year to reduce the financial impact of reborrowing at a time of unfavourable interest rates. This is managed through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of long and short term loans is as follows:

Analysis of maturity of long and short term loans

Loan Principal outstanding	On 31st March 2015 £000	On 31st March 2016 £000
Public Works Loans Board	282,700	277,200
Market debt	25,507	25,494
Other	179	167
Total	**308,386**	**302,861**
Less than 1 Year	5,500	7,500
Between 1 and 2 years	7,500	7,500
Between 2 and 5 years	31,000	31,000
Between 5 and 10 years	37,700	38,200
More than 10 years	226,686	218,661
Total	**308,386**	**302,861**

In the more than 10 years category there are £24m of Lender Options Borrower Option (LOBOs) market loans which have a call date in the next 12 months. The LOBOs are unlikely to be called as the rate being charged is higher than the current prevailing rate.

Market Risk

Interest Rate Risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid/received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.

29. Nature and Extent of Risks Arising From Financial Instruments continued

- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets are held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Comprehensive Income and Expenditure Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities are held at amortised cost, but will impact on the disclosure note for fair value.
- However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31st March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a net increase in investment income of £1.513m. The impact of a 1% fall in interest rates would be a net decrease in income of £0.953m, as the average rate of interest on investments is currently below 1%.

Price Risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

30. Cash and Cash Equivalents

31st March 2015 £000	Cash and Cash Equivalents	31st March 2016 £000
9,106	Bank Current Accounts	9,589
25,988	Short Term Deposits	121,862
35,094	**Cash and Cash Equivalents**	**131,451**
(2,386)	Bank Overdraft	(10,739)
32,708		**120,712**

The balance on the Council's main bank accounts at 31st March 2016 was £10.739m (2014/15 £2.386m) overdrawn, which is shown separately on the Balance Sheet in Current Liabilities. The balances on the Council's various imprest accounts, school bank accounts and cash in transit between internal accounts amounted to £9.589m (2014/15 £9.106m) in hand and are included as cash and cash equivalents in Current Assets. Short term deposits totalling £121.862m (2014/15 £25.988m) are funds invested by the Council in money market funds or business reserve accounts and are available on demand. On a daily basis the Council's Treasury Management function actively manages the cleared bank balance as close to zero as possible to maximise interest receipts and minimise interest payments. The increase in cash and cash equivalents is due to the receipt of £117.6m capital grant funding from the Department of Transport in March 2016 in relation to flood recovery infrastructure.

31. Short Term Creditors

An analysis of amounts owed by the Council at 31st March 2016 is:

31st March 2015 £000	Creditors and Accruals:	31st March 2016 £000
8,401	Central Government bodies	18,049
3,090	Other Local Authorities	2,871
1,374	NHS Bodies	5,343
8	Public Corporations and Trading Funds	15
57,934	Other Entities and Individuals	53,292
70,807		**79,570**

BREAKDOWN OF LARGE VARIANCES	31st March 2015 £000	31st March 2016 £000	Variance £000
Highways England grant	0	10,000	10,000
E-procurement system - accruals	5,306	9,646	4,340
Cumbria CCG – Non elective risk share 2015/16	0	2,887	2,887
E5 Accounts Payable System	9,578	5,208	(4,370)
Employee Leave Accrual	8,574	6,766	(1,808)
Home to School Transport creditors	1,315	13	(1,302)
Creditors and Accruals - Other	46,034	45,050	(984)
	70,807	**79,570**	**8,763**

32. Revenue Grants Receipts in Advance

The Council has received a number of revenue 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 if the conditions are not met. The balances at the year end are as follows:

31st March 2015 £000	Revenue Grants Receipts in Advance	31st March 2016 £000
4,995	NHS Support for Social Care	3,582
2,432	Public Health Grant	0
6,058	Other grants	7,265
13,485	**Total Revenue Grants Receipts in Advance**	**10,847**

The treatment of the Public Health grant has been reviewed this year and this year the unspent balance at the year end has been transferred to the revenue grants earmarked reserve rather than being treated as receipt in advance.

33. Provisions

The Council has made the following provisions:

Long Term Provisions	Balance at 31st March 2015 £000	Additional Provisions Made in 2015/16 £000	Amounts used in 2015/16 £000	Balance at 31st March 2016 £000
Long term provisions				
Insurance – employers & public liability	7,510	0	(459)	7,051
Business Rates Appeals	4,122	957	(4,122)	957
Total Long term provisions	**11,632**	**957**	**(4,581)**	**8,008**
Short term provisions				
Insurance – motor and fire	240	0	(86)	154
MMI Provision	72	553	0	625
Equal Pay	190	156	(190)	156
Voluntary redundancies	1,241	321	(1,241)	321
Other Provisions	94	3,380	(94)	3,380
Total short term provisions	**1,837**	**4,410**	**(1,611)**	**4,636**

Insurance

The Council self insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self insurance, the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision (£7.051m for employers and public liability and £0.154m for motor and fire) represents the sum estimated to meet claims identified and also claims incurred but not reported at 31st March 2016. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'. The balance of funding is held in an insurance reserve (£8.701m note 35.1) to support the ongoing self insurance programme for the period to 31st March 2016.

33. Provisions continued

Municipal Mutual Insurance (MMI)

MMI was the predominant insurer of public sector bodies, including the Council, prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. Most of MMI's public sector members, including the Council, elected to participate in the 'Scheme of Arrangements', effectively becoming 'Scheme Creditors'. Scheme Creditors receive payment for claims but have to pay back part of all claims for which they have received settlements since 1993 if MMI cannot meet all its liabilities. In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years). An initial 15% 'clawback' levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicate that the situation continues worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. In 2015/16 this equated to a provision of £0.625m (2014/15 £0.072m)

Equal Pay

There remained a small number of possible equal pay claims for which a provision of £0.156m has been included in 2015/16 (£0.190m 2014/15).

Voluntary Redundancies

Provisions were made in 2014/15 for redundancies that had been agreed as part of the Corporate voluntary redundancy programme but the individuals employment ended after 31st March 2015. These provisions were fully utilised in 2015/16, but the Council undertook a further programme of voluntary redundancies in 2015/16, some employees left the Council during 2015/16. Where the application has been accepted but the staff will leave the Council after 31st March 2016, further provisions of £0.321m have been made.

Other Provisions

The Council is required to make provisions for any contractual issues that it is aware of at the Balance Sheet date that may result in additional costs being incurred. However, at this there are still uncertainties about the timing and or the amount. The other provisions relate to these areas of contractual issues.

33. Provisions continued

Business Rates

Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31st March 2016. The provision is based on lodged appeals only. The Council's provision for the Business Rates appeals is a 10% share of the provision calculated by each of the six District Councils in Cumbria. The provision as at 31st March 2016 is £0.957m (31st March 2015 £4.122m). The reduction in the provision this year is as a combination of settlement of a number of smaller appeals across all Districts prior to the revaluation exercise effective from April 2017, and also a significant appeal by one District Council.

34. Capital Grants Receipts in Advance

The Council has received a number of capital 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:

31st March 2015 £000	Capital Grants Receipts in Advance	31st March 2016 £000
	Education and Children's Services	
3,049	Partnerships for Schools – Academies Grant	1,356
1,777	Devolved Formula Capital	1,930
22	14-19 Diploma	0
8,063	Basic Need	5,177
11,849	Capital Maintenance	7,146
1,990	Other Children's Grants	328
	Highways and Transport Services	
2,033	DfT Flooding Recovery Grant (2009)	1,366
2,268	Highways Maintenance and Flood Recovery (2015)	107,448
571	Severe Weather Recovery (2014)	554
1,084	Pinch Point funding – Gilwilly Access	48
634	Other Transport grants and contributions	257
2,145	Department of Health grant	2,199
1,829	Fire grant	1,003
0	Fire Transformation Grant	4,072
0	Local Growth Fund	1,041
142	Other Services	450
37,456	**Total Capital Grants Receipts in Advance**	**134,375**

35. Usable Reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement and are detailed in notes 35.1 to 35.2 below.

35.1 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and transferred to earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

There was a directorate reorganisation that took effect on 1st April 2015 which entailed the Resources directorate being removed from the structure and the services allocated to Environment & Community Services directorate and the newly established Chief Executive's Office.

Earmarked Reserves	**Balance at 31st March 2015 £000**	**Transfer Between Reserves & Directorates £000**	**Transfers Out 2015/16 £000**	**Transfers In 2015/16 £000**	**Balance at 31st March 2016 £000**
Directorates:					
Health & Care Services	2,006	0	(1,771)	469	704
Environment & Community Services	3,184	8,803	(5,776)	1,615	7,826
Fire & Rescue Service	0	0	0	300	300
Local Committees	949	0	(949)	1,556	1,556
Resources	8,796	(8,796)	0	0	0
Chief Executive's Office	0	25	(25)	0	0
Children's Services – HQ budgets	206	(2)	(244)	69	29
	15,141	30	(8,765)	4,009	10,415
Other Reserves:					
Improvement and Efficiency Reserve	1,868	0	(760)	0	1,108
Elections	362	0	(28)	119	453
Sea Fisheries	910	0	(800)	103	213
Business Rates Pool Volatility Reserve	179	0	0	202	381
Other Services	4,272	0	(3,277)	995	1,990
Modernisation Reserve	20,749	0	(5,631)	167	15,285
Revenue Grants	32,923	0	(2,574)	6,700	37,049
	61,263	0	(13,070)	8,286	56,479
Insurance	7,052	0	0	1,649	8,701
Sub Total – Council Revenue Earmarked Reserves	**83,456**	**30**	**(21,835)**	**13,944**	**75,595**
Delegated Schools Budgets and Ring Fenced Schools Related:					
Schools	4,721	(81)	(2,652)	4,414	6,402
Children's Services - DSG and other grants ring fenced to schools	4,646	51	(6,414)	527	(1,190)
	9,367	(30)	(9,066)	4,941	5,212
Total Revenue Earmarked Reserves	**92,823**	**0**	**(30,901)**	**18,885**	**80,807**
Revenue Reserves to be used for Capital Purposes					
Capital Reserve - Earmarked	1,383	0	(1,383)	0	0
Capital Reserves – General	3,947	0	(1,223)	0	2,724
Total Revenue Reserves for Capital Purposes	**5,330**	**0**	**(2,606)**	**0**	**2,724**
Total Revenue Earmarked Reserves	**98,153**	**0**	**(33,507)**	**18,885**	**83,531**

35. Usable Reserves

35.1 Transfers to/from Earmarked Reserves continued

Directorates

The Council has a long established practice of allowing over and under spending on approved budgets within Directorates to be carried forward to the following financial year on a targeted basis to meet specific objectives. Although these balances are, provisionally, earmarked to the Services concerned, they form part of the Council's overall revenue balances and can be used by the Council for any other purpose, should they so choose.

Modernisation Reserve

Over a number of years the Council has set aside funds to meet the costs and risks associated with equal pay claims, single status implementation and meet the costs of organisational change, such as redundancies or transition costs. At 1st April 2015 the balance on this reserve was £20.749m. £2.000m was released to support the 2015/16 budget as approved by Council in February 2015.

As a result of the future funding situation facing the Council, it has implemented service reviews and opened a voluntary redundancy scheme in May 2015, to assist in delivering the savings required. The cost of redundancies has been met from this Reserve. In 2015/16 the Council has drawn down £3.595m (2014/15 £2.207m) from the reserve in respect of termination costs.

Other small transfers to and from the reserve totalled £0.131m in respect of residual Equal Pay issues in the year. The balance on the reserve at 31st March 2016 is £15.285m.

Revenue Grants

Where revenue grants have been received, and there are no conditions i.e. no possibility or requirement to pay back the grant, then, irrespective of which year the money is for it must be recorded in the Comprehensive Income & Expenditure Statement as income and then in the Movement In Reserves Statement be transferred to an earmarked reserve. The balance at 31st March 2016 is £37.049m which includes £2.818m Performance Reward Grant (£3.290m 2014/15) to be spent as part of the Connecting Cumbria project, and £26.338m of PFI grant to support the Carlisle Northern Development Route and replacement fire stations project (£24.957m 2014/15).

Insurance

The Council self-insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self-insurance; the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision £7.205m (long term £7.051m and short term £0.154m note 33) represents the sum estimated to meet claims identified at 31st March 2016. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'.

The balance of funding is held in an insurance reserve to support the ongoing self-insurance programme. As at 31st March 2016 the reserve is £8.701m.

35. Usable Reserves
35.1 Transfers to/from Earmarked Reserves continued

Schools

Under the provisions of the Education Reform Act 1988, the governors of schools became responsible for managing their own budgets from 1st April 1990. The total budget available to governors is based on a local formula approved by the Secretary of State for Education. Any over or under spending by the governors is carried forward to the following year. Whilst such sums form part of the Council's revenue balances, they are not available to the Council when managing the finances of the Council. Delegated Funds surpluses and deficits for Schools at 31st March are as shown below.

The following table summarises the surplus/deficit position for all Cumbria schools excluding academies irrespective of whether the asset is on the Council's Balance Sheet or not.

Schools Earmarked Reserves

Schools Earmarked Reserves	31st March 2015 No.	31st March 2015 £000	31st March 2016 No.	31st March 2016 £000
Schools in surplus	239	9,661	226	9,813
Schools in deficit	48	(4,940)	48	(3,411)
	287	**4,721**	**274**	**6,402**
Children's Services - DSG ring fenced to schools		4,646		(1,190)
Total		**9,367**		**5,212**

<u>Schools Surpluses and Deficits</u>

There has been a decrease of 13 in the overall number of schools as a result of the 10 schools converting to Academies during the year and the closure of a further 3 schools. Further details are in Note 10.

<u>Children's Services - DSG ring fenced to schools</u>

The movement on the Dedicated Schools Grant central reserve in 2015/16 is set out below:

	2015/16 £000	2015/16 £000
Balance as at 1st April		4,646
Southfield & Stainburn Schools deficits on closure	(2,174)	
High Needs Service overspend	(3,263)	
Other DSG central budgets underspend	662	
Other net transfers from reserve	(1,061)	(5,836)
Balance as at 31st March		**(1,190)**

35.2 Capital Reserves

31st March 2015 £000	Capital Reserves	2015/16 1st April 2015 £000	In £000	Out £000	31st March 2016 £000
10,823	Usable Capital Receipts Reserve	10,823	5,128	(4,244)	11,707
1,824	Capital Grants & Contributions Unapplied Reserve	1,824	5,385	(5,892)	1,317
2,813	Long Term Investment Reserve	2,813	0	0	2,813
15,460	**Totals**	**15,460**	**10,514**	**(10,136)**	**15,838**

Usable Capital Receipts Reserve
Receipts from the sale of assets are credited here and used to fund capital expenditure or repay debt. The balance on the reserve is the unused capital receipts at the end of the year.

Capital Grants and Contributions Unapplied Reserve
Capital grants and contributions received in year where there are no conditions (no requirement to repay the grant), are recorded as income in the Comprehensive Income & Expenditure Statement, regardless of the year to which they relate. They are then transferred to the Capital Grants and Contributions Unapplied Reserve via the Movement in Reserves Statement.

Long Term Investment Reserve
This reserve has existed since 1993 when the investment in Cumbria Waste Management Ltd was brought on to the Council's Balance Sheet. During 2012/13, ownership of CWM Ltd and the investment transferred to Cumbria County Holdings Ltd. This did not impact on the reserve.

36. Unusable Reserves

Unusable Reserves are summarised on the Balance Sheet on page 35. The details of each unusable reserve is set out in notes 36.1 to 36.6 below.

36.1 Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

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

Movement on Revaluation Reserve

31st March 2015 £000	Revaluation Reserve	31st March 2016 £000
124,960	**Balance as at 1st April**	97,228
(23,072)	Revaluation gains / (losses) on non current assets	6,415
0	Impairment losses on non current assets	(636)
(2,582)	Difference between current value and historic cost depreciation on revalued assets	(1,818)
(2,078)	Write off revaluation gains previously recognised on non current assets now disposed	(4,295)
0	Write off revaluation gains previously recognised on non current assets now re-classified to Investment Properties	(965)
97,228	**Balance at 31st March**	**95,929**

36.2 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 provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

36. Unusable Reserves continued

36.2 Capital Adjustment Account continued

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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. The table below provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31st March 2015 £000	Capital Adjustment Account	31st March 2016 £000
452,969	**Balance at 1st April**	412,903
(31,874)	Charge for depreciation of non current assets	(30,043)
0	Impairment of non current assets	(288)
(2,124)	Amortisation of intangible assets	(331)
(64,439)	Revaluation gains / (losses) on non current assets	(10,903)
(14,655)	Revenue Expenditure Funded From Capital Under Statute	(19,185)
(19,816)	Amounts of non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	(45,468)
2,582	Difference between current value and historic depreciation on revalued assets	1,818
2,078	Write off revaluation gains previously recognised on non current assets now disposed	4,295
0	Write off revaluation gains previously recognised on non current assets now reclassified to investment properties	965
16,032	Statutory provision for the financing of capital investment charged against the General Fund (MRP)	16,289
3,553	Use of capital receipts to finance new capital expenditure	4,244
50,338	Capital grants and contributions on non current assets credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	56,812
1,092	Capital grants unapplied – applied to capital financing	507
14,655	Capital grants and contributions on revenue expenditure funded from capital under statute credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	19,185
2,511	Capital expenditure charged against the General Fund	5,385
412,903	**Balance at 31st March 2016**	**416,185**

36. Unusable Reserves continued

36.3 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes 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 between 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.

31st March 2015 £000	Pensions Reserve	31st March 2016 £000
(501,132)	**Balance at 1st April 2015**	**(642,863)**
0	Adjustment to opening balance	(1,140)
43,233	Employer's Contributions	47,387
(31,194)	Current Service Cost	(42,784)
(867)	Past Service (Cost) or Gain	(5,975)
(1,740)	Curtailments	(2,394)
1,947	Settlements	5,381
(67,282)	Interest on Liabilities	(58,821)
	Re-measurement of Liabilities:	
6,497	- Experience Gains / (Losses)	0
(250,185)	- Gain / (Loss) on Financial Assumptions	99,817
0	- Gain / (Loss) on Demographic Assumptions	0
47,014	Interest on Plan Assets	38,770
(731)	Administration Expenses	(789)
111,577	Re-measurement of Assets	(16,934)
(642,863)	**Balance at 31st March 2016**	**(580,345)**

In 2014/15, as reported to the September 2015 Audit and Assurance Committee the information supplied to the Actuary in order to calculate the pension costs and liabilities figures for the Council was understated for the year. The Council chose not to adjust the 2014/15 Statement of Accounts as it was not material. However it is required to be corrected for the opening position for 2015/16.

The Actuary calculated that the impact is an increase in the Pensions Liabilities of £2.911m (see note 38.3) and Pension Assets increase by £1.771m (see note 38.4), giving a net increase in the net Pension Liabilities of £1.140m (or less than 0.2%). and consequently a corresponding increase in the Pension Reserve. This is the adjustment reflected above.

36. Unusable Reserves continued

36.4 Financial Instruments Adjustment Account

The Financial Instrument Adjustments 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.

31st March 2015 £000	Financial Instruments Adjustment Account	31st March 2016 £000
(521)	LOBOs adjustment to amortised cost	(507)
14	In year adjustment	13
(507)	**Balance at 31st March 2016**	**(494)**

36.5 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income and business rates in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31st March 2015 £000	Collection Fund Adjustment Account	31st March 2016 £000
457	Balance at 1st April 2015	881
1,149	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	911
(725)	Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Business Rates income calculated for the year in accordance with statutory requirements	2,029
881	**Balance at 31st March 2016**	**3,821**

36.6 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 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31st March 2015 £000	Accumulated Absences Account	31st March 2016 £000
(8,205)	Balance at 1st April 2014	(8,278)
8,205	Settlement or cancellation of accrual made at the end of the preceding year	8,278
(8,278)	Amounts accrued at the end of the current year	(6,421)
(8,278)	**Balance at 31st March 2015**	**(6,421)**

37. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2015/16, the Council paid £15.734m to Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 14.1% to August 2015 and 16.48% from September onwards of pensionable pay. The figures for 2014/15 were £15.474m and 14.1%. Although the Scheme is a defined benefit scheme, the arrangements for the scheme mean that the liabilities for these benefits cannot be identified to the Council, therefore for the purposes of this Statement of Accounts, it is accounted for on the same basis as a defined contribution scheme.

NHS Staff Pension Scheme

Council staff who transferred from the NHS have maintained their membership in the NHS Pension Scheme. In 2015/16, the Council paid £0.087m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2014/15 were £0.091m and 14%.

Nature of Funds

Both Schemes target a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2015 and on revalued average salary (a "career average" scheme) for service from 1st April 2015 onwards.

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the Council.

Funding the liabilities

Contributions to the arrangements are set by the government, having taken advice from the government actuary. Again, the Council has no material involvement in this process. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the Council is responsible. The weighted average duration of these particular liabilities is 10 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the Council's contributions to them.

37. Pension Schemes Accounted for as Defined Contribution Schemes continued

Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 38. Additional and discretionary pensions paid to retired teachers by the County Council totalled £3.316m in 2015/16 and £3.382m 2014/15.

Firefighters Pension Scheme

The Fire and Rescue Service has four pension schemes (1992, 2006, the modified and the 2015 schemes). The table below sets out the contributions received from both employees and employers and the Benefits paid.

During 2014/15 an additional Firefighters Pension scheme was introduced for retained firefighters employed between 1st July 2000 and 5th April 2006 who, at that time, didn't have access to a Pension Scheme. This is known as the modified scheme.

	1992		2006		Modified		2015		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Contributions Receivable										
Employers Contributions	1,233	822	273	33	1	114	0	517	1,507	1,486
Employees Contributions	863	567	259	32	0	738	0	433	1,122	1,770
Total Income	**2,096**	**1,389**	**532**	**65**	**1**	**852**	**0**	**950**	**2,629**	**3,256**
Benefits Payable										
Pensions Paid	3,835	4,128	28	31	0	179	0	0	3,863	4,338
Ill Health and Injury	1,434	1,420	2	8	0	0	0	0	1,436	1,428
Lump Sums	1,344	1,475	16	22	0	286	0	0	1,360	1,783
Lump Sum Death Benefits & Widows Pensions	386	416	0	0	0	12	0	0	386	428
Total Expenditure	**6,999**	**7,439**	**46**	**61**	**0**	**477**	**0**	**0**	**7,045**	**7,977**
Contribution Rates										
Employers	21.3%	21.7%	11.0%	19.8%	21.3%	21.7%	-	14.3%		
Employees	11.0%	15.0%	8.5%	11.9%	11.0%	15.0%	-	11.5%		

Nature of Funds

The Schemes target a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2015 and on revalued average salary (a "career average" scheme) for service from 1st April 2015 onwards – the 2015 scheme.

37. Pension Schemes Accounted for as Defined Contribution Schemes continued

Governance

These arrangements are managed by the Council, although this essentially involves administering the plan, including managing its cash flows.

Funding the liabilities

Given that the arrangements are unfunded, meaning that there are no investment assets built up to meet the pension liabilities the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government via a top up grant to meet the gap between pensions paid and contributions from employees and employers collected. The weighted average duration of the liabilities ranges from 16 years for the 1992 scheme to 38 years for the 2015 scheme, it is measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the arrangements for meeting part of the benefit outgo, which could increase the Council's contributions to them.

Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

38. Defined Benefit Pension Schemes

Participation in Pensions 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 payment for those benefits and to disclose them at the time that employees earn their future entitlement.

The majority of the Council's staff belong to the Cumbria Local Government Pension Scheme (CLGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets over a period of 19 years. The deficit on the CLGPS will be made good by increased contributions as assessed by the Scheme Actuary.

38. Defined Benefit Pension Schemes continued

Early payment of 3 years LGPS deficit lump sum in April 2014

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. the County Council) pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has forgone. At the time of calculating the deficit lump sum amounts the Council had a total deficit repayment value of £147m, with an agreed 19 year deficit recovery period. Paying in advance of this schedule enables a gross saving due to the avoidance of these "interest" payments. This is then netted off against the interest that could have been earned by the Council placing this money on deposit.

The value of the benefit from this lump sum early repayment is significant because the pension fund return on its investments is much greater than the returns the County Council can make on its deposits. For Council Treasury monies, as dictated by the Prudential Code, the primary driver is capital preservation while for the Pension Fund, which has a much longer time horizon and therefore relatively higher risk tolerance, the drivers are financial return and diversification. In addition, by making the early repayment, this reduces the balance of Council's short-term cash deposits, for which there remains counter party (lending) risk.

The contribution rates are based upon a triennial actuarial review of the fund. As part of the 2013 valuation the Council chose to split the deficit between past service and current service elements and to recover the deficit over 19 years. In addition each element has a different contribution rate:

- Current service cost – 13.0% of pensionable pay.
- Past service cost – a lump sum prepayment of £31.827m for the three years from 1st April 2014 to 31st March 2017.

Non ill health early retirements

Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). From 1st April 2014 the Council, in agreement with the Actuary, opted to make a supplement to the employer's contribution to past service liabilities to fund an allowance of up to £7.312m for non-ill health early retirements in the period 2014-2017. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term.

The total of employer's contributions to the scheme are:

2014 / 2015 £000	Employers Pension Contributions	2015 / 2016 £000
19,002	13.0% of pensionable pay	20,512
10,734	Annual element of 3 year lump sum prepayment	10,612
1,845	Actuarial strain costs	3,241
2,139	Benefits recharged	2,103
33,720		**36,468**

38. Defined Benefit Pension Schemes continued

Nature of LGPS Scheme

The Scheme targets a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a “final salary” scheme) for service up to 31st March 2014 and on revalued average salary (a “career average” scheme) for service from 1st April 2014 onwards.

Governance

Management of the Scheme is vested in Cumbria County Council as Administering Authority of the Scheme. Cumbria County Council has appointed a Pension Committee (comprised of 8 County Councillors, 1 District Councillor and two non-voting employee representatives) to manage the Scheme. Advice is given by Cumbria County Council’s Assistant Director – Finance (s.151 Officer), the Council’s finance team and by two independent advisers. The current advisers are appointed for their knowledge of investments and of pension funds; one adviser being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Scheme.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund’s solvency, and the detailed provisions are set out in the Fund’s Funding Strategy Statement. The most recent valuation was carried out as at 31st March 2013, which showed a shortfall of assets against liabilities of £0.46billion as at that date, equivalent to a funding level of 78%. The fund’s employers are paying additional contributions over a period of up to 25 years in order to meet the shortfall.

The weighted average duration of the authority’s defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

Risks and Investment strategy

The Fund’s primary long-term risk is that the Fund’s assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep 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 flow.

38. Defined Benefit Pension Schemes continued

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund's assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term. To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. Mitigation against market risk is also achieved by diversifying across multiple investment managers and regularly reviewing the Investment Strategy and performance of the Fund.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

Foreign exchange risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. To reduce the volatility from foreign currency exposure, the Cumbria Fund has 50% of the investments (excluding alternatives) denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program.

Credit / Counterparty risk

Credit risk is the risk that a counterparty to a transaction or a financial instrument will fail to discharge an obligation or commitment that it has entered into and cause the Fund to incur financial loss. 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. Through review of the Fund's external Investment Managers annual internal control reports the Fund monitors its exposure to credit and counterparty risk.

Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered. The Fund holds a large value of very liquid securities which could be promptly realised if required.

Other risks

Actions taken by the Government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the authority's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material.

38. Defined Benefit Pension Schemes continued

Amendments, curtailments and settlements

The provisions of the Fund were amended with effect from 1st April 2014. As explained above for service up to 31st March 2015 benefits were based on salaries when members leave the Fund, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the authority's assets and liabilities as a result of employing members who have accrued benefits with the authority.

Transactions Relating to Post Employment Benefits

The Council recognises 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 the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. An explanation of the elements in the following tables is set out on the glossary in section 9.

38.1 Transactions Relating to Retirement Benefits – 2015/16

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2015/16	LGPS £000	Firefighters £000	Teachers £000	Total £000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
Current Service Cost	(38,978)	(3,806)	0	(42,784)
Past Service Cost	(1,866)	(4,109)	0	(5,975)
Curtailments	(2,394)	0	0	(2,394)
Net (Gains) / Losses from Settlements	5,381	0	0	5,381
Total Service Cost	***(37,857)***	***(7,915)***	***0***	***(45,772)***
Other Operating Expenditure				
Administration Expenses	***(789)***	***0***	***0***	***(789)***
Financing and Investment Income & Expenditure				
Interest on Pension Liabilities	(50,735)	(6,874)	(1,212)	(58,821)
Interest on Plan Assets	38,770	0	0	38,770
Total Net Interest	***(11,965)***	***(6,874)***	***(1,212)***	***(20,051)***
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	***(50,611)***	***(14,789)***	***(1,212)***	***(66,612)***
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement Re-measurement of the net defined benefit liability comprising:				
Re-measurement Assets	(16,934)	0	0	(16,934)
Re-measurement – Liabilities:				
- Experience Gain / (Losses)	0	0	0	0
- Gains and (losses) arising on changes in financial assumptions	86,763	11,212	1,842	99,817
- Gains and (losses) arising on changes in demographic assumptions	0	0	0	0
Total Re-measurement recognised in Other Comprehensive Income and Expenditure	***69,829***	***11,212***	***1,842***	***82,883***
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	**19,218**	***(3,577)***	***630***	***16,271***
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	50,611	14,789	1,212	66,612
Actual Amount Charged against the General Fund Balance for pensions in the year Employers' Contributions Payable to the Scheme	(36,468)	(7,603)		
Retirement Benefits Payable to Pensioners			(3,316)	
Total Employers Contributions and Retirement Benefits Payable				(47,387)

38.1 Transactions Relating to Retirement Benefits continued
The significant changes between 2014/15 and 2015/16 are explained below:

Current Service Cost – LGPS
There has been an increase of £10.902m in the LGPS current service cost from £28.076m in 2014/15 to £38.978m in 2015/16. This is due to a fall in the discount rate (which is the assumed long term investment return) from 4.5% pa. to 3.3% pa, although this was partially offset by lower assumed inflation and pay increase which fell by 0.4% pa., this is an overall net change of 0.8% pa. The impact of lower assumed investment returns is to increase the cost of providing benefits, and so increase the service cost (again, partially offset by the lower assumed future inflation/pay increases).

Past Service Cost – Firefighters Pension Scheme
A past service cost (£4.109m) has arisen in 2015/16 for the first time as a result of the following:

1992 Scheme - a ruling by the Pensions Ombudsman in relation to commutation factors (see section 8 Firefighters Pension Scheme) required the scheme to undertake an exercise to pay backdated benefits to scheme members. The result was a Past Service Cost of £0.841m.

2006 Scheme – During 2015/16 current and former retained firefighters were given the opportunity to join the Modified New Firefighters Pension Scheme (MNFPS) which is incorporate in the 2006 scheme. On joing the MNFPS members were given the option of purchasing back service credits. The impact of the purchase of the additional benefits give rise to a past service cost of £3.268m in 2015/16.

Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement
In 2014/15 the total re-measurement recognised in Other Comprehensive Income and Expenditure in the CIES was a net charge of £132.111m and in 2015/16 it is a net gain of £82.883m. This is an increase of £214.994m. These changes to the Council's net pensions liabilities arise because events have not coincided with assumptions made at the last actuarial valuation or because of updated assumptions. The current economic climate, financial assumptions, and in particular the effect of bond yields on the discount rate used by the Actuaries can have a significant impact on the estimated net pension liabilities.

Bond yields are a fundamental building block in setting the discount rate applied to the estimated pension liabilities to reflect the 'time value of money' i.e. £1 now is worth more than £1 in the future (assuming no deflation in the future). The lower the discount rate the higher the pension liability. Due to the long timeframes involved in pensions liabilities (70 years plus), a small change in the discount rate can lead to large changes in the estimated promised retirement benefits. The sensitivity analysis provided by the Actuary indicates that a 0.1% increase in the discount rate would lead to a £27.730m decrease in the net pension liability.

38. Defined Benefit Pension Schemes continued
38.1 Transactions Relating to Retirement Benefits – 2014/15

2014/15	LGPS £000	Firefighters £000	Teachers £000	Total £000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
Current Service Cost	(28,076)	(3,118)	0	(31,194)
Past Service Cost	(867)	0	0	(867)
Curtailments	(1,740)	0	0	(1,740)
Net (Gains) / Losses from Settlements	1,947	0	0	1,947
Total Service Cost	***(28,736)***	***(3,118)***	***0***	***(31,854)***
Other Operating Expenditure				
Administration Expenses	***(731)***	***0***	***0***	***(731)***
Financing and Investment Income & Expenditure				
Interest on Pension Liabilities	(57,366)	(8,295)	(1,621)	(67,282)
Interest on plan Assets	47,014	0	0	47,014
Total Net Interest	***(10,352)***	***(8,295)***	***(1,621)***	***(20,268)***
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	***(39,819)***	***(11,413)***	***(1,621)***	***(52,853)***
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement Re-measurement of the net defined benefit liability comprising:				
Re-measurement Assets	111,577	0	0	111,577
Re-measurement – Liabilities:				
- Experience Gain / (Losses)	0	6,556	(59)	6,497
- Gains and (losses) arising on changes in financial assumptions	(214,589)	(32,532)	(3,064)	(250,185)
- Gains and (losses) arising on changes in demographic assumptions	0	0	0	0
Total Re-measurement recognised in Other Comprehensive Income and Expenditure	***(103,012)***	***(25,976)***	***(3,123)***	***(132,111)***
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	***(142,831)***	***(37,389)***	***(4,744)***	***(184,964)***
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	39,819	11,413	1,621	52,853
Actual Amount Charged against the General Fund Balance for pensions in the year Employers' Contributions Payable to the Scheme	(33,720)	(6,131)		
Retirement Benefits Payable to Pensioners			(3,382)	
Total Employers Contributions and Retirement Benefits Payable				(43,233)

38. Defined Benefit Pension Schemes continued
38.2 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit schemes is as follows:

Pensions Assets and Liabilities	Total 2014/15 £000	Total 2015/16 £000
Present Value of Funded Liabilities - CLGPS	(1,537,778)	(1,513,297)
Present Value of Unfunded Liabilities - Firefighters	(218,615)	(214,589)
Present Value of Unfunded Liabilities – Teachers	(40,760)	(36,814)
Total Present Value of Liabilities	**(1,797,153)**	**(1,764,700)**
Fair value of Employer Assets	1,175,383	1,194,836
Net Liability Arising from Defined Benefit Obligation	**(621,770)**	**(569,864)**

38.3 Reconciliation of Present Value of Scheme Liabilities

	LGPS		Firefighters		Teachers		Total	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening Present Value of Scheme Liabilities	(1,293,477)	(1,537,778)	(187,357)	(218,615)	(39,398)	(40,760)	(1,520,232)	(1,797,153)
Adjustment of opening balance	0	(2,911)	0	0	0	0	0	(2,911)
Current Service Cost	(28,076)	(38,978)	(3,118)	(3,806)	0	0	(31,194)	(42,784)
Interest Cost	(57,366)	(50,735)	(8,295)	(6,874)	(1,621)	(1,212)	(67,282)	(58,821)
Contributions by Scheme Participants	(9,690)	(9,737)	(1,128)	(1,740)	0	0	(10,818)	(11,477)
Remeasurement (Gains)/ Losses:								
Actuarial Gains / Losses - Experience	0	0	6,556	0	(59)	0	6,497	0
Actuarial Gains / Losses arising from changes in financial assumptions	(214,589)	86,763	(32,532)	11,212	(3,064)	1,842	(250,185)	99,817
Benefits Paid	43,944	46,509	7,259	9,343	3,382	3,316	54,585	59,168
Past Service Cost	(867)	(1,866)	0	(4,109)	0	0	(867)	(5,975)
Curtailments - Liabilities	(1,740)	(2,394)	0	0	0	0	(1,740)	(2,394)
Settlements - Liabilities	2,990	8,442	0	0	0	0	2,990	8,442
Lump sum deficit repayment	21,093	(10,612)	0	0	0	0	21,093	(10,612)
Closing Present Value of Scheme Liabilities	**(1,537,778)**	**(1,513,297)**	**(218,615)**	**(214,589)**	**(40,760)**	**(36,814)**	**(1,797,153)**	**(1,764,700)**

38. Defined Benefit Pension Schemes continued

38.4 Reconciliation of the Movement in the Fair Value of the LGPS Scheme Assets

Fair Value of CLGPS Scheme Assets	2014/15 £000	2015/16 £000
Opening Fair Value of Scheme Assets	1,019,100	1,175,383
Adjustment of opening balance	0	1,771
Interest Income	47,014	38,770
Remeasurement Gain/ Loss:		
Return on Scheme Assets, excluding the amount included in the net interest expense	111,577	(16,934)
Employer Contributions	33,720	36,468
Contributions by Scheme Participants	9,690	9,737
Benefits Paid	(43,944)	(46,509)
Administration Expenses	(731)	(789)
Settlements	(1,043)	(3,061)
Closing Fair Value of Scheme Assets	**1,175,383**	**1,194,836**

Local Government Pension Scheme Assets comprised:

	2014/15 £000	2015/16 £000
Cash and Cash Equivalents	**41,139**	**38,235**
Equity Instruments:		
UK Quoted	161,025	157,718
Global Quoted	213,920	224,629
UK Equity Pooled	58,769	41,819
Overseas Equity Pooled	186,886	197,148
Sub Total Equity	**620,600**	**621,314**
Bonds:		
UK Corporate Bonds	82,277	82,444
Overseas Corporate Bonds	4,702	4,779
UK Government Indexed Pooled	216,270	213,876
Sub Total Bonds	**303,249**	**301,099**
Property:		
UK	84,628	92,002
Property Funds	39,963	43,014
Sub Total Property	**124,591**	**135,016**
Other Investment Funds:		
Hedge Funds	1,175	0
Private Equity Funds	19,982	25,092
Infrastructure Funds	59,945	65,716
Real Estate Debt Funds	4,702	8,364
Sub Total Other Investment Funds	**85,804**	**99,172**
Total Assets	**1,175,383**	**1,194,836**

38. Defined Benefit Pension Schemes continued

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities for Local Government Pension Scheme, Firefighters' Pension Schemes and the Teachers Discretionary Benefits have been assessed by Mercer Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the full valuation of the scheme as at 31st March 2013.

The principal assumptions used by the actuary have been:

	LGPS		Firefighters Scheme		Teachers	
	31st March 2015	31st March 2016	31st March 2015	31st March 2016	31st March 2015	31st March 2016
Mortality Assumptions:						
Longevity at 60 for current pensioners:						
Men	-	-	28.1	28.2	-	-
Women	-	-	30.6	30.8	-	-
Longevity at 60 for future pensioners:						
Men	-	-	30.6	30.7	-	-
Women	-	-	33.1	33.2	-	-
Longevity at 65 for current pensioners:						
Men	23.0	23.1	-	-	23.0	23.1
Women	25.6	25.7	-	-	25.6	25.7
Longevity at 65 for future pensioners:						
Men	25.8	25.9	-	-	-	-
Women	28.8	28.9	-	-	-	-
Rate of CPI inflation	2.0%	2.0%	2.0%	2.0%	2.0%	-
Rate of increase in salaries**	3.5%	3.5%	3.5%	3.5%	-	-
Rate of increase in pensions	2.0%	2.0%	2.0%	2.0%	2.0%	-
Rate for discounting scheme liabilities	3.3%	3.6%	3.2%	3.5%	3.1%	-

** An adjustment has been made for short term public sector pay restraint in line with the most recent actuarial valuation.

The estimate of the defined benefit obligation 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 assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analyses 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.

38. Defined Benefit Pension Schemes continued

Sensitivity Analysis

All Pension Schemes	Liabilities £000	Assets £000	Net Deficit at 31st March 2016 £000	Projected Service Cost for Next Year £000	Projected Net Interest Cost for Next Year £000
As at 31st March 2016	1,764,700	1,194,836	569,864	38,914	19,906
Effect of increase in discount rate of 0.1% pa	(31,697)	0	(31,697)	(1,229)	(609)
Effect of increase in inflation of 0.1% pa	32,281	0	32,281	1,278	1,194
Effect of increase in pay growth of 0.1% pa	7,068	0	7,068	34	289
Effect of increase in life expectancy of 1 year	35,240	0	35,240	851	1,301

Impact on the Council's Cash Flows

One of the objectives of CLGPS is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the Fund's Actuary to achieve a funding level of 100% over 19 years from 1st April 2014. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2016.

The pension contributions expected to be made by the Council in the year to 31st March 2017 are:

- Local Government Pension Scheme £33.097m.
- Teachers Discretionary Benefits Scheme £3.316m.
- Firefighters Pension Scheme £6.601m.

39. 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.

Government

The Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from government departments are set out in the subjective analysis in Note 4 on reporting for resources allocation decisions. Grant receipts in advance at 31st March 2016 are shown in Notes 32 and 34.

39. Related Parties continued

Members

Members of the Council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2015/16 is shown in Note 12. Members declare any transactions that they, their families or organisations in which they have a controlling interest have undertaken with the Council outside of their roles as elected councillors. Contracts were entered into in full compliance with the Council's standing orders. During 2015/16 the following significant amounts were paid:

- Works and services to the value of £66,986 were commissioned from Carrs Coaches in which Councillor AJ Markley had an interest, there was a nil balance owed to the company at 31st March 2016 as the business was sold in January 2016.

A number of Members represent trusts and non profit making organisations which receive funding from the Council. The Members' Register of Interests is published on the Council's website on each individual member's page.
The link to the search page is below:

http://councilportal.cumbria.gov.uk/mgMemberIndex.aspx?bcr=1

Officers

The Council is required to identify any related party transactions for key management personnel within the Council. The Code defines this as all chief officers (or equivalent), chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities. The Council defines Senior Officers for the purposes of related party disclosure as Corporate Directors, Assistant Directors, Senior Managers and those staff involved in procurement that may be in a position to have significant influence on decisions of awarding contracts for the procurement of goods and services. Senior Officers declare any transactions that they, their families or organisations in which they have a controlling interest have undertaken with the County Council outside of their roles as employees of the Council. Contracts were entered into in full compliance with the Council's standing orders. Significant works or services commissioned during the year from companies in which officers have interests:

- A Jones – A family member is a Director of AB Fire Safety Ltd, payments of £14,500 were made for services during the year and there was a £1,450 balance owed to the company at 31st March 2016.

Other Public Bodies

Pooled Funds

The Council has pooled budget arrangements with a number of organisations, the details of which are included in Note 11.

39. Related Parties continued

Other Public Bodies continued

NW FiReControl Limited

NW Fire Control Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. The Company has four members - Cheshire, Cumbria, Greater Manchester and Lancashire Fire & Rescue Authorities (FRAs). The liability of each member in the event of the company being wound up is limited and shall not exceed £1. Each member of the company has the right to appoint 2 directors, who are Councillors appointed to their respective FRAs. All directors have equal voting rights.

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW Fire Control Ltd. The cost of the service is charged out to the four FRAs on an agreed pro rata basis agreed by a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. There have also been contributions to the project from the four fire authorities.

A detailed assessment for Group Accounting requirements has taken place during 2015/16 in respect of NW Fire Control Ltd. in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control as unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement. However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2015/16.

The table below shows key Information for NW Fire Control Ltd:

Accounts Information	Year-Ended 2014/15 £000s	Year-Ended 2015/16 £000s
Total Assets Less Current Liabilities	217	239
Net Assets	(2,202)	(822)
Profits Before Taxation	2	(240)
Profits After Taxation	(5)	(246)
Debtor Balance	0	0
Creditor Balance	7	0
Invoices Raised By NW Fire Control to CCC	242	330
Invoices Raised by CCC to NW Fire Control	7	0

The Companies Financial Statements can be obtained from Companies House with the deadline for submission as 31st December 2016 for the final audited 2015/16 accounts.

39. Related Parties continued

Entities Controlled or Significantly Influenced by the Council

One of the Council's key strategic objectives is to promote thriving communities by championing local economies and creating the right opportunities and environment for investment. Council funds are rarely available for such ventures and the Council believes that supporting worthwhile initiatives rather than making direct investments normally best serves its contribution to economic regeneration within Cumbria. This support is made in a number of ways but can include:

- Acting as the Accountable Body. The Council effectively becomes the conduit enabling available funding streams to be accessed in a more effective manner. As the Council is underwriting performance on these projects for which grants have been obtained, it is incurring a financial risk. However, without this position being taken, many sources of funding would not be available.
- Providing administrative and advisory support.
- Providing political support through the involvement of Members.
- Providing technical expertise, particularly for land reclamation schemes.

In some instances, the Council has taken a direct investment in companies such as Cumbria County Holdings Ltd. The results of Cumbria County Holdings Ltd and its subsidiaries and associate have been consolidated within the group accounts. Copies of the accounts can be obtained from The Company Secretary, Unit 5A, Wavell Drive, Rosehill Estate, Carlisle, CA1 2ST.

			2014/15		2015/16	
Company Name	**Nature of Business**	**Shareholding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Cumbria County Holdings Ltd	Holding Co	100%	1,998	3,188	1,977	3,685
Cumbria Waste Management Ltd	Waste disposal service	100%	841	6,282	2,467	7,105
Lakeland Waste Management Ltd	Waste disposal service	100%	(413)	1,675	130	1,605
Trotters Dry Waste Ltd	Waste disposal service	100%	117	(414)	161	(253)
Cumbria Waste Recycling Service	Waste disposal service	100%	323	3,969	712	2,681
Lakeland Minerals Ltd	Waste disposal service	50%	377	1,675	134	511
ECR Recycling Ltd	Waste disposal service	100%	48	48	84	132
Orian Solutions Ltd	Catering / Cleaning Services	100%	1,076	594	121	1,143
		Total	**3,942**	**15,294**	**5,786**	**16,609**

39. Related Parties continued

In 2015/16 Cumbria County Holdings Ltd paid a dividend of £1.500m to the Council (2014/15 £2.000m).

The Council has the following direct investments in limited companies. Each year consideration is given to whether an entity should be included in the group accounts. On the basis of materiality it has been determined that the companies below should not be consolidated into the group accounts. Copies of the accounts can be obtained from the Assistant Director - Finance, Lonsdale Building, The Courts, Carlisle, Cumbria CA3 8NA.

				2014/15		2015/16	
Company Name	**Nature of Business**		**Share holding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Traveline Cumbria Ltd (Note 1)	Travel enquiry call centre	Company limited by guarantee	49%	37	68	(13)	55
Invest in Cumbria Ltd	Promote Cumbria and to attract new investment	Company limited by guarantee	100%	(34)	48	0	0

Note 1 – The financial year end for Traveline is 19th July. The majority shareholder is Stagecoach Ltd.
Note 2 – Invest in Cumbria have extended the accounting period to September 2015 as the company has been dissolved. The 2014/15 figures are based on management accounts information to 31st March 2015.

In addition to direct shareholdings on the previous page the Council is also a member of, and has voting rights in, Energy Coast West Cumbria Ltd (ECWC). As it is a partnership with a number of other parties with decisions covered by majority voting, where the Council is a minority partner, it is not appropriate for the Council to consolidate any of these entities in the group accounts.

ECWC aims to support new business initiatives and to promote economic development. West Cumbria is facing significant losses of employment opportunities following the decommissioning of the Sellafield nuclear facility.
The Board membership comprises:

Nuclear Decommissioning Agency	3 nominated members (1 from Nuclear Decommissioning Authority, 1 from Nuclear Management Partners and 1 from Sellafield Limited).
Cumbria County Council	1 nominated member
Copeland Borough Council	1 nominated member
Allerdale Borough Council	1 nominated member
Independent board members	6 selected by Nolan Principles. One of the independent members is elected as Chair.

39. Related Parties continued

During 2015/16 the Council paid the following sums to companies in which it has an interest.

Organisation	Grants £000	Commercial Transactions £000	Total £000	Creditor Outstanding £000	Debtor Outstanding £000
Cumbria Waste Management Ltd		2,065	2,065	206	133
Lakeland Waste Management Ltd		53	53	60	0
Cumbria Waste Recycling		255	255	54	645
Trotters Dry Waste Ltd		8	8	4	1
Orian Solutions Ltd		8,039	8,039	1,056	10
Cumbria County Holdings Ltd		0	0	500	0
Invest in Cumbria Ltd		0	0	0	0
Traveline Cumbria Ltd		9	9	0	0
Energy Coast West Cumbria Ltd		1	1	0	0
	0	**10,430**	**10,430**	**1,880**	**789**

40. Events After the Balance Sheet Date

The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 21st September 2016 in respect of the audited Statement of Accounts for 2015/16.

Following the EU referendum on 23rd June 2016, the UK has voted to leave the EU. The implications from the referendum will become clearer over time. The Council will continue to monitor the situation.

There have been no other material events after the reporting date that are required to be taken into account in the financial statements.

41. Contingent Liabilities

Accountable Body Status

The Council is the Accountable Body for a number of organisations. As Accountable Body, the Council underwrites that grants have been properly applied for and expended. To the extent that this is not the position, the Council is exposed, as guarantor, to grant repayments if the conditions on which grant funding was given are not met.

Local Government Pension Scheme

The Council is the Administering Body for the Cumbria Local Government Pension Scheme. Staff in a number of organisations in Cumbria are eligible to join this pension scheme. However, the Council would be exposed to cover pension contributions if the employing organisations for these staff were unable to pay the necessary contributions. In these cases, the Council receives indemnity bonds, where appropriate, that are calculated by the Scheme Actuary. Nevertheless, these bonds do not necessarily fully discharge any future liabilities that could occur.

41. Contingent Liabilities continued

Landfill Sites - Gas/Leachates

Note 2 - Critical Judgements in Applying Accounting Policies sets out the Council's approach to closed landfill sites. No provision has been made in the accounts for any legal liability that may arise as a result of gas and leachate from closed landfill sites, most of which, after restoration, have been either returned to the original owner or sold.

Background to the Sites

The Council has responsibility for 36 closed landfill sites (27 for non inert waste and 9 for inert waste). The sites are spread throughout the County and are relatively small scale in nature. The 9 sites that have inert waste landfilled were closed between 1970 and 1995. These sites are not subject to Environmental Agency formal monitoring under the environmental permitting scheme, although they are monitored by the Council for environmental purposes.

All the sites vary considerably in size and the nature of the waste landfilled. However all of the 27 sites that contain non inert waste were closed a number of years ago (between 18 and 40+ years ago). This means they predate current site engineering methods.

The Council spends in the region of £0.400m per annum monitoring and routinely maintaining sites.

Site Management

The Council has a planned monitoring regime with the work currently contracted to Cumbria Waste Management Ltd until 31st March 2016. Despite this, much of the work that is carried out by the Waste Management team is still reactive, adapting to conditions on the ground. Monitoring could for example, pick up a site with a leachate outbreak. This would be extremely difficult to predict and could occur at a site which had previously had no problems. The cost of any remedy would depend on the site, the problem that had occurred and the possible solutions available to remedy the issue and could vary considerably. Therefore any future investment that may be required for the sites is unquantifiable, planned monitoring is about environmental protection on a risk assessed basis and is a revenue running cost and any unplanned maintenance is extremely difficult to predict.
The Council continues to monitor for landfill gas on those sites that are felt to be most at risk. This is an extremely complex exposure to compute with very uncertain timescales. It is also an issue that impacts on many other Local Authorities. Nevertheless, exposures may be considerable and may not be met from the Council's own reserves. Cumbria Waste Management Ltd has a provision for aftercare costs post closure of the landfill sites, this currently stands at £8.065m (2014/15 £8.015m).

Contractual Disputes

The Council is involved in a number of disputes with contractors who have provided services to the Council. The outcome of these contractual matters cannot be determined with any certainty at this time.

41. Contingent Liabilities continued

Municipal Mutual Insurance Ltd

On 30th September 1992, the Council's insurers, Municipal Mutual Insurance Ltd (MMI), announced that it had ceased taking new business or issuing renewals and had placed a moratorium on claims payments.

On 6th October 1992, MMI resumed the full payment of claims and has continued to do so since that date. MMI was only able to do this following an agreement with Local Authorities that they would underwrite their respective exposures to the extent that MMI was unable to meet the claims in full. The Council elected to participate in this Scheme of Arrangements. MMI's business was then purchased by a new insurer, Zurich Municipal, who are triple 'A' rated so far as claims payment is concerned. However, this does not guarantee claims which arose up to 31st March 1993 which will be dealt with by the MMI 'rump' company.

In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years). An initial 15% 'clawback' levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicate that the situation continues worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. In 2015/16 this equated to a provision of £0.625m (2014/15 £0.072m)

Business Rates

The Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements came into effect on 1st April 2013. The Council, acting as agent on behalf of the major preceptors, central government and themselves, is required to make provision for refunding ratepayers who successfully appeal to the Valuation Office Agency against the rateable value of their properties on the rating list. The overall provision for appeals outstanding at 31st March 2016 has been assessed as £9.570m (2014/15 £41.221m), of which the Council share is £0.957m (2014/15 £4.122m). Local businesses can still appeal against the rateable value on the 2010 Rating List until 31st March 2017 although changes to the regulations have now limited any backdating of repayments relating to those appeals to the 1st April 2015. It is difficult to estimate the likelihood of businesses both submitting and being successful for an appeal that is yet to be made and therefore the Council has made no provision in its accounts for future appeals.

42. Trust Funds and Accountable Body Funds

The Council acts as trustee for a number of legacies by former inhabitants of Cumbria and is responsible for the administration. The funds are not owned by the Council and are used in accordance with the aims of the trusts. The Council also acts as the Accountable Body for a number of projects. The Trust Funds and Accountable Bodies are not included in either the Council's single entity or the group accounts as the Council acts as an agent for these transactions.

42.1 Trust Funds

The Holehird Trust, created under the bequest of Henry Leigh Groves, includes the Holehird estate near Windermere. The balances held by the trust funds are invested in gilt edged and equity securities in accordance with the regulations contained in the Trustee Investment Acts. The income of the trust funds is distributed in accordance with the terms of the trust deeds. Included are three trusts which have been audited by the Council's Shared Internal Audit Service in compliance with the Charities Act 2006. The various trust funds can be broadly categorised as follows:

Trust Funds	Balance at 31st March 2015 £000	Receipts £000	Payments £000	Balance at 31st March 2016 £000
Holehird Trust	797	220	(398)	619
Archives Trusts	520	20	(9)	531
Education Trusts	488	14	(9)	493
Social Services Trusts	9	0	(1)	8
	1,814	**254**	**(417)**	**1,651**

42.2 Accountable Body Funds

The Council is the Accountable Body for a number of projects; the largest are Copeland Community Fund, Growing Places Fund and Regional Growth Fund.

<u>Copeland Community Fund</u>

The Nuclear Decommissioning Agency (NDA) established the Copeland Community Fund in January 2008 to recognise the unique role Copeland plays in hosting a low level nuclear waste storage facility on behalf of the nation.

The Council acts as Treasurer for the Fund, but it is administered by a Project Board of seven members, of which two are Cumbria County Council Councillors, Cllr D Southward and Cllr T Knowles, two Copeland Borough Council Councillors, two independent members and one member from the NDA. Disbursements from the Fund are considered and approved by the Project Board, in accordance with the unilateral undertaking entered into between the NDA, the County Council and Copeland Borough Council at the inception of the Fund. The Fund is to be spent on schemes and initiatives that are consistent with the NDA's socio-economic policy including employment, education and skills and economic and social infrastructure.

42. Trust Funds and Accountable Body Funds continued

42.2 Accountable Body Funds continued

The cash balance of the fund at 31st March 2016 is £11.565m. Additionally, there is one debtor of £0.041m giving a total balance of £11.606m. Income is received from the NDA each year to top up the fund, and from the Council in respect of interest due for funds invested. The table below shows a summary of the transactions for the past two years.

Balance at 31/3/14 £000	2014/15 Receipts £000	2014/15 Payments £000	Balance at 31/3/15 £000	2015/16 Receipts £000	2015/16 Payments £000	Balance at 31/3/16 £000
12,847	1,662	(1,950)	12,558	1,656	(2,608)	11,606

Growing Places Fund

The Growing Places Fund was announced by government in November 2011. Renamed locally as the Cumbria Infrastructure Fund (CIF), the total allocation for Cumbria was £6,667,772 split between Capital £6,162,467 and Revenue £505,305.

The CIF is identified to help promote the delivery of infrastructure projects needed to unlock developments that help to create jobs and homes in Cumbria. The CIF is a revolving fund, when the development is completed, and a return has been generated, the amount of money provided, should be as a minimum, paid back to allow the fund to be recycled to help further developments.

Cumbria County Council holds the funding as the accountable body for the CIF and the Cumbria LEP Board agree the fund priorities. As accountable body, Cumbria County Council enters into formal agreements with the applicants (and if required the relevant district councils) before the CIF is invested to ensure that funding can be repaid within the agreed timescales or against agreed milestones. A number of loans have been agreed and issued, and receipts received in 2015/16 relate to the interest (revenue) and principal (capital) repayments received during the year from these loans. As at 31st March 2016 there were loans outstanding amounting to £0.871m.

	Balance at 31/3/14 £000	2014/15 Receipts £000	2014/15 Payments £000	Balance at 31/3/15 £000	2015/16 Receipts £000	2015/16 Payments £000	Balance at 31/3/16 £000
Revenue	388	32	(55)	365	100	(20)	445
Capital	4,569	533	(1,092)	4,010	1,125	(137)	4,998
Total	**4,957**	**565**	**(1,147)**	**4,375**	**1,225**	**(157)**	**5,443**

42. Trust Funds and Accountable Body Funds continued

42.2 Accountable Body Funds continued

The Council is also Accountable Body for the following:

- Rural Growth Network Pilot – balance at 31st March 2016 £0.475m (31st March 2015 £1.762m).
- Regional Growth Fund Round 3 – nil balance at 31st March 2016 (31st 31st March 2015 £1.912m).
- Regional Growth Fund Round 4 – nil balance at 31st March 2016 (31st March 2015 £0.486m).
- Local Enterprise Partnership Core Funding – balance at 31st March 2016 £0.315m.
- Growth Hub – balance at 31st March 2016 £0.260m.

7.1 Introduction

The Group Accounting Statements have been prepared on the basis of a full consolidation of the financial transactions of the Council and its subsidiary and associated companies. Associated companies are consolidated using the equity method – the Council's investment in these companies is incorporated at cost and adjusted each year by the Council's share of the companies' results as recognised in the Group Comprehensive Income and Expenditure Statement and its share of other gains and losses. The associated companies have all prepared their accounts to 31st March 2016. Where balances are materially different from the Authorities Accounting Statements the Group notes have been included.

7.2 Group Boundary

During 2015/16 the group boundary (i.e. what should be included within the Council's group accounts) was re-examined to determine whether the existing members of the group were still appropriate and in addition whether there were any other bodies that should be included. This review took account of the materiality of the bodies in terms of value and the nature of their relationships.

In 2015/16 the Group accounts included Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd.

At the start of the year CWM had the subsidiaries - Cumbria Waste Recycling Ltd (CWR) and Trotters Dry Waste Ltd which it wholly owned and a subsidiary Lakeland Waste Management Ltd (LWM), which was 50% owned.

There were a number of changes during the year, which are detailed below:

- On 29th May 2015 CWR acquired 100% of the share capital of ECR Recycling Ltd (ECR). Following the acquisition, the trade and assets of ECR were transferred to CWR, although some of the historic balances still remain in ECR.These companies are involved in the management, recycling or disposal of waste within Cumbria.

- On 31st July 2015 CWM acquired the remaining 50% share of LWM and on the same date CWM acquired a 50% shareholding in Lakeland Minerals Ltd (LM) which is run as a joint venture with Norman Harrison.

- Orian Solutions established a wholly owned subsidiary SLS (Cumbria) Ltd (SLS). On 1st March 2016 SLS acquired the trade and assets of South Lakes Services and commenced trading. The first accounts will be produced for the period ending 31st March 2017 and so the results for the one month's trading are not included in the 2015/16 Group Accounts as they are not material.

The results of the companies are summarised in Note 39 on page 154.

7.2 Group Boundary continued

The Council also has an interest in the following companies - Invest In Cumbria Ltd, Traveline Ltd and NW FiReControl Ltd. These are all relatively small and do not materially alter the group accounting statements if they are either included or excluded. So, on the grounds of materiality they are not included in the group accounts but are still included in the related parties note to the accounts including their results for the year (Note 39).

The other entities within the group are limited companies, which are separate distinct legal entities. This restricts the Councils risk to potential financial loss to the value of the initial shareholding and the costs associated with any continuity of the services they provide to the Council.

7.3 Minority Interest and Joint Ventures

During 2014/15 the CWM 50% holding in LWM was treated as a subsidiary with a minority interest and the results and balances were fully consolidated into the group accounts. In 2015/16 CWM acquired the remaining 50% interest during 2015/16 and therefore there is no longer a minority interest.

During 2015/16, the now wholly owned, LWM acquired a 50% share of Lakeland Minerals Ltd. This is classified as a joint venture as there is a contractual agreement to share control and the joint venturers have the right to the net assets of the arrangement. The Code of Practice requires that this is incorporated into the group accounts using the equity method, adjusting the original cost of investment for any post acquisition change in its share of net assets, and including any share of profit or loss into the Group Comprehensive Income and Expenditure Statement.

7.4 Statement of Accounting Policies

The majority of the accounting policies adopted to produce the group accounts complement those used to prepare the Council’s own accounts. However, additional policies and departures have occurred in order to meet IFRS requirements for the preparation of Group Accounts. These policies are:

i. Non Current Assets

Profits and losses on disposal are treated as a charge to the cost of services. Significant profits and losses on disposal are shown as exceptional items. Other subsidiaries do not hold interests in land & buildings. Their non current assets are held at cost with depreciation charged over their estimated useful lives.

The Cumbria Waste Management group completes a revaluation to reflect the cost and associated liabilities of managing landfill sites. In order to accommodate the estimated future costs of restoration and aftercare on these sites, restoration and aftercare costs are capitalised and a provision created. The total cost of non current assets are amortised and charges to the Group Comprehensive Income & Expenditure are based on the overall proportion of void space consumed during the accounting period. The total provision created by Cumbria Waste Management Ltd in 2015/16 is £8.065m (2014/15 £8.015m). The Council has treated this exposure as a contingent liability (Section 6, note 41).
Trades between the Council and its subsidiaries are eliminated on consolidation.

7.5 GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT FOR THE YEAR TO 31st MARCH 2016

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000	Service	Note to the Accounts	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
			Services:				
2,767	(1,540)	1,227	Central Services to the Public		2,828	(1,525)	1,303
11,998	(520)	11,478	Cultural and Related Services		9,530	(509)	9,021
62,878	(23,267)	39,611	Environmental and Regulatory Services		68,765	(25,452)	43,313
18,824	(11,398)	7,426	Planning Services		25,230	(19,331)	5,899
61,338	(8,153)	53,185	Highways and Transport Services		64,383	(6,682)	57,701
469,060	(304,013)	165,047	Education and Children's Services		413,358	(295,417)	117,941
198,698	(58,593)	140,105	Adult Social Care		182,757	(46,229)	136,528
19,972	(222)	19,750	Fire & Rescue Services		17,678	(170)	17,508
15,403	(15,403)	0	Public Health		13,030	(15,649)	(2,619)
6,630	(4,183)	2,447	Corporate and Democratic Core		6,821	(4,356)	2,465
3,650	(2,990)	660	Non Distributed Costs		11,430	(8,442)	2,988
871,218	(430,282)	440,936	**Cost of Services**	7.10.	815,810	(423,762)	392,048
2,861	0	2,861	Other Operating Expenditure		8,680	0	8,680
65,422	(3,098)	62,324	Financing and Investment Income and Expenditure		86,071	(4,651)	81,420
0	(449,889)	(449,889)	Taxation and Non Specific Grant Income		0	(449,381)	(449,381)
939,501	(883,269)	**56,232**	**(Surplus) / Deficit on Provision of Services**		910,561	(877,794)	**32,767**
			Share of Surplus or Deficit on the Provision of Services of Joint Ventures				**(67)**
		(82)	Taxation of Subsidiaries				739
		56,150	**Group (Surplus) / Deficit**				**33,439**
		23,072	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets				(6,415)
		0	Impairment Losses on Non-current Assets Charged to the Revaluation Reserve				636
		(14)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				(13)
		133,562	Remeasurement of net defined benefit liability / (asset)				(83,667)
		156,620	**Other Comprehensive Income and Expenditure**				**(89,459)**
		212,770	**Total Comprehensive Income and Expenditure**				**(56,020)**

Authority £000	Minority Interest £000	Total £000	Analysis of minority interests shares in the group		2015/16 Authority £000	2015/16 Minority Interest £000	2015/16 Total £000
55,526	624	56,150	(Surplus) or deficit on the provision of services		33,439	0	33,439
156,620	0	156,620	Other Comprehensive Income and Expenditure		(89,459)	0	(89,459)
212,146	624	212,770			(56,020)	0	(56,020)

7.6 GROUP MOVEMENT IN RESERVES STATEMENT

2014/15	General Fund £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Authority's reserves £000	Authority's share of reserves of subsidiaries £000	Minority Interest £000	Total Reserves £000
Balance at 31st March 2014	15,133	95,900	5,324	9,027	2,916	2,813	131,113	124,960	452,970	(501,132)	(521)	457	(8,205)	68,528	199,641	9,963	239	209,843
							0	0	0					0	0			0
Balance as at 1st April 2014	15,133	95,900	5,324	9,027	2,916	2,813	131,113	124,960	452,970	(501,132)	(521)	457	(8,205)	68,529	199,642	9,963	239	209,844
Movement in Reserves during 2014/15																		
Surplus or (deficit) on the provision of services	(48,676)	0	0	0	0	0	(48,676)	0	0	0	0	0	0	0	(48,676)	(6,850)	(624)	(56,150)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(23,072)	0	(132,111)	14	0	0	(155,169)	(155,169)	(1,451)	0	(156,620)
Total Comprehensive Income and Expenditure	**(48,676)**	**0**	**0**	**0**	**0**	**0**	**(48,676)**	**(23,072)**	**0**	**(132,111)**	**14**	**0**	**0**	**(155,169)**	(203,845)	**(8,301)**	**(624)**	**(212,770)**
Adjustments between Group Accounts and authority accounts	(7,599)	0	0	0	0	0	(7,599)	0	0	0	0	0	0	0	(7,599)	7,599	0	0
Net Increase / Decrease before transfers	(56,275)	0	0	0	0	0	(56,275)	(23,072)	0	(132,111)	14	0	0	(155,169)	(211,444)	(702)	(624)	(212,770)
Adjustments between accounting basis and funding basis under regulations	53,292	0	0	1,796	(1,092)	0	53,996	(4,660)	(40,067)	(9,620)	0	424	(73)	(53,996)	0	0	0	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(2,983)**	**0**	**0**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	(211,444)	**(702)**	**(624)**	**(212,770)**
Transfers (to)/from Earmarked Reserves	3,071	(3,077)	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2014/15	**88**	**(3,077)**	**6**	**1,796**	**(1,092)**	**0**	**(2,279)**	**(27,732)**	**(40,067)**	**(141,731)**	**14**	**424**	**(73)**	**(209,165)**	(211,444)	**(702)**	**(624)**	**(212,770)**
Balance at 31st March 2015	**15,221**	**92,823**	**5,330**	**10,823**	**1,824**	**2,813**	**128,834**	**97,228**	**412,903**	**(642,863)**	**(507)**	**881**	**(8,278)**	**(140,636)**	**(11,802)**	**9,262**	**(385)**	**(2,925)**
Adjustment to Opening Balance										(1,140)				(1,140)	(1,140)	0	0	(1,140)
Movement in Reserves during 2015/16																		
Surplus or (deficit) on the provision of services	(24,590)	0	0	0	0	0	(24,590)	0	0	0	0	0	0	0	(24,590)	(9,234)	385	(33,439)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	5,779	0	82,883	13	0	0	88,675	88,675	784	0	89,459
Total Comprehensive Income and Expenditure	**(24,590)**	**0**	**0**	**0**	**0**	**0**	**(24,590)**	**5,779**	**0**	**82,883**	**13**	**0**	**0**	**88,675**	**64,085**	**(8,450)**	**385**	**56,020**
Adjustments between Group Accounts and authority accounts	**(8,800)**	**0**	**0**	**0**	**0**	**0**	(8,800)	**0**	**0**	**0**	**0**	**0**	**0**	0	(8,800)	**8,800**	**0**	0
Net Increase / Decrease before transfers	**(33,390)**	**0**	**0**	**0**	**0**	**0**	**(33,390)**	**5,779**	**0**	**82,883**	**13**	**0**	**0**	**88,675**	**55,285**	**350**	**385**	**56,020**
Adjustments between accounting basis and funding basis under regulations	17,847	0	0	884	(507)	0	18,224	(7,078)	3,282	(19,225)	0	2,940	1,857	(18,224)	0	0	0	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(15,543)**	**0**	**0**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**	**350**	**385**	**56,020**
Transfers (to)/from Earmarked Reserves	14,622	(12,016)	(2,606)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) in 2015/16	**(921)**	**(12,016)**	**(2,606)**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**	**350**	**385**	**56,020**
Balance at 31st March 2016	**14,300**	**80,807**	**2,724**	**11,707**	**1,317**	**2,813**	**113,668**	**95,929**	**416,185**	**(580,345)**	**(494)**	**3,821**	**(6,421)**	**(71,325)**	**42,343**	**9,612**	**0**	**51,955**

7.7 GROUP BALANCE SHEET as at 31st March 2016

31st March 2015 £000		Notes to the Accounts	31st March 2016 £000
	Long Term Assets:		
	Property, Plant and Equipment		
493,825	Other Land and Buildings		464,713
28,829	Vehicles, Plant, Furniture and Equipment		31,170
450,205	Infrastructure		478,101
65	Community Assets		54
11,822	Assets Under Construction		15,881
17,030	Surplus Properties Not Held For Sale		14,564
1,001,776	**Total Property, Plant and Equipment**	7.11.	1,004,483
543	Heritage Assets		543
225	Investment Properties		2,285
986	Intangible Assets		833
0	Investments in Joint Ventures		881
7,950	Long Term Debtors		7,491
1,011,480	**Total Long Term Assets**		1,016,516
	Current Assets:		
2,866	Current Assets Held for Sale		1,048
1,142	Inventories		1,084
70,011	Short Term Debtors	7.12.	70,735
77,502	Short Term Investments	7.13.	87,201
46,877	Cash and Cash Equivalents	7.14.	140,362
198,398	**Total Current Assets**		300,430
	Current Liabilities:		
(10,110)	Short Term Borrowings		(11,938)
(419)	Short Term PFI Liability		(517)
(78,004)	Short Term Creditors	7.15.	(86,276)
(13,485)	Revenue grants received in Advance		(10,847)
(1,851)	Short Term Provisions	7.16.	(4,650)
(2,386)	Bank Overdraft		(10,739)
(106,255)	**Total Current Liabilities**		(124,967)
	Long Term Liabilities:		
(302,886)	Long Term Borrowings		(295,361)
(4,310)	Long Term Creditors		(4,674)
(1,158)	Long Term Finance Lease Liability		(778)
(117,618)	Long Term PFI Liability		(117,184)
(37,456)	Capital Grants Receipts in Advance		(134,375)
(19,669)	Long Term Provisions	7.16.	(16,085)
(623,451)	Net Pensions Liability		(571,567)
(1,106,548)	**Total Long Term Liabilities**		(1,140,024)
(2,925)	**Net Assets**		**51,955**
	Usable Reserves		
15,221	General Fund Balance		14,300
9,262	Profit and Loss Reserve		9,612
92,823	Earmarked Reserves		80,807
5,330	Earmarked Capital Reserve		2,724
10,823	Usable Capital Receipts Reserve		11,707
1,824	Capital Grants & Contributions Unapplied Reserve		1,317
2,813	Long Term Investment Reserve		2,813
138,096			123,280
	Unusable Reserves		
97,228	Revaluation Reserve		95,929
412,903	Capital Adjustment Account		416,185
(642,863)	Pensions Reserve		(580,345)
(507)	Financial Instruments Adjustment Account		(494)
881	Collection Fund Adjustment Account		3,821
(8,278)	Accumulated Absences Account		(6,421)
(385)	Minority Interest		0
(141,021)			(71,325)
(2,925)		7.17.	**51,955**

7.8 ADJUSTMENTS BETWEEN GROUP ACCOUNTS AND COUNCIL ACCOUNTS

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund Balance back to the statutory balance with the balancing adjustment against the Council's share of the subsidiary reserves.

Adjustment	General Fund Balance £000	Authorities share of reserves of subsidiaries £000	Total Impact on Group Reserves £000
Dividends received from subsidiaries	1,500	(1,500)	0
Purchase of goods and services from subsidiaries	(10,300)	10,300	0
Total adjustments between Group accounts and Council accounts for 2015/16	**(8,800)**	**8,800**	0

7.9 GROUP CASH FLOW STATEMENT

2014/15			2015/16	
£000	£000		£000	£000
	(56,150)	Net Surplus/(Deficit) on the Provision of Services		(33,439)
		Adjust net surplus or (deficit) on provision of services for non cash movements		
34,745		Depreciation and impairments	32,058	
1,462		Amortisation	331	
64,479		Net Revaluations downwards	11,635	
(14)		Adjustments for effective interest rates	(13)	
(56)		Increase/(Decrease) in Interest Creditors	(173)	
204		Increase/(Decrease) in Creditors	(4,825)	
(96)		Increase/(Decrease) in Interest and Dividend Debtors	37	
(17,777)		(Increase)/Decrease in Debtors	4,534	
353		(Increase)/Decrease in Inventories	58	
(11,473)		Pension Liability	30,642	
420		Contributions to Provisions	(785)	
(40)		Movement in Investment Property values	(732)	
20,044		Carrying Amount of non current assets sold	45,466	
0		Other Non Cash Items	(67)	
	92,251			118,166
		Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing or financing activities		
(50,283)		Capital grants credited to surplus or (deficit) on the provision of services	(56,797)	
(5,349)		Proceeds from the sale of property, plant and equipment, investment properties or intangible assets	(5,128)	
	(55,632)			(61,925)
	(19,531)	**Net Cashflows from Operating Activities *****		22,802
		Net Cashflows from Investing Activities		
(72,633)		Purchase of PPE, Investment property and intangible assets	(75,202)	
(160,428)		Purchase of short term and long term investments	(147,478)	
(10)		New Long Term Loan	0	
5,349		Proceeds from the sale of PPE, Investment property and intangible assets	5,128	
138,200		Proceeds from short term and long term investments	137,178	
46,562		Other receipts from investing activities	148,932	
	(42,960)			68,558
		Net Cashflows from Financing Activities		
150		Payments for the reduction on PFI liability	(716)	
(7,512)		Payment for the reduction of long term borrowing	(5,512)	
	(7,362)			(6,228)
	(69,853)	**Net Increase or (Decrease) in Cash and Cash Equivalents**		85,132
	114,344	Cash and Cash Equivalents at the Beginning of the Reporting Period		44,491
	44,491	**Cash and Cash Equivalents at the End of the Reporting Period**		**129,623**

NOTES TO THE GROUP ACCOUNTS

7.10.1 GROUP SUBJECTIVE ANALYSIS 2015/16

Subjective Analysis 2015/16	Directorate Income & Expenditure Reported to Management £000	Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES £000	Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES £000	Amounts included in Cost of Services not reported to Management £000	Net Expenditure of subsidiaries not included in the Analysis £000	Cost of Services - Sub Total £000	Amounts Reported Below Cost of Services in CIES £000	(Surplus) or deficit on the provision of services £000
Fees, charges and other service income	(124,721)	7,788	43,946	(8,442)	(24,477)	**(105,906)**	(2,413)	**(108,319)**
Interest and investment income	(2,621)	2,621	0	0	0	**0**	(2,238)	**(2,238)**
Income from Council Tax	0	0	0	0	0	**0**	(195,874)	**(195,874)**
Government grants and contributions	(298,671)	0	0	(19,185)	0	**(317,856)**	(253,507)	**(571,363)**
Total Income	**(426,013)**	**10,409**	**43,946**	**(27,627)**	**(24,477)**	**(423,762)**	**(454,032)**	**(877,794)**
Employee expenses	378,836	(731)	(8,831)	(6,045)	14,107	**377,336**	731	**378,067**
Employee Costs of Voluntary Aided and Foundation Schools	0	0	0	(415)	0	**(415)**	0	**(415)**
Other service expenses (less Internal income)	422,737	(6,941)	(40,836)	14,662	6,162	**395,784**	1,849	**397,633**
Depreciation and amortisation	0	(918)	0	30,662	1,727	**31,471**	918	**32,389**
Revaluation (gains)/losses	0	0	0	11,634	0	**11,634**	0	**11,634**
Interest payable	28,814	(28,814)	0	0	0	**0**	49,325	**49,325**
Precepts and levies	799	(799)	0	0	0	**0**	799	**799**
IAS19 Administration Expenses	0	0	0	0	0	**0**	789	**789**
Gain or loss on disposal of non current assets	0	0	0	0	0	**0**	40,340	**40,340**
Total Expenditure	**831,186**	**(38,203)**	**(49,667)**	**50,498**	**21,996**	**815,810**	**94,751**	**910,561**
(Surplus) or deficit on the provision of services	**405,173**	**(27,794)**	**(5,721)**	**22,871**	**(2,481)**	**392,048**	**(359,281)**	**32,767**
(Surplus) or deficit on the provision of services from CI&ES						**392,048**	**(359,281)**	**32,767**

7.10.2 GROUP SUBJECTIVE ANALYSIS 2014/15

Subjective Analysis 2014/15	Directorate Income & Expenditure Reported to Management £000	Amounts included in Directorate Income & Expenditure Reported to Management reported below Cost of Services in CIES £000	Amounts included in Directorate Income & Expenditure Reported to Management not reported in CIES £000	Amounts included in Cost of Services not reported to Management £000	Net Expenditure of subsidiaries not included in the Analysis £000	Cost of Services - Sub Total £000	Amounts Reported Below Cost of Services in CIES £000	(Surplus) or deficit on the provision of services £000
Reconciliation to subjective analysis								
Fees, charges and other service income	(110,548)	8,020	11,787	(2,990)	(21,994)	(115,725)	(1,884)	(117,609)
Interest and investment income	(3,093)	3,093	0	0	0	0	(1,214)	(1,214)
Income from council tax	0	0	0	0	0	0	(188,272)	(188,272)
Government grants and contributions	(299,902)	0	0	(14,655)	0	(314,557)	(261,617)	(576,174)
Total Income	**(413,543)**	**11,113**	**11,787**	**(17,645)**	**(21,994)**	**(430,282)**	**(452,987)**	**(883,269)**
Employee expenses	327,494	(711)	(296)	(12,331)	13,038	327,194	711	327,905
Employee Costs of Voluntary Aided and Foundation Schools	62,809	0	0	365	0	63,174	0	63,174
Other service expenses (less Internal income)	395,283	(8,080)	(13,852)	2,123	4,690	380,164	1,911	382,075
Depreciation, amortisation and impairment	0	0	0	33,998	2,209	36,207	0	36,207
Revaluation (gains)/losses	0	0	0	64,479	0	64,479	0	64,479
Interest Payable	29,282	(29,282)	0	0	0	0	49,678	49,678
Precepts and levies	784	(784)	0	0	0	0	784	784
IAS19 Administration Expenses	0	0	0	0	0	0	731	731
Gain or loss on disposal of non current assets	0	0	0	0	0	0	14,468	14,468
Total Expenditure	**815,652**	**(38,857)**	**(14,148)**	**88,634**	**19,937**	**871,218**	**68,283**	**939,501**
(Surplus) or deficit on the provision of services	**402,109**	**(27,744)**	**(2,361)**	**70,989**	**(2,057)**	**440,936**	**(384,704)**	**56,232**
(Surplus) or deficit on the provision of services from CI&ES						**440,936**	**(384,704)**	**56,232**

7.11 Non Current Assets

7.11.1 Group Non Current Assets

	Operational Assets				Non - Operational Assets			
Group	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Properties Not Held for Sale £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or Valuation								
At 1st April 2015	529,064	75,071	547,778	65	11,822	17,163	1,180,963	115,356
Additions	18,393	6,180	41,834	0	18,758	611	85,776	0
Disposals	(43,057)	(1,451)	0	0	0	(1,880)	(46,388)	0
Reclassifications	11,825	1,662	0	94	(14,699)	(390)	(1,508)	0
Revaluations	(12,064)	0	0	(105)	0	(740)	(12,909)	(1,057)
Assets reclassified (to)/from Held for Sale	138	0	0	0	0	(200)	(62)	0
At 31st March 2016	**504,299**	**81,462**	**589,612**	**54**	**15,881**	**14,564**	**1,205,872**	**114,299**
Accumulated Depreciation & Impairment								
At 1st April 2015	(35,239)	(46,242)	(97,573)	0	0	(133)	(179,187)	(6,882)
Depreciation	(12,509)	(5,230)	(13,938)	0	0	(92)	(31,769)	(3,374)
Disposals	1,773	1,183	0	0	0	32	2,988	0
Reclassifications	11	(3)	0	(2)	0	3	9	0
Revaluations	6,378	0	0	2	0	190	6,570	2,071
At 31st March 2016	**(39,586)**	**(50,292)**	**(111,511)**	**0**	**0**	**0**	**(201,389)**	**(8,185)**
Balance Sheet Amount at 31st March 2016	**464,713**	**31,170**	**478,101**	**54**	**15,881**	**14,564**	**1,004,483**	**106,114**
Balance Sheet amount at 31st March 2015	**493,825**	**28,829**	**450,205**	**65**	**11,822**	**17,030**	**1,001,776**	**108,474**

For details of the Council's Property, Plant and Equipment see note 21.1 on page.

7.12 Group Debtors

	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
	Authority		**Subsidiaries**		**Total**	
Debtors:						
Central Government	11,836	18,780	173	76	12,009	18,856
Public Corporations	1	0	0	0	1	0
NHS	13,675	1,530	2	28	13,677	1,558
Other Local Authorities	6,497	9,477	171	393	6,668	9,870
Other Entities & Individuals	29,248	27,495	5,027	6,692	34,275	34,187
Less: Provision for Bad Debts	(8,135)	(7,632)	0	0	(8,135)	(7,632)
	53,122	49,650	5,373	7,189	58,495	56,839
Prepayments:						
Other Local Authorities	27	19	0	0	27	19
Other Entities & Individuals	9,714	11,694	1,775	2,183	11,489	13,877
	9,741	11,713	1,775	2,183	11,516	13,896
	62,863	61,363	7,148	9,372	70,011	70,735

7.13 Group Short Term Investments

	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
	Authority		**Subsidiaries**		**Total**	
Short Term Investments						
Deposits with banks and other financial institutions	75,324	85,201	2,178	2,000	77,502	87,201
	75,324	85,201	2,178	2,000	77,502	87,201

7.14 Group Cash and Cash Equivalents

	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
	Authority		Subsidiaries		Total	
Cash and Cash Equivalents						
Bank Current Accounts	9,106	9,589	11,783	8,911	20,889	18,500
Short Term Deposits	25,988	121,862	0	0	25,988	121,862
Cash and Cash Equivalents	35,094	131,451	11,783	8,911	46,877	140,362
Bank Overdraft	(2,386)	(10,739)	0	0	(2,386)	(10,739)
	32,708	120,712	11,783	8,911	44,491	129,623

7.15 Group Creditors

	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
	Authority		Subsidiaries		Total	
Creditors:						
Central Government	8,401	18,049	2,907	3,707	11,308	21,756
Public Corporations	8	15	0	0	8	15
NHS	1,374	5,343	0	0	1,374	5,343
Other Local Authorities	3,090	2,871	473	838	3,563	3,709
Other Entities & Individuals	56,631	51,413	2,822	2,123	59,453	53,536
	69,504	77,691	6,202	6,668	75,706	84,359
Income in advance:						
Other Entities & Individuals	0	0	2,298	1,917	2,298	1,917
	0	0	2,298	1,917	2,298	1,917
	69,504	77,691	8,500	8,585	78,004	86,276

7.16 Group Provisions (Short and Long Term)

	Balance at 1st April 2014 £000	Additions £000	Releases/ Expenditure £000	Balance at 31st March 2015 £000	Balance at 1st April 2015 £000	Additions £000	Releases/ Expenditure £000	Balance at 31st March 2016 £000
Authority								
Insurance Fund	6,276	1,603	(58)	7,821	7,821	553	(545)	**7,829**
Business Rates	2,974	1,148	0	4,122	4,122	957	(4,122)	**957**
Equal Pay/Voluntary Redundancy	3,506	1,430	(3,505)	1,431	1,431	477	(1,431)	**477**
Other Provisions	94	0	0	94	94	3,380	(94)	**3,380**
	12,850	**4,181**	**(3,563)**	**13,468**	**13,468**	**5,367**	**(6,192)**	**12,643**
Subsidiaries								
Restoration and aftercare of Landfill Sites	8,243	0	(228)	8,015	8,015	0	39	**8,054**
Deferred Taxation	7	30	0	37	37	0	1	**38**
	8,250	**30**	**(228)**	**8,052**	**8,052**	**0**	**40**	**8,092**
Total Group	**21,100**	**4,211**	**(3,791)**	**21,520**	**21,520**	**5,367**	**(6,152)**	**20,735**

7.17 Group Summary of Group Reserves

	Cumbria County Council £000	Cumbria Waste Mgmt Group £000	Inter Group Transactions £000	TOTAL £000
Reserves				
Earmarked Capital Reserve	2,724	0	0	2,724
Usable Capital Receipts Reserve	11,707	0	0	11,707
Capital Grants & Contributions Unapplied Reserve	1,317	0	0	1,317
Long Term Investment Reserve	2,813	0	0	2,813
Revenue - Earmarked	80,807	0	0	80,807
Revenue - General	14,300	9,612	0	23,912
Share Capital	0	3,284	(3,284)	0
Revaluation Reserve	95,929	0	0	95,929
Capital Adjustment Account	416,185	0	0	416,185
Financial Instruments Adjustment Account	(494)	0	0	(494)
Collection Fund Adjustment Account	3,821	0	0	3,821
Pensions	(580,345)	0	0	(580,345)
Accumlated Absences Account	(6,421)	0	0	(6,421)
Minority Interest	0	0	0	0
TOTAL FUNDS	**42,343**	**12,896**	**(3,284)**	**51,955**

The Firefighters' Pension Scheme Accounts

Firefighters' Pension Scheme Accounts 2015/16

2014/15				2015/16	
£000	£000			£000	£000
		FUND ACCOUNT			
		Contributions Receivable			
(1,507)			From Employer Normal	(1,486)	
(1,122)			From Members	(1,770)	
	(2,629)				(3,256)
		Transfers In			
(31)			Individual transfers from other Schemes	0	
(199)			Other	0	
	(230)				0
	(2,859)	Total income			(3,256)
		Benefits Payable			
3,863			Pensions	4,339	
1,436			Ill Health and Injury	1,428	
1,360			Lump Sums	1,783	
386			Lump Sum Death Benefits & Widows Pensions	428	
	7,045				7,977
		Payments to and on account of leavers			
11			Individual transfers out of the Schemes	382	
	11				382
	7,056	Total Expenditure			8,359
	4,197	Net amount receivable/payable before top-up from Government			5,103
	4,103	Top-up receivable/(payable) from Government			5,103
	94	Reimbursement paid by CCC in respect of Injury pension			0
	0	Net amount receivable/(payable) for the year			0
		GAD v Milne			
0		Redress payments in respect of GAD v Milne		844	
					844
		GAD v Milne Grant			845
	0	Net amount receivable/(payable) for the year			(1)
		NET ASSETS STATEMENT			
		Current Assets			
0			Contributions due from Employee	2	
1,208			Pension top-up receivable from Government	1,853	
94			Injury Payment receivable from CCC	13	
507			Prepaid Pensions	513	
	1,809				2,381
		Current Liabilities			
0			Modified Scheme 1415 overclaim	(4)	
0			GAD v Milne grant repayable to Government	(1)	
(1,809)			Other current assets and liabilities	(2,376)	
	(1,809)				(2,381)
	0				0

Notes to the Firefighters' Pension Scheme Financial Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the scheme and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting Policies

The principal accounting policies are as follows:

<u>Contributions</u>
Contributions represent the total amounts receivable from the Council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighters' Pension Scheme and for the Modified Scheme, 11.9% for the 2006 Scheme, and 14.3% for the 2015 Scheme.

The Council will also be required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is made in the accounts for employees' and employers' contributions relating to sums due on pay awards not yet settled.

<u>Benefits and Refunds</u>
Benefits and refunds are accounted for in the year in which they become due for payment.

<u>Transfer Values</u>
Transfer values are those sums paid to, or received from, other pension schemes and the Firefighters' Pension Scheme outside England, for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

3. Fund's Operation

All the Firefighters' Schemes are statutory, unfunded pension schemes. The benefits for both schemes are defined and guaranteed in law. Both schemes are contracted out of the State Second Pension (S2P) and must provide benefits at least as good as most members would have received had they been members of S2P. Benefits provided include a guaranteed pension based on final salary upon retirement and an option to commute pension in favour of a tax free lump sum.

Notes to the Firefighters' Pension Scheme Financial Statements continued

3. Fund's Operation continued

The Council administers and pays firefighters' pensions from a separate local firefighters' pension fund. Employee contributions, employer's contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top up grant or by paying the surplus back to Central Government. The underlying principle is that the employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

During 2015 the Pensions Ombudsman's published a Final Determination in the case of Milne v Government Actuary's Department. Mr Milne claimed that GAD had a statutory duty to review the tables of commutation factors and that such a review would have led to him receiving a larger retirement lump sum. The Final Determination found in Mr Milne's favour. As a result of this some retired firefighters were due an increased lump sum payment and interest on the outstanding lump sum value. DCLG made funding available during 2015/16 to meet these costs which were paid to retired firefighters early in 2016.

The fund has no investment assets.

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The long term pensions obligations is included in the Council's pensions liability (and pensions reserve) in the Balance Sheet. The liability for the Firefighters pensions scheme at 31st March 2016 was £214.589m (31st March 2015 £218.615m) Further details can be found in notes 37 and 38 to the Council's Statement of Accounts.

Academy
A publicly funded school that is directly funded by the Department for Education and is independent of local authority control.

Accounting Policies
The policies, concepts and conventions used in the preparation of the accounts.

Accruals
Sums included in the accounts to cover income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31st March.

Actuarial Gains and losses
Employees of the Council are members of defined benefit pension schemes. Actuarial gains and losses arise because events have not coincided with actuarial assumptions made in the previous valuation or because the actuarial assumptions have changed.

Budget
A statement of the Council's policy expressed in financial terms. This includes both revenue and capital.

Capital Adjustment Account
The movements on the Capital Adjustment Account reflects the financing of capital expenditure from revenue and capital resources together with the reversal of amounts included in the Comprehensive Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year.

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

Capital Financing Costs
The costs of financing non current assets, being the interest costs of external loans and monies used to repay debt.

Capital Receipts
Income received from the sale of non current assets. Capital receipts can only be used to repay outstanding debt on non current assets or finance capital expenditure within rules set by government. Capital receipts however, cannot be used to finance revenue expenditure.

Cash Equivalent
Cash equivalents are investments that mature within 3 months of the date of acquisition and have no penalties for early redemption. For the Council this will include only money market deposits of less then 3 month duration.

Central Support Services
These are services provided by the central departments of the Council in respect of finance, personnel, legal, administration, communications, procurement, policy and property.

Community School
A local authority maintained and funded school. The local authority employs the school's staff, is responsible for the school's admissions and owns the school's estate.

Component Accounting
In some cases there are significant elements of an asset that will not last as long as the rest of the asset e.g. a flat roof of a building in comparison to the life of the rest of the building. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

Contingent Asset
A contingent asset is a possible asset which could arise following the occurrence of a future event outside the Council’s control.

Contingent Liability
A contingent liability is a possible liability which could arise following the occurrence of a future event outside the Council’s control or is a present obligation where it is not possible to measure the outcome with sufficient reliability.

Corporate and Democratic Core
Comprises all activities which local authorities engage in specifically because they are elected, multi purpose authorities. The cost of these activities are thus over and above that would be incurred by a series of independent, single purpose nominated bodies managing the same service. There is no logical basis for apportioning these costs to services.

Council Tax Precept
A property based tax that is set by the Council and administered by District, Borough and Unitary Councils, alongside the share of Council Tax levied by other Local Authorities in Cumbria.

Creditors
Amounts owed by the Council for work done, goods received or services provided, but for which payment has not been made by the 31st March.

Current Assets / Liabilities
Assets and/ or Liabilities that are likely to be realised within 12 months of the Balance Sheet date.

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 revenue accounts of services for which the employees worked.

Curtailment
The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees Within the defined benefit schemes impacting on the financial results of the Council, curtailment will arise if an event occurs reducing the expected future service of employees. Normally, this arises from redundancy or early retirement or if there is an amendment to terms impacting on current employees. Curtailments are debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Debtors
Debtors represent amounts due to the Council which are unpaid at 31st March.

Defined Benefit Scheme
Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Depreciation
Depreciation is the fall in value of an asset, as recorded in the financial records, due to wear and tear, age and obsolescence.

Depreciated Replacement Cost
The method employed in valuing land and buildings where a market value basis is not readily available.

Expected Rate of Return on Pensions Assets
The expected rate of return on pensions' assets is the average return expected during the remaining period of pension obligations.

Employee Benefit Accrual
Accrual calculated to take account of annual leave, flexi time and Time off in Lieu (TOIL) that has not been taken by staff by 31st March. This is included in the cost of service for that financial year.

Fair Value
Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In some circumstances this can be at existing use value and for others market value

Finance Leases
This is where substantially all the risks and rewards incidental to ownership of the asset transfer from the leasing company to the Council. Annual payments are a combination of interest and the purchase of the asset.

Formula Grant
Central government provides funding to local authorities through a grant known as Formula Grant, made up of Revenue Support Grant and Redistributed Business Rates, in support of its general revenue expenditure.

Foundation School
A local authority maintained and funded school in which the governing body has greater freedom in the running of the school than in community schools. Foundation schools were set up under the School Standards and Framework Act 1998 to replace grant-maintained schools. The governing body employs the staff and has responsibility for admissions to the school, subject to rules imposed by central government.

General Fund
The account that summarises the revenue costs of providing services that are met by the Council's demand on collection fund, government grants and other income. The balance is difference between the total of income over expenditure over the year.

Heritage Assets
Heritage assets are tangible assets with historical, artistic, scientific, technological or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. This includes archives, paintings and civic regalia.

Impairment
A reduction in value of a non current asset below its carrying amount in the Balance Sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

Imprest Account
Petty Cash Accounts used for small items of expenditure.

Intangible Assets
Intangible assets are assets without physical substance such as software, licences etc.

Inventories
Assets that are held as stock as part of the delivery of services by the Council.

LOBO - Lender Option Borrower Option
A financial instrument which is typically very long term - for example 40 to 60 years. The initial interest rate is fixed, but the lender has the option to nominate a revised rate at periodic reset dates. The reset dates are nominated at the time the loan is taken out. The borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

Minimum Revenue Provision
The amount set aside to repay external debt related to capital expenditure.

Net Current Replacement Cost
The cost of replacing an asset in its existing condition and existing use.

Non Current Assets / Liabilities
Assets and/ or Liabilities that are likely to be realised after 12 months of the Balance Sheet date.

Non Current Assets
Non current assets are tangible assets (i.e. assets with physical substance) intended to be used during more than one period.

Non Domestic Rates (Business Rates)
A tax collected locally by District Councils from commercial undertakings and paid to Central Government. It is t36hen redistributed to county, unitary, borough and district councils on the basis of the resident population.

Non Operational Assets
These are non current assets held by the Council which are not specifically used in the provision of services. Normally, this applies to investment properties or properties held for resale.

Operational Assets
These are non current assets held by the Council required to support the provision of services.

Operating Leases
This is where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the Comprehensive Income & Expenditure Statement.

Outturn
Actual Income and Expenditure for a financial year.

Past Service Costs
Where pension scheme members receive enhanced or new benefits, the increase in the present value of future liabilities will be accounted for as past service costs. The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Pension Interest Cost
The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Pension Contributions Paid
Contributions to the various schemes – cash paid as employer’s contributions to the pension funds.

Pension 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.

Pension Gains/Losses on Settlements
The result of actions to relieve the Council of liabilities or events (such as the transfer of staff to schools converting to academy status) that reduce the expected future service or accrual of benefits of employees – debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as an Exceptional Item.

Property, Plant and Equipment (PPE)
PPE are tangible non current assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions
These are sums set aside to meet liabilities or losses that are likely to be or will be incurred, but the dates on which they will arise are not fully known at the date that the Statement of Accounts is approved.

Pupil Referral Unit (PRU)
An establishment maintained and funded by the local authority, which is specifically organised to provide education for children who are excluded, sick, or otherwise unable to attend a mainstream or special maintained school.

Reserves
Amounts set aside to meet the cost of specific future expenditure. Earmarked reserves are set aside to meet revenue or capital needs in the future. The level of general fund (revenue) reserves is considered in relation to the risks and uncertainties facing the Council when it is setting its annual budget.

Revenue Contributions to Capital Expenditure
The amount of capital expenditure financed directly from the annual revenue budget. Also known as capital expenditure charged to General Fund Balance.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)
Expenditure incurred that may be capitalised under statutory provisions but that does not result in the creation of a non current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Revenue Support Grant (RSG)
A general Central Government grant paid to the Council in support of annual revenue expenditure.

Service Reporting Code of Practice (SeRCOP)
This Code of Practice details standard definitions of services and total cost to enable spending comparisons to be made with other local authorities.

The "Code"
The Code of Practice on Local Authority Accounting in the UK 2015/16. The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.

Voluntary Aided School
(VA school) is a local authority maintained and funded school in which a foundation or trust (usually a religious organisation), contributes to building costs and has a substantial influence in the running of the school. The governing body employs the staff and has responsibility for admissions to the school, subject to rules imposed by central government.

Voluntary Controlled School
(VC school) is a local authority maintained and funded school in which a foundation or trust (usually a Christian denomination) has some formal influence in the running of the school. Such schools have less autonomy than voluntary aided schools**,** in which the foundation pays part of any building costs. The local authority employs the staff and has responsibility for admissions to the school.

CONTENTS

The Statement of Accounts for the Cumbria Local Government Pension Scheme (LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council is the administering authority, the Fund covers both County Council employees and those of other scheduled, resolution and admitted bodies. These Accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2015/16 and the position at the year-end date, 31st March 2016. They 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.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in Note 23 'Actuarial Position of the Fund'.

The Code of Practice does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the interests of greater transparency and comparability CIPFA have prepared 'Management Costs Guidance' (final version issued on 9th June 2016) which the Fund has elected to adopt. To ensure comparability for our readers prior year figures have been adjusted.

Details of the change can be found in note 1(c) to the Financial Statements and details of the management expenses can be found in notes 7 and 8.

In addition we have undertaken a review of the presentation of the Investment Assets on the Net Asset Statement; to ensure comparability for our readers we have restated the Fund's 2014/15 published financial statements in relation to the net investment assets. The change impacts upon figures within the Balance Sheet only; it has no effect on the valuation of investments or the net asset value of the Fund.

Details of the change can be found in note 1(c) to the Financial Statements and details of the investment assets can be found in notes 10, and 10(a) to (f).

10.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2016

	Notes	2014/15		2015/16	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		96,005		60,048
Transfers in from other pension funds	4		2,294		4,883
			98,299		**64,931**
Benefits	5		(73,747)		(77,477)
Payments to and on account of leavers / employer exit	6		(39,183)		(4,185)
Net additions / (deductions) from members			**(14,631)**		**(16,731)**
Management expenses *	7 & 8		(8,765)		(8,679)
Returns on investments					
Investment Income		30,654		41,863	
Taxes on Income		(203)		(177)	
Net investment income	9	30,451		41,686	
Profit and losses on disposal of investments and changes in the market value of investments	10(d)	245,531		3,217	
Net return on investments			275,982		44,903
Net increase in the net assets available for benefits during the year			**252,586**		**19,493**
Net assets at the start of the year			**1,774,730**		**2,027,316**
Net assets at the end of the year			**2,027,316**		**2,046,809**

* Prior year restated following a change in classification to include all investment fees directly incurred by the Fund, including those charged on pooled fund investments previously accounted for within the valuation of investments. For details see notes 1(c), 7 and 8.

NET ASSETS STATEMENT AS AT 31st MARCH 2016

	Notes	31 March 2015 £'000	31 March 2016 £'000
Investment assets	10	2,016,710	2,040,205
Investment liabilities	10	(8,723)	(6,143)
Total net investment assets *		**2,007,987**	**2,034,062**
Long term assets	12a	1,643	1,314
Current assets	12b	20,329	14,397
Long term liabilities	13a	(298)	(237)
Current liabilities	13b	(2,345)	(2,727)
Net assets of the Fund available to fund benefits at the period end		**2,027,316**	**2,046,809**

* Prior year restated to follow the 2015/16 CIPFA suggested format, including all investment debtors and creditors in the total net investment assets figure. For details see notes 1(c) and 10.

10.2 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 (a): DESCRIPTION OF THE FUND

The Purpose of the Fund is to provide pension benefits for current and future Fund members through ensuring it can:-

- pay out monies in respect of scheme benefits (pensions), transfer values, cost, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- receive monies in respect of contributions, transfer values and investment income, and
- invest all deposits and, whilst balancing both risk and return, aim to consistently outperform against the Fund's benchmark over the longer term.

Through balancing the strategic investment of the Fund's assets to the liability profile of the membership, the aims of the Cumbria LGPS are to:-

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage the long term sustainability of the Fund;
- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- manage employers' liabilities effectively;
- maximise the returns from investments within reasonable risk parameters, and
- aim to close the scheme deficit by 2033.

Membership to the Cumbria LGPS is open to:-

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers);
- membership is also open to other eligible employees of employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

All eligible local government employees are automatically entered into the scheme. Employees may choose to opt out at any point in time.

As at 31st March 2016 the total membership of the Fund was approximately 54,500 (2014/15: 52,700) and consisted of approximately: 16,300 contributors/actives (2014/15: 16,500); 23,300 deferred members (2014/15: 21,800) and 14,900 pensioners (2014/15: 14,400).

At 31st March 2016 there were 126 (2014/15: 118) employer bodies in the Cumbria LGPS (for the full list see Note 25), this increase reflects the continued growth in academies and outsourcing of local government services to other providers. This growth in employer bodies is expected to continue over coming years.

NOTE 1 (b): ACTIVITY AND PERFORMANCE DURING 2015/16

During the year to 31st March 2016 the Cumbria LGPS value increased by £19.493m from £2,027.316m (31/03/15) to £2,046.809m (31/03/16). The Fund returned 1.9% (net of fees) for the year which was an outperformance of 2.1% on the Fund's bespoke index performance benchmark for the year of -0.2%. This was attributable to active management outperformance in the investment portfolios and to the increase of investment in alternative assets such as infrastructure and private equity.

2015/16 year was very volatile between months and quarters for many asset classes, but for the twelve month period to March 2016, many markets showed pretty flat performance overall. Property was the exception, providing strong returns of 11.7%. UK index-linked gilts had a lower return than 2014/15 of 1.9% (2014/15 21.1%). The Global Equities Markets have in the main fallen in 2015/16, averaging at -1.2% although there were variations by sector and geography. North American markets showed the strongest performance of 3.6%. Performance within the remaining areas were all negative, ranging from -3.3% for Japan to -5.4% for the Pacific. In contrast, the Fund's combined Global Equity active portfolio managers have provided a return of 5.2%, outperforming the market by 6.4% (net of fees).

The Fund performed well over the medium to longer term with the three-year return of 8.1% (net of fees) outperforming the bespoke hedged benchmark of 6.2% (per year) by a significant 1.9%. The ten year Fund return was 6.2% (net of fees), 0.5% above the benchmark of 5.7% (per year).

Cumbria LGPS ranks well for investment performance in comparison to its peers. The average Local Authority Pension Fund performance for the year was 0.2% (gross of fees), resulting in a ranking for CLGPS of 9th out of 100.

CIPFA recommends that the management of investment returns should primarily be against a fund specific benchmark derived from the individual fund's investment strategy which directly reflects the risk and liability profile of the Fund. However benchmarked comparisons to the Fund's peer group is also used as it is considered a valuable tool in assessing each fund's individual strategy and overall performance. The table below shows the very credible Cumbria Fund performance compared to the WM Local Authority universe (88 funds) for the 1, 3, 5 and 10 years:

Period	**1 Year %**	**3 Years, % per year**	**5 Years, % per year**	**10 Years, % per year**
Gross of fees *:				
Cumbria Pension Scheme	2.1	8.2	8.7	6.3
WM LA Universe Average	0.2	6.4	7.1	5.6
Ranking	9th	8th	8th	16th

* Per industry standard the performance figures used above to calculate rankings are gross of fees. Unless stated otherwise performance figures quoted elsewhere are stated net of fees.

The Cumbria Fund completed a detailed Investment Strategy Review in May 2012 which has been reviewed annually in the intervening period. The outcome of the review determined that, given the predicted longer term liability profile of the Fund, at a strategic level, the asset allocation to growth seeking assets versus defensive assets (68% to 32%) was still appropriate. This results in Cumbria having a more defensive strategy than the average LGPS which held 77% growth seeking to 23% defensive assets.

It was considered that reduced risk (through better diversification and enhanced inflation protection) and marginally enhanced return with a greater focus on income (to recognise the Fund's maturing liability profile in the medium-term) may be achieved from an alternative allocation across the growth section of the portfolio. This has led to the strategic selection of an in-house portfolio of alternative pooled funds to increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term.

The process of implementing the changes in asset allocation has progressed steadily since 2012 with the following changes being made this year:-

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 7.4% in infrastructure and 5.4% in opportunistic. This was done by the selection of suitable opportunistic investments (ongoing) with commitment made to SL Capital Secondary Opportunities Fund III;
- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;
- The commencement of selecting suitable investments to a Defensive asset allocation (income seeking with capital preservation), with commitment made to Babson Global Private Loan Fund of £25.0m; and
- The liquidation of the BlackRock alternatives portfolio has continued (£48.4m at 31/03/15 to £29.8m at 31/03/16) with funds released for investment into infrastructure and opportunistic products.

The majority of work plan objectives in the 2015/16 business plan have either been achieved or are in progress of completion and all will be delivered within budget. The main actions completed are:-

- Consideration of options to address the movement of the Fund towards a negative cash flow position, due to the impact of reductions in funding from central government (austerity) on Fund employers and reducing staffing levels. This impacts on the maturity profile of the Fund membership. A detailed cash monitoring process together with liaison with Cumbria Chief Finance Officers Group and the Actuary in preparation for the 2016 valuation has been established with the aim to ensure that cash is available when required.
- Development and enhancement of the revised tiered performance reporting framework with the aim of ensuring the three operational levels of the Fund (Pensions Committee, ISG and Officers/Advisers) receive the right information to support the specific role in investment management, governance and oversight of the Fund. Quarterly conference calls and Annual face-to-face reviews with Investment Managers, and quarterly meetings of

senior officers with YPS, assist in this process and feed into the Quarterly ISG meetings.

- A review of the Custody Services contract was undertaken through the use of the National LGPS Framework (hosted by Norfolk CC) thereby reducing the complexity and costs of a full tender whilst benefiting from the negotiated reduced fees due to increased scale. The resulting contract was the re-appointment of State Street Bank as Custodian under a 5 year contract to 31st March 2021 with an option to extend this for a further 2 years if required.
- Successfully securing fee reductions from existing managers in 2015/16.
- Review and enhancement of Fund governance arrangements in response to regulatory and structural changes. Following improvements to the quarterly monitoring report allowing Committee Members to be advised of any material risk, policy changes, governance or financial monitoring issues each quarter, Cumbria was approached by the Scheme Advisory Board to be part of the trial of performance metrics; these have now been adopted across the LGPS.
- Improved monitoring for the LGPS 2014 CARE Scheme through Officers and YPS working closely and supporting employers, enabled the Fund to meet the revised deadlines for issue of the Annual Benefit Statements.
- Selection process for the establishment of a Local Pensions Board for Cumbria was undertaken in May and June 2015, the first meeting was held in July 2015 where Terms of Reference and a Training Plan were approved.
- Members of the Cumbria Pensions Committee were kept informed and involved in the government consultations issued during the year on the structure and regulations of the LGPS including topics such as Investment Regulations and LGPS Pooling and Exit Payment Caps.
- Timely completion of the Pension Fund Annual Accounts and Annual Report for 2014/15 with positive feedback received from the Auditor. Further improvements have been made to the layout and content of the report to improve readership of their on-line publication.
- Additional staffing resources to support revised structures and increased workloads were approved by the Pension Committee and recruitment to two new posts was completed in January 2016.
- Review, measurement, and delivery of the training plan to both new and continuing Members and Officers. Resources concentrated on key issues identified by feedback, up and coming national legislative / policy changes and ongoing LGPS work. For example, training on the Actuarial Valuation process in advance of the upcoming triennial valuation was provided to Members and Officers; this issue will continue to be addressed in 2016/17 as the results of the valuation become known.
- Three Officers of the fund are in the process of completing the final stage of the IMC investment management qualification, to support the move into more complex asset classes, with a further officer due to start training shortly.

In addition to those items completed, the following are in the progress of completion:-

- PIRC (Pensions & Investment Research Consultants) were appointed from 1st January 2015 to deliver an enhanced level of shareholder engagement and they now vote on all active UK equity shares held by the Fund. Phase 2 of the development of the Fund's stewardship and

corporate engagement will be taken forward in line with the pooling agenda.
- The Investment Sub Group continued to review products that may be a suitable fit for the strategic asset allocation to infrastructure and opportunistic investments. Progress in searching for new products has slowed in the last few quarters due to the prioritisation of the pooling agenda.
- Following initial discussions with the actuary regarding the 2016 triennial actuarial valuation, Mercers presented to the March 2016 Committee a review of the Funding Strategy, these communications and actions will continue throughout the valuation process to its completion in 2017.
- Due to internal promotion following the abovementioned recruitment to two new posts, one vacant post has been recruited to and will be filled in 2016/17.
- To enhance skills across the team and to support succession planning, staff are continuing their study for the Foundation Degree in Pensions Administration and Management qualification and for the CFA UK Level 4 Certificate in Investment Management.

Looking forward, 2016/17 is also expected to be another busy year for Local Government Pension Schemes. Regulation, Governance, deficit management and national consideration of structural arrangements in the progression of the pooling agenda across the LGPS are driving significant changes at an unprecedented speed.

In addition to standard activities such as the review of Fund strategy, risk and policies, and the production of the Annual Report and Accounts, the proposed key deliverables in 2016/17 (grouped under three main headings) include:

Governance and Procurement

- Strategy, Fund risk and policies reviews and updates.
- Continue to develop viable detailed proposals on asset pooling with other like-minded funds in the Border to Coast Pensions Partnership.
- Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan and extending this to Local Pensions Board Members where appropriate.
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.
- Involvement in consultations, and assessment of impact on Cumbria of decisions on the future structure of the LGPS.
- Review of governance arrangements in response to financial, regulatory and structural changes.
- Development of the Fund’s stewardship and corporate governance framework.
- Embedding and developing the role of the Cumbria Local Pension Board.
- More extensive reporting across a range of Fund activities to third parties e.g. DCLG, GAD, Scheme Advisory Board, the Pensions Regulator and External Audit etc.

Fund Management

- Develop, train Members and Officers thereon and implement a new Investment Strategy Statement once full regulations are in place and guidance issued;
    - Continue to progress infrastructure and opportunistic investment options,
    - Complete realignment of UK equities and closure of BlackRock Alternatives portfolio,
    - Continual review of temporary overweight to equities.
- Consideration of options to address the movement of the Fund towards a negative cash flow position, by continuing the work on a strategic allocation to cash, additional reasons being; strategic downside protection, funding new assets and working capital needs.
- Recruit and train new staff resource, training of new Officers will be required to ensure they meet the high levels of knowledge required.
- Plan for a full Investment Strategy review in 2017 post the finalisation of the actuarial triennial valuation.

Employers, Funding and Accounting

- Undertake the 2016 Triennial Actuarial Valuation work, including discussions with the actuary and larger employers regarding the outcomes and revisions to employer rates (from 1st April 2017).
- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues.
- Continue communication and liaison with Fund employers and embed the CARE 2014 Scheme and meet the data requirements of the Pensions Regulator.
- Completion of the 2015/16 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes.
- Recruit and train new staff to support workloads due to increasing member numbers.
- Scheme reconciliation – GMP (Guaranteed Minimum Pension).
- Monitor and respond to impact on administration of changes to membership structures across the Fund’s employers due to continuing austerity measures (this may require changes to benefit structures to reflect the implementation of the ‘Exit Cap’ legislation).

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund’s performance, management structure and investment news. The Annual Report and Accounts 2015/16 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2016) at **www.cumbria.gov.uk/finance**, where the previous year’s report is also available.

NOTE 1 (c): CLARIFICATION OF ACCOUNTING POLICY & RECLASSIFICATION

Management Expenses

The CIPFA Code of Practice (the Code) requires that 'administrative expenses' in relation to a retirement benefit plan are disclosed on the face of the fund account. The Code of Practice does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the interests of greater transparency and comparability CIPFA have prepared 'Management Costs Guidance' (issued 9th June 2016). The guidance aims to promote transparency, consistency, completeness, and the reliability of information in connection with the costs of managing the LGPS.

The change to the presentation of the Accounts is that the management fees on pooled investment vehicles deducted at source and any potential performance fees accrued will be disclosed on the face of the Fund Account and in the Management Expenses Note. The Fund has elected to adopt this change for the 2015/16 Accounts.

For the purposes of clarity and consistency comparative prior year figures have been adjusted following this change. The change impacts upon figures within the Fund Account only; it has no effect on the valuation of investments or the net asset value of the Fund. The below table illustrates the adjustments made to comparative figures.

2014/15 Heading	2014/15	Adjustment	Description of adjustment	2014/15 restated
Management expenses	-8,063	-702	Disclosure of Management fees deducted from pooled funds	-8,765
Profit and losses on disposal of investments and changes in the market value of investments	244,829	702	Pooled fund costs moved to expenses.	245,531
	236,766	0		236,766

For further details of management expenses see notes 7 and 8 to the Financial Statements.

Net Investment Assets

Each year CIPFA publish non-mandatory example accounts as a good practice guide for pension fund accounts. The 2015/16 example accounts (the 'Local Government Pension Scheme Fund Accounts 2015/16 - Example accounts and disclosure checklist') incorporated changes designed to improve clarity and declutter the accounts. These changes included amendments to disclosure relating to investments.

In light of this and the detailed work the Fund undertook regarding the disclosure of management costs during 2015/16, the Fund has reviewed the disclosure of investment balances. The conclusion of this review was to show specific investment related debtor and creditor balances within Net Investment Assets. This should provide the reader of the accounts with greater clarity and more comparability with other LGPS accounts than if they were shown within Current Assets and Liabilities on the Net Assets Statement.

The 2015/16 accounts therefore show sales receivable, investment income accrued, property debtors, purchases payable, and property creditors within Investment Assets and Investment Liabilities (as appropriate) rather than within Current Assets or Current Liabilities (as appropriate). This results in a movement of debtor / creditor balances between lines in the Net Asset Statement. It has no impact on either the Total Net Assets of the Fund or the Pension Fund Account.

To ensure comparability for our readers we have restated the comparative figures on the face of the Net Asset Statement and in the relevant Notes to the Accounts (specifically Notes 12(b) Current Assets, 13(b) Current Liabilities and Note 10 Investment Assets). The following table illustrates the adjustments made to comparative figures in the Balance Sheet:

2014/15 Heading	2014/15 £'000	Adjustment £'000	Description of adjustment	2014/15 restated £'000
Investment assets	2,005,852	10,858	Investment accruals (income, sales) moved to here	2,016,710
Investment liabilities	-1,068	-7,655	Investment accruals (purchases, creditors) moved to here	-8,723
Total Net Investments	**2,004,784**	**3,203**	**Total Net Investment Assets**	**2,007,987**
Current assets	31,187	-10,858	Investment accruals (income, sales) removed	20,329
Current liabilities	-10,000	7,655	Investment accruals (purchases, creditors) removed	-2,345
Net assets of the Fund available to fund benefits at the period end	**2,027,316**	**0**	**No change**	**2,027,316**

The following table illustrates what the 2015/16 figures would have been had the change not been made to Notes 12(b) and 13(b):

14/15 headings	2014/15 prior to recategorisation £'000	2015/16 figures categorised using 14/15 split £'000	Recategorisation in 15/16
CURRENT ASSETS			
Cash balances	**14,384**	**8,326**	
Current Debtors			
Securities sold awaiting settlement	4,871	1,881	Investment Assets
Investment income accrued	4,791	5,290	Investment Assets
Property debtors	1,196	1,073	Investment Assets
Contributions due	4,474	4,453	Current Assets
Employer exit from scheme due < 1 year	581	329	Current Assets
Miscellaneous	890	1,289	Current Assets
Total Current Debtors	**16,803**	**14,315**	
Total Current Assets	**31,187**	**22,641**	
Current Debtors relating to (per IFRS headings):			
Central Government bodies	699	776	Current Assets
Other local authorities	4,396	4,362	Current Assets
NHS bodies			
Public corporations and trading funds			
Other entities and individuals	11,708	9,177	Current Assets / Investment Assets
Total Current Debtors	**16,803**	**14,315**	
CURRENT LIABILITIES			
Current Creditors			
Securities purchased awaiting settlement	5,154	1,333	Investment Liabilities
Property creditors	2,501	3,022	Investment Liabilities
Investment Managers fees	1,028	1,032	Current Liabilities
Tax payable	626	636	Current Liabilities
Interest provision on long-term debt	52	61	Current Liabilities
Miscellaneous	639	998	Current Liabilities
Total Current Liabilities	**10,000**	**7,082**	
Current Creditors relating to (per IFRS headings):			
Central government bodies	626	636	Current Liabilities
Other local authorities	530	851	Current Liabilities
NHS bodies			
Public corporations and trading funds			
Other entities and individuals	8,844	5,595	Current Liabilities / Investment Liabilities
Total Current Liabilities	**10,000**	**7,082**	

For further details of investment assets see notes 10 and 10(a) to 10(e) to the Financial Statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to accounting policies in 2015/16.

<u>Fund account – revenue recognition</u>

2.1. Contribution Income

Normal contributions, both from the members and from the employers within the Fund, are accounted for on an accruals basis at the rate recommended by the Fund actuary for the payroll period to which they relate.

Employer 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 debtor. Amounts not due until future years are classed as long-term debtors. Where an employer leaves the scheme, any contribution required on closure is accrued for in the year of departure. (See Note 3 for further details).

2.2. 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 Scheme during the financial year. These are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 4 and 6).

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 (see 2.15) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see Note 4).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

2.3. Investment income (Note 9)

a) ***Interest income***: is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
b) ***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.
c) ***Distributions from pooled funds***: are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement.
d) ***Property-related income***: consists primarily of rental income. This is recognised on an accruals basis.
e) ***Movements in the net market value of investments***: changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year. (See Note 10(d)).

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

The Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises, and is shown on the Fund Account as 'Taxes on income'.

2.6. Administrative expenses (Note 7)

All administrative expenses are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund, with management, accommodation and other overheads apportioned to the Fund in accordance with general Council practices. Staff and on-costs related to administration are apportioned to this heading.

2.7. Investment management expenses (Note 7)

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.

Transaction costs and pooled fund fees/expenses are also included as investment management expenses. No employees are currently employed solely on in-house investment management.

2.8. Oversight and Governance costs (Note 7)

All oversight and governance costs are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund. Staff and on-costs apportioned to this activity are charged as oversight and governance expenses.

The cost of Elected Members expenses, training and travel relating to Pension Fund activities and obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, as are transition management costs, actuarial fees, legal fees and shareholder voting services.

2.9. Financial Assets

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 date 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 assets are recognised by the Fund.

Investment Assets
State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.
c) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:
    - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There was one such investment at 31st March 2015 valued at £0.434m, which was subsequently sold during 2015/16 (see Note 14 'Unquoted investments').
    - Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See Note 14).
    - Investments in private equity funds and unquoted limited partnerships 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 managers in accordance with the guidelines set out by the British Venture Capital Association. (See Note 14).
d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2016. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).

f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2016 by an independent valuer, CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards.

- The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.
- Each valuation has been prepared on the basis of "Fair Value", which is defined as: "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" in International Financial Reporting Standard (IFRS) 13 (for financial reporting under International Financial Reporting Standards).
- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP, is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."
- The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.
  i. No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal.
  ii. Acquisition costs have not been included in our valuation.
  iii. No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charges.
  iv. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

For further detail on Investment Properties see Note 10(b).

g) Loans and receivables: these are non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market. Investment Assets represented by loans and receivables are carried in the Net Assets Statement at amortised cost basis i.e. principal amount adjusted for any interest payable / receivable at the year-end date.

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31st

March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound.

2.10. Foreign currency transactions

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. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2016.

2.11. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not currently hold derivatives for speculative purposes.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forward foreign exchange rates.

Fair value of Exchange Traded Futures contracts is determined based on market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract. Derivatives are covered in more detail in Note 10(c).

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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.

2.13. Financial liabilities

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.

2.14. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 23).

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business.

Employees / contributors AVCs are paid over to one of the three providers by the Fund employers. These contributions are specifically for the purpose of providing additional benefits for individual contributors. Each AVC contributor receives an annual statement (from their provider) showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (see Note 15).

2.16. Stock Lending

Securities on loan at the 31st March are included in the net assets statement to reflect the Fund's continuing economic interest in the securities.

2.17. 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 material errors.

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 Fund'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.

Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Assistant Director – Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Assistant Director – Finance (Section 151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

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

NOTE 3: CONTRIBUTIONS

Benefits (see Note 5) are funded by contributions and investment earnings. Contributions are received both from active members and employers of the Fund. Contributions from active members are made in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) while individual employers' contribution rates are based on triennial actuarial funding valuations (see Note 23).

Contribution rates for 2015/16 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.

- Employers - range from 3.6% to 27.4% of pensionable pay, plus a lump sum payment for deficit recovery. Individual employer rates are set by the actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances; this includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

The following table analyses the amount of total contributions receivable in the year, by category and by employer type:

By Category	2014/15 £'000	2015/16 £'000
Employee contributions to the fund	16,430	16,509
Employer contributions to the fund:		
Normal contributions	37,396	38,321
Deficit recovery contributions	42,179	5,218
	79,575	43,539
	96,005	**60,048**
By Employer Type	**2014/15 £'000**	**2015/16 £'000**
Administering Authority	63,119	32,119
Other Scheduled bodies	29,221	24,901
Admitted bodies	3,665	3,028
	96,005	**60,048**

As shown in the above table the administering authority contributions (Cumbria County Council) were £32.119m (£63.119m 2014/15).

2014/15 showed a large increase in employer contributions as four scheduled body employers (including Cumbria County Council) opted to pay the three year total of their lump sum deficit contribution in April 2014. This amounted to £37.771m, of which £25.181m related to years two and three (2015/16 and 2016/17). An admitted body, Eden Housing paid an additional £0.500m capital payment in 2014/15 to offset their deficit.

In addition to normal contributions and capital payments from employers, the contributions figure also includes the costs of pension strain arising from non-ill-health early retirements and, where applicable, ill-health early retirements:

<u>Non ill-health early retirements</u>: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). These contributions are recognised in line with the agreement with the employer if there is no agreement, when the Fund receives them.

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted, from 1st April 2011, to make an additional employer contribution. The rate as determined by the Actuary includes an element to compensate the Fund for delayed receipt of monies. The additional employer contribution from the County Council is to be used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in Local Authority budgets. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term. The additional contribution from Cumbria County Council will fund an allowance of up to £7.312m for non-ill-health early retirements. From 1st April 2014 to 31st March 2016, £6.980m of this amount has been allocated.

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this and all other Cumbria LGPS employer's policies are contained in the full Actuarial Valuation Report as at 31st March 2013, available on the County Council's website, at www.cumbria.gov.uk/finance.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

Transfers in to the scheme have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension.

	2014/15 £'000	2015/16 £'000
Individual transfers	2,294	4,883
	2,294	**4,883**

The increased value of Transfers in during 2015/16 is in part due to 2014/15 being a low value year together with the inward transfer of a number of staff for one Admitted Body where combined transfers in were £1.095m.

NOTE 5: BENEFITS

Pension benefits under the LGPS are based on final pensionable pay or career average, and length of pensionable service. Members have access to the schemes depending upon the period their active membership in the LGPS covers, i.e. whether their employment was previous to 1st April 2008, during the period 1st April 2008 to 31st March 2014, and employed post 1st April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	**Service 1.04.08 to 31.03.14**	**Service Post 1 April 2014**
Basis	Final salary	Final Salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked accrues 1/49th x pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable 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.	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.

The table following analyses the amount of total benefits paid in the year, by category and by employer type:

By Category	2014/15 £'000	2015/16 £'000
Net pensions paid	60,612	62,748
Net lump sum on retirement	11,536	13,114
Net lump sum on death	1,599	1,615
	73,747	**77,477**
By Employer Type	**2014/15 £'000**	**2015/16 £'000**
Administering Authority	41,902	44,254
Scheduled bodies	26,518	27,163
Admitted bodies	5,327	6,060
	73,747	**77,477**

As shown in the above table the administering authority benefits (Cumbria County Council) were £44.254m (£41.902m 2014/15).

The increased benefits paid value reflects the amount of restructuring that has taken place in recent years, as most Fund employers within the LGPS seek to address reducing funding. Many employers within the Fund have chosen to offer voluntary redundancy programmes, which by their nature tend to appeal to individuals whom are aged over 55 and are therefore entitled to (at a cost to their employer) access their unreduced pension immediately. However, proposed changes to the regulations are being enacted currently which may affect this going forwards. The overall maturity of the fund and progression towards a negative cash flow position has been taken into account when reviewing the investment strategy.

NOTE 6: PAYMENTS TO AND ON ACCOUNT OF LEAVERS / EMPLOYER EXIT

	2014/15 £'000	2015/16 £'000
Refund of contributions	86	178
Individual transfers to other Schemes	2,617	3,355
Group transfer out to other Schemes	36,480	652
	39,183	**4,185**

The membership of the Cumbria Probation Trust transferred to the Ministry of Justice from 1st June 2014, along with all other Probation Trusts nationally and is now run from the Greater Manchester Pension Fund (GMPF). The corresponding transfer of Cumbria Fund assets to GMPF took place in February 2015, for £36.480m.

NOTE 7: MANAGEMENT EXPENSES

Officers employed by the County Council undertake the day to day management and administration of the Fund. Employee time spent working on the Fund and their associated costs e.g. office space and information technology are charged to the Fund. In addition the cost of maintaining the employee and employer contribution records, paying benefits and provision of other pensions administration services, provided by a public-public shared service with Lancashire County Council, Your Pension Service (YPS), are charged to the Fund. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of management expenses are as follows:

	2014/15 £'000	2015/16 £'000
Administrative costs	987	1,074
Investment management costs	7,333	7,121
Oversight and governance costs	445	484
	8,765	**8,679**

The Code of Practice 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 for 2015/16 in accordance with the CIPFA guidance on LGPS management costs, in the three headings above. To further aid comparison for future years using this new disclosure, a detailed breakdown for 2015/16 is provided for information in the next note.

Administration costs were £0.087m higher in 2015/16 than the previous year. This was largely due to benefits administration and employee costs.

Investment management costs were £0.212m lower in 2015/16 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.039m higher in 2015/16 than the previous year due in part to the additional costs of establishing and operating the new local pension board. This was a new statutory requirement placed on all pension fund administering authorities with effect from 1 April 2015.

NOTE 8: MANAGEMENT EXPENSES ADDITIONAL INFORMATION

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2015/16 is provided below.

	2014/15 £'000	2015/16 £'000
Administrative costs:		
Pensions Administration	869	897
Employee costs	114	152
Legal advice	4	25
	987	1,074
Investment Management costs:		
Fund management fees	2,962	3,138
Custody fees	127	140
Pooled fund costs and entry fees	3,916	3,609
Transaction costs	328	234
	7,333	7,121
Oversight and governance costs:		
Employee costs	176	213
Pension fund committee	43	26
Pension Board		15
Investment consultancy fees	55	73
Performance monitoring service	24	23
Shareholder voting service	13	16
Actuarial fees	7	37
Audit fees	24	25
Legal and tax advice	89	36
Other (including bank charges)	14	20
	445	484
	8,765	**8,679**

Variations on spend between years include:-

- Pensions Administration – the charge has increased in line with an inflation uplift and total membership numbers increasing.

- Employee costs (including staff training and travel) – an increase in the funding for internal staffing was agreed by the Pensions Committee in response to increasing Scheme complexity and regulatory oversight (including the introduction of the Pensions Board), to deliver the absorption of many of the activities previously undertaken by the segregated alternatives manager at reduced cost, and to appropriately service the increasing number of employers.

- Fund Management fees – the increase reflects increasing portfolio size, on which all of the fund management fees are based.

- Pooled fund costs and entry fees – the strategic selection of an in-house portfolio of alternative pooled funds has led to an increase in the management fees associated with these funds. The objective of this strategy being to seek growth assets to aid the generation of cash flow and increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term. There were one-off costs of entry into the two pooled property funds in 2014/15 of £3.174m, mostly relating to stamp duty, which has not been repeated in 2015/16. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.840m in 2015/16 (£0.513m 2014/15) and the result of the positive investment returns has required the accrual of performance fees of £0.769m in 2015/16 (£0.189m 2014/15).

- Transaction costs – these costs are variable depending on investment manager purchases and sales and are lower in 2015/16 in line with reduced volume of investment transactions.

- Legal costs – the need for professional legal advice on ad-hoc employer and pensioner/employee issues is variable year on year.
- Other – bank charges have increased due to European cash balances earning a negative rate of interest whilst the base rate in Europe is below zero.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £41.686m (2014/15 £30.451m), net of £0.177m (2014/15: £0.203m) irrecoverable tax on dividends, and including stock lending income of £0.056m (2014/15: 0.076m), can be analysed as follows:

	2014/15 £'000	2015/16 £'000
Interest from fixed interest securities	6,744	7,182
UK dividends	9,222	10,768
Overseas dividends	6,944	6,747
Distributions from pooled investment vehicles	75	8,639
Net rental income from investment properties (see note 10(b))	7,303	8,154
Interest on cash deposits	163	196
	30,451	**41,686**

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of reasons, including size and stability of dividend payment; the Fund benefitted in 2015/16 from companies paying some particularly high UK dividends, but benefitted less so in 2014/15.

The Fund is increasing its investment into infrastructure and other alternatives with the objective of both long term stable and inflation protected income streams. In 2015/16 income earned of £8.787m benefitted the Fund from the alternative investments being Infrastructure £4.361m, Pooled property funds £2.978m and other opportunistic investments £1.448m.

NOTE 10: INVESTMENT ASSETS

		31 March 2015			31 March 2016		
		UK	Overseas	Total	UK	Overseas	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		270,660	366,523	**637,183**	250,079	397,206	**647,285**
Equities - unquoted		434	-	**434**	-	-	**-**
		271,094	366,523	**637,617**	250,079	397,206	**647,285**
Fixed interest securities							
Public Sector/Govt - quoted		-	-	**-**	-	-	**-**
Corporate bonds - quoted		140,914	7,347	**148,261**	140,751	7,960	**148,711**
Corporate bonds - unquoted		-	-	**-**	-	-	**-**
		140,914	7,347	**148,261**	140,751	7,960	**148,711**
Pooled investment vehicles							
Pooled investments - quoted		9,580	13,706	**23,286**	4,734	4,069	**8,803**
Pooled investments - unquoted		551,857	461,340	**1,013,197**	521,993	497,138	**1,019,131**
	10(a)	561,437	475,046	**1,036,483**	526,727	501,207	**1,027,934**
Investment properties							
Freehold		113,960	-	**113,960**	126,525	-	**126,525**
Long leasehold		31,515	-	**31,515**	30,315	-	**30,315**
Short leasehold		-		**-**	-		**-**
	10(b)	145,475	-	**145,475**	156,840	-	**156,840**
Derivative contracts	10(c)	2,131	-	**2,131**	365	-	**365**
Cash Deposits		18,626	17,259	**35,885**	20,198	30,628	**50,826**
Amounts receivable for sales *		4,871	-	**4,871**	1,881	-	**1,881**
Investment income accrued *		4,791	-	**4,791**	5,290	-	**5,290**
Property rental debtors *		1,196	-	**1,196**	1,073	-	**1,073**
		31,615	17,259	**48,874**	28,807	30,628	**59,435**
Subtotal investment assets		1,150,535	866,175	**2,016,710**	1,103,204	937,001	**2,040,205**
Investment liabilities							
Derivative contracts	10(c)	(1,068)	-	**(1,068)**	(1,788)	-	(1,788)
Amounts payable for purchases *		(5,154)	-	**(5,154)**	(1,333)	-	(1,333)
Property creditors *		(2,501)	-	**(2,501)**	(3,022)	-	(3,022)
Subtotal investment liabilities		(8,723)	-	**(8,723)**	(6,143)	-	(6,143)
Total Net Investments		1,141,812	866,175	**2,007,987**	1,097,061	937,001	**2,034,062**

*Amended layout of figures for comparative purposes as per Note 1(c).

Note 10(a) details the pooled investments including index-tracking funds, unit trusts and alternatives funds.

Note 10(b) details the Fund's property portfolio.

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2016.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £765.1m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

The investment managers may also choose to invest in managed funds such as unit trusts as a preferred method of investing in smaller asset classes or less easily accessed markets.

	2014/15 £'000	2015/16 £'000
Unitised insurance policies - unquoted		
UK equities	102,104	46,871
Overseas equities	321,513	337,477
UK corporate bonds	0	0
UK index-linked securities	373,337	380,759
UK sterling liquidity fund	51	0
	797,005	**765,107**
Unit trusts		
UK - quoted	9,580	4,734
Overseas - quoted	11,927	2,790
	21,507	**7,524**
Other Managed funds		
Pooled property REIT's - quoted	1,779	1,279
Pooled property funds - unquoted	69,675	72,304
Other managed funds - unquoted	146,517	181,720
	217,971	**255,303**
Total	**1,036,483**	**1,027,934**

The Fund is increasing its investment into infrastructure and other alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. As these new investments were deployed during 2015/16, funds were withdrawn from the passive UK equity holdings, and the resulting decrease in unitised insurance policies is seen above.

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2016 the portfolio valued at £156.840m included 27 properties ranging from £1.700m to £15.550m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland; the intention of this spread is to mitigate risk by enhancing the diversification within this asset class.

'Net rental income from investment property' has been accounted for in the Fund Account under 'Net Investment Income' and is analysed as follows:

	2014/15 £'000	2015/16 £'000
Rental income from investment property	7,730	8,508
Direct operating expenses arising from investment property	(427)	(354)
	7,303	**8,154**

The improved rental income between years reflects a strategic shift to a higher allocation in property, inflationary rent uplifts and an increase in the occupancy of properties rented.

There are no restrictions on the Fund's ability to realise the value inherent in its investment property or on the Fund's right to the remittance of income and the proceeds of disposal. The properties are held by a wholly-owned nominee company on behalf of the Fund and the Fund is entitled to all income and capital proceeds. The Fund has no contractual obligation to purchase, construct or develop, and the Fund has its normal obligations in respect of repairing and maintaining properties where the costs are generally passed onto the tenants where a lease is in place.

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

	2014/15 £'000	2015/16 £'000
Balance at the start of the year	**123,168**	**145,475**
Additions:		
Purchases	5,715	7,000
Subsequent expenditure	2,782	1,353
Disposals	(2,588)	(6,962)
Net gains/(losses) from fair value adjustments	16,398	9,974
Balance at the end of the year	**145,475**	**156,840**

The Fund's property investments are commercial leased out properties, all of which are operating leases. The future minimum lease payments receivable under non-cancellable leases for these land and buildings in future years are shown as follows:

	2014/15 £'000	2015/16 £'000
Not later than one year	8,026	7,942
Later than one year and not later than five years	27,051	28,947
Later than five years	31,659	35,217
	66,736	**72,106**

NOTE 10(c): DERIVATIVES

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is standard for investors in LGPS to hedge 50% of their foreign currency exposure to mitigate the effect any adverse currency movements would have at the time of the realisation of the investment.

Cumbria LGPS follows general practice in this regard and therefore has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

The corporate bond mandate managed by Standard Life also uses derivatives in the form of exchange traded futures contracts to hedge overseas duration risk, in particular US$. Futures could also be used to manage the overall duration of the portfolio to ensure it stays within the limits set out in the Guidelines of the mandate. The economic exposure represents the notional value of stock purchased under future contracts and is therefore subject to market movements.

The derivatives can be summarised as follows:

	31 March 2016		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	315	(1,788)	**(1,473)**
Futures	50	0	**50**
Derivative Contracts Gain/(Loss)	**365**	**(1,788)**	**(1,423)**

The open forward foreign exchange contracts can be summarised as follows:-

Currency Bought		Currency Sold		2015/16	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
None					
Settlement one to six months					
GBP	59,829	EUR	77,157	0	(1,475)
GBP	31,665	JPY	5,155,068	0	(313)
GBP	248,843	USD	357,304	315	0
				315	**(1,788)**
Net forward currency contracts at 31 March 2016				**(1,473)**	

Outstanding exchange traded futures contracts are as follows:-

Type	Expires	Economic exposure	Market Value at 31 March 2015 £'000	Economic exposure	Market Value at 31 March 2016 £'000
Assets					
UK Fixed Interest	Less than one year			3,606	23
Overseas Fixed Interest	Less than one year	6,641	134	8,849	27
			134		**50**
Liabilities					
Overseas Fixed Interest	Less than one year	(4,120)	(21)	0	0
			(21)		**0**
		Net futures	**113**		**50**

NOTE 10(d): PROFIT AND LOSSES ON DISPOSAL OF INVESTMENTS AND CHANGES IN THE MARKET VALUE OF INVESTMENTS

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments, and cash transfers from and to the Administering Authority.

The table below reconciles the movements in investments and derivatives ('Total net investments') for the current year:

2015/16:

Asset Class	Value at 1 April 2015 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2016 £'000
Fixed interest securities	148,261	15,010	(9,211)	(28)	(5,321)	148,711
Equities						
UK equities	271,094	39,426	(36,814)	648	(24,275)	250,079
Overseas equities	366,523	142,329	(126,940)	12,016	3,278	397,206
	637,617	181,755	(163,754)	12,664	(20,997)	647,285
Pooled investment vehicles	797,005	13,269	(50,998)	32,578	(26,747)	765,107
Unit Trusts	21,507	2	(14,076)	1,549	(1,458)	7,524
Managed funds	217,971	39,556	(16,861)	7,527	7,110	255,303
Property (See Note 10b)	145,475	8,353	(6,962)	(3,097)	13,071	156,840
Derivatives (forward foreign exchange contracts, futures)	1,063	49,197	(36,441)	(12,756)	(2,486)	(1,423)
	1,968,899	**307,142**	**(298,303)**	**38,437**	**(36,828)**	**1,979,347**
Cash	35,885			(1,041)	2,649	50,826
Amounts receivable for sales	4,871					1,881
Investment income accrued	4,791					5,290
Property rental debtors	1,196					1,073
Amounts payable for purchases	(5,154)					(1,333)
Property creditors	(2,501)					(3,022)
Total Net Investments	**2,007,987**			37,396	(34,179)	**2,034,062**

Analysis of gains/(losses) for the year	**2015/16 £'000**
Realised - Profit and losses on disposal of investments	37,396
Unrealised - Changes in the market value of investments	(34,179)
	3,217

The following table reconciles the movements in investments and derivatives for the previous year:

2014/15 (restated figures for comparative purposes as per Note 1(c)):

Asset Class	Value at 1 April 2014 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2015 £'000
Fixed interest securities	130,882	25,644	(19,006)	(441)	11,182	148,261
Equities						
UK equities	249,539	59,462	(56,750)	8,972	9,871	271,094
Overseas equities	284,357	153,366	(135,577)	3,106	61,271	366,523
	533,896	212,828	(192,327)	12,078	71,142	637,617
Pooled investment vehicles	855,937	78,061	(270,011)	91,197	41,821	797,005
Unit Trusts	21,358	26,389	(27,856)	1,256	360	21,507
Managed funds	47,248	167,653	(12,259)	731	14,598	217,971
Property (See Note 10b)	123,168	8,497	(2,588)	507	15,891	145,475
Derivatives (forward foreign exchange contracts, futures)	1,754	33,497	(19,397)	(12,972)	(1,819)	1,063
	1,714,243	**552,569**	**(543,444)**	**92,356**	**153,175**	**1,968,899**
Cash	47,518					35,885
Amounts receivable for sales	3,982					4,871
Investment income accrued	4,372					4,791
Property rental debtors	777					1,196
Amounts payable for purchases	(3,753)					(5,154)
Property creditors	(2,266)					(2,501)
Total Net Investments	**1,764,873**					**2,007,987**

Analysis of gains/(losses) for the year	**2014/15 £'000**
Realised - Profit and losses on disposal of investments	92,356
Unrealised - Changes in the market value of investments	153,175
	245,531

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2015		31 March 2016	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities, bonds, cash	354,313	17.6%	316,329	15.5%
Legal & General Policy No. 2	Index-linked bonds	303,460	15.1%	309,492	15.2%
Legal & General Policy No. 3	Global equities	139,232	6.9%	139,286	6.8%
Legal & General Passive Currency	Currency overlay	932	0.1%	(1,359)	-0.1%
Schroders Investment Management	UK equities	262,164	13.1%	248,796	12.2%
Nordea	Global equities	199,902	10.0%	217,010	10.7%
Loomis Sayles	Global equities	196,166	9.8%	200,772	9.9%
Aberdeen Asset Management	Direct property	147,140	7.3%	161,298	7.9%
Standard Life	UK corporate bonds	151,588	7.5%	153,156	7.5%
JP Morgan	Infrastructure	83,992	4.2%	84,449	4.2%
M&G	Property Fund	34,807	1.7%	36,449	1.8%
Aviva	Property Fund	33,555	1.7%	34,539	1.7%
Strategic cash allocation	Cash	21,895	1.1%	31,648	1.6%
Partners Group	Infrastructure	18,427	0.9%	31,593	1.6%
BlackRock	Alternatives	48,396	2.4%	29,841	1.5%
M&G	Real Estate Debt	8,003	0.4%	17,125	0.8%
Unigestion	Secondary Fund			10,370	0.5%
Babson	Private Loan Fund			6,250	0.3%
SL Capital	Secondary Fund	1,832	0.1%	5,551	0.3%
Aberdeen Asset Management	Indirect property	1,757	0.1%	1,316	0.1%
Healthcare Royalty Partners	Royalties Fund	334	0.0%	119	0.0%
Transition residual	Overseas equities	92	0.0%	32	0.0%
Total Net Investments		**2,007,987**	**100.0%**	**2,034,062**	**100.0%**

Recent actions to implement agreed changes to the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to improve diversification and generate more stable and / or inflation protected income streams. To fund these investments during 2015/16, funds were withdrawn from the passive holdings, and the resulting decrease in unitised insurance policies is seen above.

As the Fund moves towards a more negative cash flow position, there has become an increased need for a strategic allocation to cash and along with providing funding for new assets and working capital, this also gives the Fund strategic downside protection.

NOTE 10(f): INVESTMENTS REPRESENTING MORE THAN 5% OF THE NET ASSETS OF THE FUND

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

Holding	31 March 2016 £'000	% of Total Net Investments
Policy 1 Legal and General North America Index	138,361	6.8%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	71,267	3.5%
Policy 1 Legal and General UK Equity Index	46,871	2.3%
Policy 1 Legal and General Europe(Ex UK)Equity Index	28,994	1.4%
Policy 1 Legal and General Other Pacific Basin Index	16,998	0.8%
Policy 1 Legal and General Japan Index	13,838	0.7%
Policy 1 Total	316,329	15.5%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	309,492	15.2%
Policy 3 Legal and General FTSE World Equity Index	139,286	6.8%
	765,107	**37.5%**

NOTE 11: FINANCIAL INSTRUMENTS

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Fund can be classified as Financial Instruments and Investment Property as follows:

	31 March 2015 £'000	31 March 2016 £'000
Financial Instruments	1,875,785	1,884,401
Statutory debts / liabilities & provisions	6,056	5,568
Investment Property	145,475	156,840
Net Assets of the Fund	**2,027,316**	**2,046,809**

	31 March 2015				31 March 2016			
	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	637,617			637,617	647,285			647,285
Fixed interest securities	148,261	-	-	148,261	148,711	-	-	148,711
Pooled investment vehicles	1,036,483	-	-	1,036,483	1,027,934	-	-	1,027,934
Derivative contracts	2,131	-	-	2,131	365	-	-	365
Cash deposits	-	50,269	-	50,269	-	59,152	-	59,152
Investment receivables/debtors		10,859		10,859		8,244		8,244
Current & long-term assets	-	555	-	555	-	883	-	883
	1,824,492	**61,683**	**-**	**1,886,175**	**1,824,295**	**68,279**	**-**	**1,892,574**
Financial Liabilities								
Derivative contracts	(1,068)	-	-	(1,068)	(1,788)	-	-	(1,788)
Investment payables/creditors	-	-	(7,655)	(7,655)	-	-	(4,355)	(4,355)
Current/long-term liabilities			(1,667)	(1,667)			(2,030)	(2,030)
Total Financial Instruments	**1,823,424**	**61,683**	**(9,322)**	**1,875,785**	**1,822,507**	**68,279**	**(6,385)**	**1,884,401**
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	230,201	-	-	229,499	(4,969)	-	-	(4,969)
Financial Liabilities	(1,068)	-	-	(1,068)	(1,788)	-	-	(1,788)
Total Net Gains/(Losses)				228,431				(6,757)

NOTE 11(a): VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

To show the liquidity of the assets the Fund holds, under IFRS the valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The aim being to show

how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity assessment is subjective. As with any assessed additional investment risk investors should expect to be rewarded through expected higher investment returns.

As the Fund is in deficit it needs to generate excess returns at an acceptable level of risk. To do this the Fund diversifies across asset classes, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the value of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 46% of the Holding of Financial Instruments are ‘Level 1’ (2014/15: 46%)

These are considered the most reliably quantifiable and easily liquidated i.e. converted into cash, assets, carrying the lowest valuation and liquidity risk.

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, valued using bid prices where available. These can be freely traded in active markets and are mainly quoted equity shares, fixed interest bonds, cash, and also include quoted unit trusts.

Level 2: 41% of the Holding of Financial Instruments are ‘Level 2’ (2014/15: 43%)

While these assets are not usually convertible into cash immediately they are still considered to be relatively liquid with easily verified and relatively certain asset pricing of the underlying stocks if not the pooled fund itself.

Quoted market prices are not available. Valuation techniques are used to determine fair value. The techniques use inputs that are based significantly on observable market data.

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 13% of the Holding of Financial Instruments are ‘Level 3’ (2014/15: 11%)

For many of these assets prices are not readily quantifiable and they often prove to be the most illiquid. As such they hold both the highest liquidity and valuation risk.

Quoted market prices are not available. Valuation techniques are used to determine fair value. At least one input that has a significant effect on the valuation is not based on observable market data.

Such instruments include unquoted equity investments, private equity and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9(c). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Scheme.

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. Cash deposits, current & long term assets/liabilities are not measured at 'fair value through profit and loss' per Note 11, but have been included in the table to illustrate a reconciliation to the financial instruments figure quoted in Note 11.

VALUATION CLASSIFICATION LEVEL	31 March 2015				31 March 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
FINANCIAL INSTRUMENT CLASSIFICATION								
Financial Assets								
Investments								
Equities	637,183	-	434	637,617	647,285	-	-	647,285
Fixed interest securities	148,261	-	-	148,261	148,711	-	-	148,711
Pooled investment vehicles	23,286	797,005	216,192	1,036,483	8,803	765,107	254,024	1,027,934
Derivative contracts	-	2,131	-	2,131	-	365	-	365
Cash deposits *	50,269	-	-	50,269	59,152	-	-	59,152
Investment receivables/debtors *	-	10,859	-	10,859	-	8,244	-	8,244
Current & long-term assets *	-	555	-	555	-	883	-	883
	858,999	**810,550**	**216,626**	**1,886,175**	**863,951**	**774,599**	**254,024**	**1,892,574**
Financial Liabilities								
Derivative contracts	-	(1,068)	-	(1,068)	-	(1,788)	-	(1,788)
Investment payables/creditors *	-	(7,655)	-	(7,655)	-	(4,355)	-	(4,355)
Current & long term liabilities *	-	(1,667)	-	(1,667)	-	(2,030)	-	(2,030)
Total Financial Instruments	**858,999**	**800,160**	**216,626**	**1,875,785**	**863,951**	**766,426**	**254,024**	**1,884,401**

* valued at amortised cost rather than fair value, included for completeness

Percentage of Financial Instruments	45.8%	42.7%	11.5%	100.0%	45.8%	40.7%	13.5%	100.0%

The increase in level three category and decrease in level two category reflects the strategic shift towards investment in alternative asset classes such as infrastructure and opportunistic investments, and the related withdrawal from pooled passive funds. This is a strategic allocation shift to accept illiquidity / risk for which the Fund expects to be suitably rewarded over the longer term life of such investments. An assessment has been done of the total value of illiquidity that the Fund can prudently tolerate balanced against expected short and mid-term cash flow requirements and current levels are within tolerance.

The investments categorised as Level 3 in the above table (an unquoted equity investment sold in 2015/16, an ex-manager's pooled funds, and eleven directly invested pooled funds) are the most difficult to value using observable market transactions and are those most subject to estimation. For these investments, a change in fair value gain of £14.951m (£7.135m unrealised gain and £7.816m realised gain) was recognised in the analysis of net gains/losses for the year to 31 March 2016 (total £6.757m loss) in Note 11. Purchases of £38.115m and sales of £15.668m had also taken place for Level 3 investments.

NOTE 12(a): LONG TERM ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2015 £'000	31 March 2016 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,643	1,314
Total Long Term Assets	**1,643**	**1,314**
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	1,643	1,314
Other entities and individuals	-	-
Total Long Term Assets	**1,643**	**1,314**

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £1.314m shown above as 'Long Term Debtors – Employer exit'.

NOTE 12(b): CURRENT ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2015 £'000	31 March 2016 £'000
Cash balances	**14,384**	**8,326**
Current Debtors		
Contributions due	4,474	4,453
Employer exit from scheme due < 1 year	581	329
Miscellaneous	890	1,289
Total Current Debtors	**5,945**	**6,071**
Total Current Assets	**20,329**	**14,397**
Current Debtors relating to (per IFRS headings):		
Central Government bodies	699	776
Other local authorities	4,396	4,362
Other entities and individuals	850	933
Total Current Debtors	**5,945**	**6,071**

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments. Cash balances held at 31st March 2015 reflected large payments due out in April 2015.

Contributions due at 31st March vary from year to year, depending on the actual dates that payments are made by employers in respect of contributions and in settlement of invoices.

NOTE 13(a): LONG TERM LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2015 £'000	31 March 2016 £'000
Long term Creditors		
Interest provision on long-term debt	298	237
Total Long term Liabilities	**298**	**237**
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	298	237
Total Long term Liabilities	**298**	**237**

NOTE 13(b): CURRENT LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2015 £'000	31 March 2016 £'000
Current Creditors		
Investment Managers fees	1,028	1,032
Tax payable	626	636
Interest provision on long-term debt	52	61
Miscellaneous	639	998
Total Current Liabilities	**2,345**	**2,727**
Current Creditors relating to (per IFRS headings):		
Central government bodies	626	636
Other local authorities	530	851
Other entities and individuals	1,189	1,240
Total Current Liabilities	**2,345**	**2,727**

NOTE 14: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk. These risks are a function of investing and cannot be completely avoided. They are however closely monitored and where possible appropriate mitigation methods are used to limit the Fund's exposure.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line at http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.

With regards to investing, to minimise risks in this area the Administering Authority's risk management procedures focus on the unpredictability of financial markets; implementing operating restrictions on managers and diversification across the managers and asset classes within portfolio.

The Fund annually reviews its Statement of Investment Principles (SIP) and corresponding Investment Strategy which set out the Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed.

The Statement of Investment Principles (SIP) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line at:
www.cumbria.gov.uk/finance/finance/cumbrialgps.asp.

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy must be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years. Completion and implementation of the outcomes of this review have been taking place since 2012 and are expected to be finalised during 2016/17. The SIP has been constructed to show both the transitional and final asset allocations expected throughout this period of change.

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return; individual managers' performance is reported to the Pensions Committee from the Investment Sub Group quarterly, thus freeing up Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes has been developed and strengthened over the 2 years it has been in place. The process continues to evolve from its positive start and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

As a further control, a substantial amount of due diligence is performed at the appointment stage both by Officers and the Fund's independent investment advisors and / or consultants to ascertain managers' risk control, audit and monitoring procedures.

Liquidity Risk

Liquidity Risk is the risk that the Fund will not be able to meet its financial obligations when they fall due.

The main liquidity risk for the Fund is not having monies available to meet commitments to make pension payments to members as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered.

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.731m in 2015/16 (£14.631m in 2014/15). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. There was no requirement to liquidate assets ahead of previous plans as the value was anticipated and therefore easily accommodated within the Fund's cash reserves.

On advice from the Fund's Actuary it is projected that the Fund will remain cash positive for the medium term. However in the medium term, in light of further anticipated reductions in local government budgets and the resultant workforce reductions, coupled with possible reductions in active membership (due to proposed increases in employee contributions through the introduction of the 2014 Scheme), this will be kept under active review.

Note 11(a) explains how the Fund holds a large value of very liquid securities which could be promptly realised if required. As at 31st March 2016 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,621.250m, i.e. 79% of net assets (31st March 2015 £1,647.745m 81%). The value of the illiquid assets was £425.559m which represented 21% of net assets (31st March 2015 £379.571m, 19%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

A maturity analysis for investment liabilities (all of which are derivatives) is shown in Note 10(c). The current liabilities of the Fund (see Note 13(b)) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see Note 13(a)) consist of the interest provision on the long term debtor – employer exit. This is being unwound as follows:

	31 March 2015 £'000	31 March 2016 £'000
Due 1 to 2 years	61	70
Due 2 to 5 years	237	167
Due 5 to 10 years		
Total Long term liabilities	**298**	**237**

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk reflects interest rate risk, currency risk and other price risks.

The Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund's assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term.

To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2009. Details can be found in the Fund's Statement of Investment Principles. The

Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic / political regions within each asset class.

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the recent Investment Strategy Review has introduced some new asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in.

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and bond yields (which affect the value placed on the Fund's liabilities). Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

	2015/16 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	301,684	10.8%	334,296	269,072
Overseas Equities	735,962	9.8%	808,307	663,617
Bonds	148,711	6.6%	158,585	138,837
Index Linked Gilts	380,759	9.5%	417,045	344,473
Alternatives	254,024	7.4%	272,873	235,175
Cash	61,942	0.0%	61,942	61,942
	1,883,082		**2,053,048**	**1,713,116**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2016, the Fund had overseas investments (excluding forward foreign exchange contract) of £906.373m and £30.628m cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £46.850m, or 2.3% of the Fund's total value. The Fund holds many different currencies. To assess the risk the Fund is exposed to as a result of holding these currencies Officers have estimated, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), that a 5% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange – Derivative Contracts

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is common for LGPS's to hedge 50% of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset.

The Cumbria Fund, in line with common practice across the LGPS, has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2016, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

Credit Risk

Credit Risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. In essence the Fund's entire investment portfolio is exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing. Consequently the risk of loss is implicitly provided for in the carrying values of the Fund's financial assets and liabilities. In addition to this, 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 Fund has had no experience of default or uncollectable deposits over recent years.

Through review of the Fund's external Investment Managers annual internal control reports the Fund monitors its exposure to credit and counterparty risk. This review is aimed at ensuring that Managers exercise reasonable care and due diligence in its activities on behalf of the Fund.

All derivative transactions incorporate a degree of credit risk. The longer the term of a transaction, the greater the potential for change in market value, and the greater the credit risk. In relation to forward currency contracts and the stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31st March 2016 were £8.326m (2014/15: £14.384m) within current assets (see Note 12(b)), £50.826m (2014/15: £35.885m) shown as cash within investments (see Note 10), and a further £2.790m shown as unit trusts in Note 10a (2014/15: £15.608m) where BlackRock invest in their in-house Money Market Fund as part of their portfolio. In addition to this, in 2014/15 £0.051m of the Funds holding in unitised insurance policies shown in Note 10 under pooled investments, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. The credit ratings of the accounts and funds were as follows:

Summary	Rating at 31 March 2016	Balances as at 31 March 2015 £'000	Balances as at 31 March 2016 £'000
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	13,629	12,023
SSGA EUR Liquidity Fund	AAA	10,715	3,044
SSGA USD Liquidity Fund	AAA	2,556	26,204
Legal & General Sterling Liquidity Fund	AAA	51	-
BlackRock Institutional Cash USD	AAA	11,927	2,790
Schroder Offshore Cash Guernsey	AAA	3,681	-
Ignis Sterling Liquidity Fund	AAA	8,000	5,403
Goldman Sachs Sterling Reserves Fund	AAA	5,000	1,801
Bank deposit accounts			
National Westminster Bank	BBB+	1,384	1,122
Bank current accounts			
State Street Bank & Trust	AA-	4,102	1,572
Barclays Bank	A-	2,969	6,407
Short Term Deposit			
Citibank Cash Collateral	A		150
Bank of New York call account	AA-	1,914	1,426
Total		**65,928**	**61,942**

Counterparty Risk

The principal mitigation of the counterparty risk on a foreign currency trade is the rigour of the counterparty selection and monitoring process. Trades are only executed with approved counterparties, who have satisfied requirements in terms of market capability and credit standing. The list of potential counterparties is subject to approval and monitoring by the managers' as part of their oversight of risks. Subject to overriding requirements as our fiduciary agent to demonstrate best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

- previous dealing experience of the counterparty,
- level of confidence in the counterparty's ability to absorb a trade of that size, based on ongoing research into the capabilities of the main counterparty banks,
- the bank's position in the market for sourcing PFI, corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager nor any of its related companies would act as counterparty.

As part of the managers credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis. In addition, more formal review takes place via quarterly meetings which can be convened at very short notice to meet any particular demands (as was the case, for example, in the Lehman crisis, when it met daily).

Settlement Risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital, the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £1.423m gain at 31st March 2016.

As currency movements can be quite volatile positions can change from day to day quite significantly. It is difficult to approximate the size of the risk using historical currency movements, as these cannot be relied upon as a guide to future movements.

Interest Rate Risk

The Fund invests in financial assets 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 direct exposure to interest rate movements as at 31st March 2016 and 31st March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2014/15 £'000	2015/16 £'000
Fixed interest securities (including pooled investments)	521,598	529,470
Cash and cash equivalents	10,369	10,677
Money market funds and pooled cash vehicles	55,559	51,265
	587,526	**591,412**

Unquoted Investments

The Fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient low risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. The Fund is increasing its allocation to infrastructure, and other alternative investment and debt products, and unquoted pooled funds give an efficient method of accessing exposure to these assets for a fund of Cumbria's size.

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. The valuations are audited for each investment manager by their respective auditors and reported to the Fund as clients.

The unquoted investments held at 31st March 2016 are as follows:

Asset Class	2014/15 £'000	2015/16 £'000	Manager	Holding Details
Equities				
Equity unquoted - UK	434	0	Schroders	Northern Investors, a holding in a venture capital fund (remnants of investments made in 1984-1990) held on a care and maintenance basis until wind-up was completed in March 2016.
Pooled investment vehicles				
Unitised insurance policies	797,005	765,107	Legal and General	Index tracking funds.
Other managed funds	83,992	84,450	JP Morgan	Infrastructure fund.
	34,807	36,449	M&G	Long-lease property fund.
	33,555	34,539	Aviva	Long-lease property fund.
	18,427	31,593	Partners Grp	Infrastructure fund.
	33,929	26,263	BlackRock	Alternative funds - hedge funds, private equity. BlackRock in-house funds.
	8,003	17,125	M&G	Real estate debt funds.
	0	10,370	Unigestion	Secondary private equity fund.
	0	6,250	Babson	Global private loan fund.
	1,832	5,551	SL Capital	Secondary private equity fund.
	1,313	1,316	Aberdeen	Overseas property funds (ex-BlackRock).
	334	118	HRP	Healthcare Royalties Partners Fund.
	1,013,631	**1,019,131**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the transactions are treated separately to the Fund’s accounts and therefore do not form part of these accounts.

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund gives no guarantee of investment performance of the providers and makes no contribution to the employees’ funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped accepting new business. The values of the three schemes for Cumbria LGPS, along with the value of Equitable Life, are shown below:

	2014/15 £'000	2015/16 £'000
Standard Life	1,075	958
Scottish Widows	1,156	1,085
Equitable Life	920	817
Prudential	1	176
Total AVCs	**3,152**	**3,036**

AVC contributions of £0.293m were paid directly from employees pay to the providers during the year (2014/15: £0.202m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of contributions paid by a member is the securing of a pension at retirement, usually by buying an annuity or transferring the investment into the main Scheme assets under Regulation 66 of the Local Government Pension Scheme Regulations 1997. The investment could be realisable earlier in the event of a member's death before retirement.

NOTE 16: RELATED PARTY TRANSACTIONS

In day-to-day operations the Fund has many transactions with Cumbria County Council as the administering authority of the Fund, including the pension contributions as an employer, payments on the Fund's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The Fund has not for example invested in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

There are normal transactions with all the employers who have members in the Fund, who may be regarded as related parties, predominantly relating to employee and employer contributions. These transactions are reported as part of the income and expenditure statements.

Executive Board Members and senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS) were asked to complete a declaration on related parties, in addition to all members of the Cumbria Pensions Committee, and relevant senior officers. An examination of the returns for 2015/16 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Pension Scheme. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been exceeded in 2015/16.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel requirements of IAS 24, 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 Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the administering authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2015/16 (see Note 13 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons:

<u>Notes on below table</u>

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2015/16 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2015/16.

- Employer's Current Service Pension Contribution – LGPS 13% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Scheme is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2015/16 on Cumbria LGPS specific work.

- During 2015/16, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (2014/15: 1) received remuneration in the £50,000 - £54,999 range however the remuneration of the Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

2015/16 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,475	11,475	1,492	12,967
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	46,973	46,973	6,106	53,079
	58,448	**58,448**	**7,598**	**66,046**

2014/15 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,306	11,306	1,470	12,776
Senior Manager – Technical Finance (Deputy s.151 - LGPS)	46,214	46,214	6,008	52,222
	57,520	**57,520**	**7,478**	**64,998**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding capital commitments at 31st March 2016.

NOTE 18: CONTINGENT ASSETS

Tax Reclaims

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2015/16. The estimated value of claims still outstanding is £3.938m (value in GBP at 31st March 2016, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2015/16 and progress has slowed for both Fokus Bank (withholding tax) claims in France and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. A final MOD claim for £0.144m was submitted in March 2015, taking the total claim value in excess of £0.914m, although no accrual was put in the accounts as the outcome is uncertain.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.442m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class Actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2015/16 are considered to be recoverable with no further impairment beyond the existing provision for bad and doubtful debts.

There were no impairments of investments during 2015/16.

Financial Assets That Are Past Due As At 31st March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.009m of debtors aged between two and six months (£0.092m 2014/15). Debtors aged greater than six months totalled £0.040m as at 31st March 2016 (£0.049m 2014/15).

NOTE 20: STOCK LENDING

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). A programme is in place through the custodian, State Street Bank and Trust, to earn additional income for the scheme from stock lending. The limit on amounts to be loaned was increased from 25% to 33% from January 2015.

Securities on loan at the 31st March 2016 of £46.428m (2014/15: £54.167m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £45.791m UK equities and £0.637m overseas equities (2014/15: £51.146m UK equities and £3.021m overseas equities). The related collateral totalled £49.060m (2014/15: £57.476m), consisting £23.181m overseas bonds and £25.879m UK equities (2014/15: £21.922m overseas bonds and £35.554m UK equities).

For the year to 31st March 2016, the Fund earned income of £0.056m (2014/15 £0.076m) through stock lending of the various assets (as detailed in Note 9).

NOTE 21: POST BALANCE SHEET EVENTS

Following the EU referendum on 23rd June 2016, the UK has voted to leave the EU. At the time of writing, it is unclear how this will affect the valuations in the longer-term of both the Fund's investment assets and its liabilities. The initial response by the markets was to seek "safe haven assets" which caused volatility in the stock markets. Coupled with this there was a significant fall in value of sterling. While it is anticipated there will be increased volatility in the financial markets (equity, gilts, bonds, and foreign exchange rates) in the short to medium term, this may yield opportunities as well as challenges for the Fund.

The Fund's Investment Strategy is more defensive than the average in the LGPS and is positioned to absorb downside risk as well as being targeted at achieving long-term stability and asset growth. This is achieved by diversification across the portfolio (e.g. between asset classes, sectors, risk appetite and geographic regions). The Fund will continue to monitor the situation closely in the coming months.

NOTE 22: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND THE USE OF ESTIMATES AND UNCERTAINTIES

In applying the policies, the Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in Note 14).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies.

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

Item	**Uncertainties**	**Effect if actual differs from assumptions**
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible. Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	For every 1% increase in market value, the value of the Fund will increase by approx £20.3m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked eg RPI uplifts, based on throughput eg power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons; for each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year

		increase in life expectancy would result in a £50m increase in deficit shortfall (ie £457m to £507m). The Actuarial Valuation at March 2013 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Bad Debt Provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

NOTE 23: ACTUARIAL POSITION OF THE FUND

Below is shown a statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). This statement shows both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26. The full Actuarial Valuation Report as at 31st March 2013 is available on the County Council's website, at www.cumbria.gov.uk/finance. Once published the new Actuarial Valuation Report for 2016 will also be made available on the Council's website.

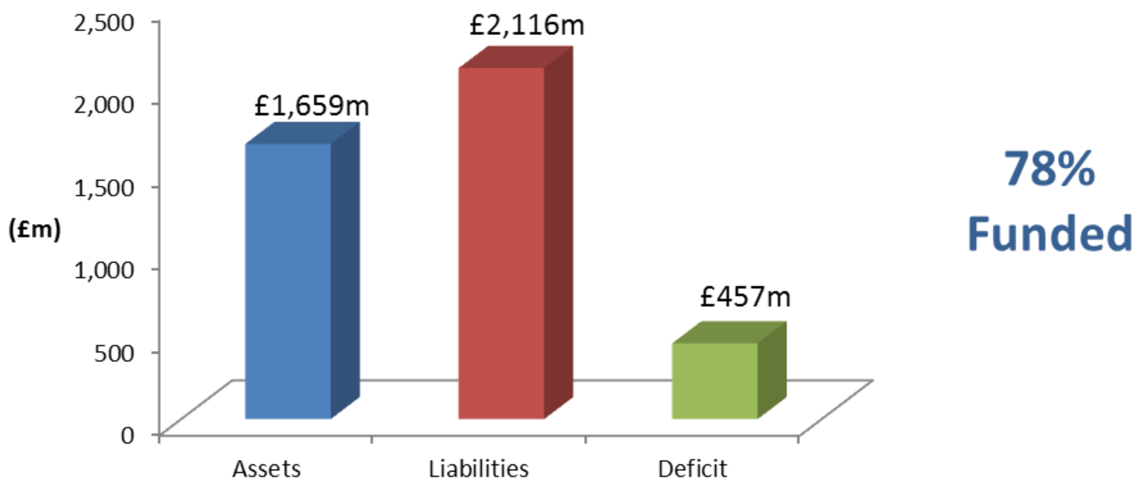
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

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 (Administration) Regulations 2013.

An actuarial valuation of the Cumbria Local Government Pension Scheme 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 Scheme's assets of £1,659 million represented 78% of the Fund's past service liabilities of £2,116 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £457 million.



The valuation also showed that a common rate of contribution of 14.2% 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 83% with a resulting deficit of £343 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 Scheme, the updated deficit would be eliminated by a contribution addition of £20m per annum increasing at 4.1% per annum (equivalent to approximately 8.0% 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 Scheme 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)	4.6% per annum	5.6% per annum
Rate of pay increases	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 Scheme 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 Scheme'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 as at the beginning of the year (2.0% p.a.).

The value of the Scheme's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £2,618 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£131 million.

Adding interest over the year increases the liabilities by c£86 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further £11 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 £2,584 million.

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

NOTE 24: ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There has been no such change in accounting standards issued which impact on 2015/16.

NOTE 25: PARTICIPATING EMPLOYERS OF THE SCHEME

As at 31st March 2016 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2016 (total 126)

Scheme Employers:
- Cumbria County Council

District Councils (6)
- Allerdale Borough Council
- Barrow Borough Council
- Carlisle City Council
- Copeland Borough Council
- Eden District Council
- South Lakeland District Council

Scheduled Bodies - Academies (48)
(number of employers 40)
- Appleby Grammar Academy
- Arnside National CofE Academy
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Castle Carrock Academy
- Chetwynd School Academy
- Cockermouth Academy (New)
- Crosby on Eden Academy
- Dallam Academy
- Dearham Primary Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary Academy (New)
- Furness Academy
- George Hastwell School Academy (New)
- Ghyllside Academy
- Gilsland Academy
- Great Corby Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Penny Bridge Academy
- Queen Elizabeth Academy
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- Stanwix School Academy
- Stramongate Academy
- The Queen Katherine School Academy
- Trinity Academy
- Walney Academy
- West Lakes Academy
- Whitehaven Academy

Building Futures MAT (one employer):
- Tebay Primary Academy
- Yanwath Primary Academy

Inspired Learning MAT (one employer):
- Parkside GGI Academy (New)
- Victoria Primary Academy (New)
- Yarlside Primary Academy (New)

The Good Shepherd MAT (one employer):
- Ambleside Primary Academy (New)
- Braithwaite Primary Academy (New)
- Heversham St Peter's Academy (New)
- Lazonby Academy

William Howard MAT (one employer):
- The Workington Academy (New)
- William Howard Academy
- Yewdale Academy (New)

Scheduled Bodies - Other (20)
- Aspatria Town Council (New)
- Barrow Sixth Form College
- Carlisle College
- Cleator Moor Town Council
- Cockermouth Town Council
- Cumbria Chief Constable
- Cumbria Police & Crime Commissioner
- Cumbria Waste Management
- Furness College
- Kendal College Further Educ

Scheduled Bodies - Other (continued)
- Kendal Town Council
- Keswick Town Council
- Lake District National Park Authority
- Lakes College (West Cumbria)
- Maryport Town Council
- Orian Solutions
- Penrith Town Council (New)
- Ulverston Town Council
- Wigton Town Council
- Workington Town Council

Scheduled Bodies No Actives (12)
- Brampton Parish Council
- Charlotte Mason College
- Cumbria Institute of the Arts
- Cumbria Primary Teacher Training
- Cumbria Sea Fisheries
- Dept Constit Affairs (Cumbria Magistrates)
- Health Authority
- Millom Town Council
- Port of Workington
- Practical Alternatives to Custody (Ltd)
- Seaton Parish Council (New)
- Water Authority

Admitted Bodies (33)
- Barrow & District Soc for Blind
- Blue Support Services Ltd (New)
- Carlisle Leisure Allerdale
- Carlisle Leisure Ltd
- Commission for Social Care Inspection
- Creative Management Support
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Cumbria Tourism
- Eden Housing Association
- FCC Environment
- Glenmore Trust
- Harraby Community Centre
- Higham Hall
- Home Group (Copeland)
- Kendal Brewery Arts Centre Trust Ltd
- Knowledge Network Ltd (New)
- Longtown Memorial Hall Community Centre
- Mellors Catering Services - Police
- Mellors Catering Services - Rockcliffe
- Morton Community Centre
- North Country Leisure (Copeland)
- North Country Leisure (South Lakes)
- Oaklea Trust
- People First
- Riverside Housing
- SLS (Cumbria) Ltd - QK (New)
- SLS (Cumbria) Ltd - StH (New)
- Soundwave
- South Lakes Housing
- Tullie House Trust
- West House
- Wigton Joint Burial Committee

Admitted Bodies No Actives (14)
- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust (Leaving)
- Henry Lonsdale Trust
- Kendal Citizens Advice
- Lake District Cheshire Homes
- Lakeland Arts Trust
- Mellors Catering - Southfield (Leaving)
- Mellors Catering - Whitehaven (Leaving)
- NRCS Ltd (Neighbourhood Revitalisation)
- People First 2 (Leaving)
- Project Homeless
- South Lakes Services (Leaving)
- Troutbeck Bridge Swim Pool Ltd

10.3 GLOSSARY

Active Management – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. *(Also see Passive Management).*

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Actuarial Valuation – An actuary formally reviews the assets and liabilities of the pension fund and produces a report on the fund's financial position.

Alternatives –Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

Bid price – Price at which a security or unit in a pooled fund can be sold.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Career Average Revalued Earnings (CARE) Scheme – the pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

Class Action – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure**.**

Counterparty - the other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa**.**

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government.

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme**.**

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

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 shareholders' meetings.

ESG (Environmental, Social and Corporate Governance) - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF) - Fund that tracks an index, but can be traded like a stock.

Fiduciary Duty - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

Fixed Interest Securities – Investments mainly in 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 in the meantime.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

Futures Contract – a contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value – The price at which an investment can be bought or sold at a given date.

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

OTC - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place some time after the deal and price are agreed.

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right to vote on matters of 'corporate policy' at the underlying company's AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes ;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted 'by proxy'. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:-
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors
Approve dividend
Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing – an investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Statement of Investment Principles – The SIP sets out details of the investment policy being followed by a pension fund. Includes certain specific statements such as the kinds of investments held and the balance between them, risk and expected returns, realisations of investments, socially responsible investments and corporate governance policy.

Stewardship - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

We have audited the pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension scheme financial statements comprise the Pension 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 the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Assistant Director – Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director - Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension scheme 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, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension scheme financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension scheme 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 scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the pension scheme financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and Annual Governance Statement to identify material inconsistencies with the audited pension scheme 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 scheme financial statements

In our opinion the pension scheme financial statements:

- present a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2016 and of the amount and disposition at that date of the scheme's assets and liabilities, 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 other information published together with the audited pension scheme financial statements in the Authority's Statement of Accounts and Annual Governance Statement is consistent with the audited pension scheme financial statements.

Jackie Bellard

Jackie Bellard
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

30 September 2016