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Audit and Governance Committee

Supplementary Agenda

Date:	**Thursday, 25th September, 2014**
Time:	**10.00 am**
Venue:	**West Committee Room - Municipal Buildings, Earle Street, Crewe, CW1 2BJ**

5. **External Audit - Audit Findings Report 2013/14** (Pages 1 - 48)

   To consider the report of the External Auditor.

6. **Audit Findings and Action Plan 2013/14** (Pages 49 - 62)

   To consider a report on the audit findings and the action plan 2013/14.

7. **Statement of Audited Accounts 2013/14** (Pages 63 - 212)

   To approve the Statement of Audited Accounts for 2013/14.

8. **Annual Governance Statement 2013/14** (Pages 213 - 238)

   To approve the Annual Governance Statement 2013/14.

9. **Annual Report 2013/14** (Pages 239 - 254)

   To consider the Chairman's draft Annual Report 2013/14.

Please contact	Cherry Foreman on 01270 686463
E-Mail:	cherry.foreman@cheshireeast.gov.uk with any apologies or requests for further information or to give notice of a question to be asked by a member of the public

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The Audit Findings for Cheshire East Council

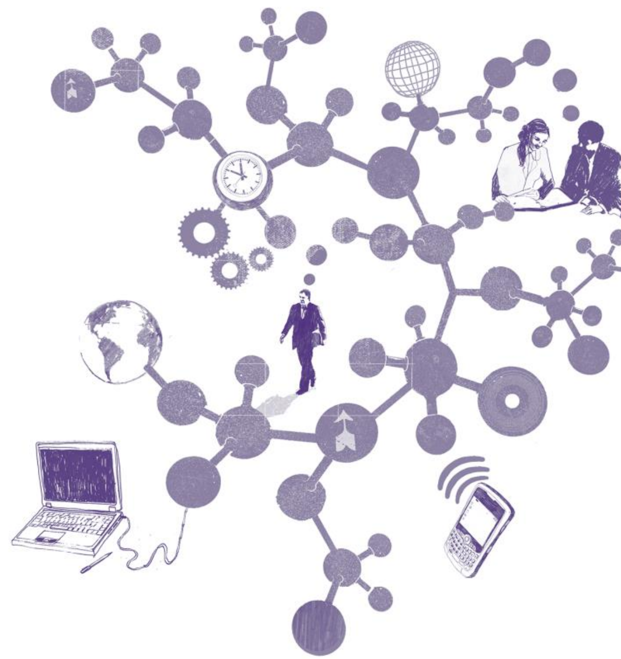
Year ended 31 March 2014

September 2014

Jon Roberts
Engagement lead
T 0121 232 5410
E jon.roberts@uk.gt.com

Allison Rhodes
Manager
T 0121 232 5285
E allison.rhodes@uk.gt.com

Naomi Povey
Executive
T 0121 232 5294
E naomi.j.povey@uk.gt.com



Page 2

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cheshire East Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 14 March 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- cash flow statement
- some elements of our testing on other revenue and expenditure
- aspects of our testing on property plant and equipment
- accounting for grants
- amounts reported for resource allocation decisions (note 21)
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Items of particular note are summarised overleaf. Further details are set out in section 2 of this report.

We draw members attention to the Council's explanatory foreword which we consider to be an example of good practice. This provides a clear and balanced statement of the Council's activities for the year, includes appropriate information and makes effective use of charts. The Council has achieved a strong financial performance in the year and increased its earmarked reserves by£13.2m as reported at note 2 (including new earmarked reserves of £12.4m approved in July 2014 in addition to the £0.5m elections reserve set up in October 2013). This is now more clearly highlighted in the explanatory foreword.

Page 5

Key issues arising from the audit of the financial statements include :

- We have identified one adjustment affecting the overall position reported in the Comprehensive Income and Expenditure Statement (CIES), however this does not result in any change in the balance retained in the general fund. This is for income of £8.8m relating to capital grant for schools, which is required to be accounted for as income in the CIES rather than held on the balance sheet as a capital grant received in advance.
- We have identified a number of adjustments that affect current assets and current liabilities on the balance sheet and amendment to notes to the accounts to improve the consistency and content of disclosures.
- In March 2014, we highlighted the audit issues that might arise in respect of the valuation of property, plant and equipment. Our findings are set out page 14. The Council has engaged support from its external valuer to support its assertion that the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. This work is to be concluded but we will update the Audit and Governance Committee.
- We highlight our different interpretation of the accounting treatment for Dedicated Schools Grant at page 17.
- We also report a difference in our estimate for the liability for the PFI scheme compared to that reflected in the financial statements. This is described at page 15.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion. This is an improvement from the previous year's qualified VfM conclusion and the Council is to be commended for the improvements made to its arrangements during the year.

Further detail of our work on the VfM conclusion is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We have not identified any significant control weaknesses but highlight the findings of our review of IT controls.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Operating Officer. Matters arising from the financial statements audit have been discussed with the Head of Corporate Resources and Stewardship.

We have made a number of recommendations, which are set out in the action plans in Appendices A and B. Recommendations have been discussed and agreed with the Head of Corporate Resources and Stewardship.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

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Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 13 February 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Audit opinion

It is pleasing to report that we anticipate that we will provide the Council with an unqualified opinion, in line with the reporting timescale required under the Accounts and Audit (England) Regulations 2011. Our proposed audit opinion is set out in Appendix C.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries identified no significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. We have completed testing including: • the completeness of the subsidiary system interfaces and control account reconciliations • review of monthly trend analysis of payments • cut off testing of purchase orders and goods received notes (both before and after year end). Testing also covered a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accrual understated	We documented the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls. We carried out testing including: • the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements • sample of payments in made in April & May to ensure payroll expenditure is recorded in the correct year (in conjunction with testing on operating expenses) • review of monthly trend analysis of total payroll. Testing also covered a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified. Our audit of note 25 senior management remuneration has identified £65k that is omitted from the disclosure (this is included in employee expenses withn the CIES). This is a small amount but highlighted due to the sensitivity of these type of disclosure. In future we also consider that there is scope for the Council to reduce the length of this disclosure.

Page 12

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	We documented the processes and controls in place around the accounting for welfare benefits and carry out walkthrough tests to confirm the operation of controls. Our testing in accordance with the methodology required to certify the housing benefit subsidy claim is underway.	Our audit work has identified no significant matters.
Property, plant & equipment	PPE activity not valid	We documented the processes and controls in place around the accounting for PPE and carry out walkthrough tests to confirm the operation of controls. We carried out testing on a sample of PPE transactions covering the period 1/4/13 to 31/3/14.	Our work on property, plant and equipment is not fully complete. We will update the Audit and Governance Committee of any subsequent findings in relation to the risk identified. Note 6 details the movements on property plan and equipment asset. The note includes : • Cost or valuation - 'other movements in cost or valuation' -£13.3m • Accumulated depreciation and impairment - 'other movements in cost or valuation' £2.94m We consider that these rows include transactions that should properly be reported elsewhere in the note, for example as de-recognition or as impairment. This disclosure is therefore not fully in accordance with the requirements of the Code. This is a classification matter. However we also consider that this does not represent a material risk of misstatement to the reader of the accounts as the overall impact on the net book value of assets would remain the same. This is subject to the findings of our specific audit testing to confirm the validity of the adjusting entry relating to a sample of items. We will update the Audit and Governance Committee if the outcome of that testing impacts upon that conclusion. We are also satisfied that appropriate charges are made through the CIES and then adjusted via the MIRS. Management do not propose to reclassify the disclosures within note 6 in 2013/14. Instead management have agreed to carry out a full review in 2014/15 of the underlying asset register and the associated capital expenditure to ensure that: • Where assets are enhanced and an adjustment is identified to remove the value of the original asset being replaced that this is reported as de-recognition in the cost or valuation section of the note and also as de-recognition in the accumulated depreciation and impairment section. • Any further adjustment that meets the definition of impairment, is reported in the accumulated depreciation and impairment section of the note.

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Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising

Property, plant & equipment	Revaluation measurement not correct	We documented the processes and controls in place around the accounting for revaluations of PPE and carry out walkthrough tests to confirm the operation of controls.
		
		We reviewed the qualifications, term of reference and the assumptions and methods used by the valuer, in his work, carried out as an expert for the Council.
		
		We reviewed valuation reports to support the accounting entries.
			Our audit work confirmed the operation of controls and we are satisfied that we may place reliance upon the work of the valuer as the Council's expert.
			
			In our emerging issues briefing (27 March 2014) we highlighted specific audit issues that might arise in respect of property, plant and equipment valuations:
			
			• The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.'
			
			The Council has engaged support from its external valuer to support its assessment. This involves analysis which considers assets that have not been subject to revaluation in the year and how factors such as fluctuations in market prices and building costs may impact on those values. This work is in progress and we will update the Audit and Governance Committee on this matter.
			
			• The Code also sets out the requirements for valuing classes of assets:
			  • items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
			  • a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
			
			The Council has made appropriate disclosure of its approach using a rolling programme of valuation and has revalued large groups of assets in the year including its schools and car parks. The Council has divided its assets into smaller groups for the purposes of revaluation but these groups of asset are not disclosed separately in the property, plant and equipment note and so we consider that this is not strictly in accordance with the Code requirements.
			
			These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. Going forward we recommend that the Council ensure that it has appropriate arrangements in place as part of its closedown arrangements, to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period.

Additional audit findings

We carry out audit work that covers all material balances and disclosures within the financial statements. In addition to the specific areas of our audit work covered at pages 10-14, there are other audit findings that we wish to report to you. Recommendations are included in the action plan at Appendix A.

Other areas of the accounts	Issues arising
Extra Care Housing PFI scheme	The Council established a joint PFI scheme with Cheshire West and Chester Council in 2009/10. It provides facilities and support for extra care housing. The PFI sites are located in Handforth, Middlewich and Crewe for Cheshire East Council. The accounting models for PFI schemes are highly complex accounting estimates and contains various elements including cost of services, which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts. The costs of the operator of the scheme are covered by income received from tenants (third party income) and the unitary charge levied by the PFI supplier to the Council. Where the scheme includes significant third party income the accounting for this is an accounting judgement with current expected practice for this to be recognised through a deferred income balance offsetting the fair value of the asset on recognition. As part of our audit of the Council's accounts last year (2012/13), we recommended that the Council review the treatment of third party income generated by the PFI scheme and how this was accounted for following comparison with the Grant Thornton model. The Council completed this review, and after initial discussion with auditors, accounted for the outcome as a prior period adjustment. This accounted for third party income by setting up a separate asset value and deferred liability balance of £16.4m. Following detailed audit work (in which we involved our technical specialists) as part of the accounts audit, we agreed with management that the prior period adjustment should be reversed as this did not result in appropriate accounting entries for the scheme. The opening balances are therefore returned to those reported in the prior year's audited accounts. The Council has now enhanced the PFI disclosures to disclose how it has arrived at its revised accounting judgement for the treatment of third party income and the impact if it had not applied that judgement. We have assessed the impact of the Council's accounting judgement in this area and carried out modelling to provide an estimation range. There are some differences between the Council 's overall PFI liability and future disclosures and those shown by the Grant Thornton model. These differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme. We recommend that the Council reviews the initial construction costs within the accounting model with a view to make changes in 2014/15.
Impact on Primary Statements	We have compared the Council's accounting estimate disclosed in the accounts at £21.028m to our own estimate. The reported liability falls £5.358m below our range of estimates. This also impacts upon the disclosures at note 37 as set out overleaf. Given the nature of this difference and the fact that it is not material, no amendment has been made. In summary: **Statement of financial position** • PFI liability – the Council's liabilities disclosed on the Statement of Financial Position fall £5.358m below our range of estimates. **Statement of Comprehensive income** • Service charges to expenditure – the Council's estimate falls within our range of estimates. • Interest – the Council's estimate is £0.2m above our range of estimates. • Contingent rent – the Council's estimate falls within our range of estimates.

Page 15

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Extra Care Housing PFI scheme • **Disclosures**	**Disclosures** The Code requires a number of disclosures in relation to the description and future commitments of the PFI scheme . These have been improved to include: • A description of the scheme and the position at the end of the arrangement • Disclosure of the in-year transactions for the scheme • Disclosing future lifecycle costs of £11m within the analysis therefore providing an estimate of the total future payments committed for the scheme. • Fair value of the PFI liability (if the Council could obtain a lower rate of interest at 31 March 2014 than in the accounting model) There are some differences between the Council 's disclosures of the future transactions reported at note 37 and those shown by the GT auditors' model. The more significant of these are detailed in the table below. These differences are due the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme.

	Principal Payments £000	Difference compared to GT Audit estimate £0	Capital Costs £000	Interest £000	Difference compared to GT Audit estimate £0	Service Charge £000	Total £000
Amounts due in 2014/15	289	222	296	1,906	-209	175	**2,666**
Amounts due 2015/16 – 2018/19	1,435	953	1,203	7,458	-899	767	**10,863**
Amounts due 2019/20 – 2023/24	3,047	1,251	1,457	8,622	-1,186	940	**14,066**
Amounts due 2024/25 – 2028/29	3,474	1,255	2,413	7,094	-1,187	1,692	**14,673**
Amounts due 2029/30 – 2033/34	4,808	1,083	3,340	4,838	-1,011	2,373	**15,359**
Amounts due 2034/35 – 2038/39	7,975	594	2,340	3,238	-533	1,759	**15,312**
Total	**21,028**	**5,358**	**11,049**	**33,156**	**-5,025**	**7,706**	**72,939**

Principal repayments	The audit estimate of the principal repayment due is greater that that reported at note 37.
Interest	The audit estimate of the interest element due in the future periods is less than that that reported at note 37.

Page 16

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Dedicated Schools Grant	The Council accounts for the balance of Dedicated Schools Grant to be carried forward to the 2014/15 schools budget of £6.028 million as creditor (receipt in advance) on the balance sheet as it considers that this represents grant income that must be transferred to the schools in the following year. It is our view that this could be more appropriately accounted for as an earmarked reserve as there is no condition that requires repayment of the grant received to the funding body. Given the technical accounting interpretations are unclear in this area, this represents an uncertainty that we wish to highlight to the Audit and Governance Committee. In particular: • We are satisfied that this does not represent a risk of material misstatement and that this should not impact upon a users interpretation of the accounts, as the amount involved in not material. • The specific disclosures required by the Code, relating to dedicated schools grant are included in the financial statement and provide a clear statement of the carry forward position in respect of this. • Management have agreed to consider the accounting treatment in 2014/15 and we will work with officers to resolve this issue.
Capital grant receipts in advance	At note 29 the Council reports capital grants receipts in advance. The draft accounts reported a balance of £27.685m. Our audit testing identified: • Income of £8.887m relating to capital grant for schools, where the Council could not provide sufficient evidence that these grants contained 'conditions' that would require their repayment. Management have agreed that these should properly be accounted for as income in CIES (taxation and non specific grant income) and then transferred to the capital grants unapplied account via the MIRS. • A balance of £12.164m in respect of the Growing Places Fund. The balance does not represent grant income available to the Council as it is monies held by the Council in administering the Fund on behalf of the Cheshire & Warrington Local Enterprise Partnership. As an agency arrangement the Council is only required to account for the balance of any cash held on behalf of the fund with an appropriate debtor or creditor balance. The accounts have been amended to transfer the balance from capital grant receipts in advance to long term creditors. We recommend that the Council reviews all its remaining balances held as receipts in advance to reassess the requirement that these may only be held as a liability where there are conditions in place that are not yet satisfied. Otherwise the income should be recognised in the year that it is received.
Capital receipts reserve	The Council maintains a capital reserve reported at note 16b of the financial statements. This predominantly includes transactions relating to capital receipts and their use to finance capital expenditure but it is also used to record appropriations from the general fund for the financing of capital expenditure. We are satisfied that this approach does not distort useable reserves overall, however we recommend that the Council reviews its approach in 2014/15 and operates a dedicated capital receipts reserve in accordance with the Code.

Page 17

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Capital grant unapplied account	The Council report the movements on the capital grants unapplied accounts at note 16c. This Council uses this account to record all capital grants and contributions received (with conditions met in year) and accounted for as income and all the grants and contributions applied to finance capital expenditure. This differs from the Code requirements for capital grants received and applied to be accounted for as an adjustment in the MIRS directly to the capital adjustment account. We are satisfied that the entries in the MIRS reflect the Council's practice and ensure that the overall impact on the capital grant unapplied account and the capital adjustment account is correct. However this is a departure from the capital accounting entries set out in the Code and the Council may wish to consider its approach in 2014/15.
Collection fund	The Collection Fund statement has been amended to provide additional information on the main statement to meet the requirements of the Code which sets out the items of accounts that must be separately reported . Going forward the format and content of the statement is now in accordance with the Code requirements and provides an appropriate basis for future disclosures (subject to changes to the Code).
Related party transactions	The Council seeks confirmation from senior management and members of their interests in other bodies and uses this information to ensure that its assessment and disclosure of related party transactions is complete. Completed returns were not obtained for all senior management and members. We have requested specific representation that alternative sources of information were obtained and that the disclosures are complete.

Page 18

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments
Revenue recognition	• Government grants and contributions are recognised in the Comprehensive Income and Expenditure Account when there is reasonable assurance that the income will be received and conditions will be satisfied. • Sales, fees, charges and rents are accounted for as income when the council provides the relevant goods or services. • Interest payable on borrowing and receivable on investment is accounted for on the basis of the effective interest rate rather than the cash flows. • The CIES includes the Council's share of the accrued income for council tax and non domestic rates. • When income is recognised but cash is not received then a debtor is recorded in the balance sheet.	The Council's accounting policy for revenue recognition is appropriate, consistent with the Local Government Code of Accounting Practice and disclosures are sufficient.
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has highlighted that there are some policies reported which can be excluded on the grounds of materiality. This will be considered for 2014/15 . Accounting policies have been improved to: • Include more information relating to employee benefits • Update the policy for property plant and equipment to reflect the Code requirements for revaluation and to provide details of the range of asset lives.

Page 19

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Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments
Judgements and estimates	The Council has enhanced its disclosures of judgements and estimates. Critical judgments are set out at note 44 of the financial statements and include: • consideration for the application of group accounts • the assessment of the PFI scheme and that is appropriate that assets and liabilities are recognised on the balance sheet • the treatment of property relating to schools transferring to academy status • the valuation of the investment in Manchester Science Park. Note 43 provides information about assumptions made about the future, and other major sources of estimation uncertainty. These include: • property valuation • pension liability • arrears and impairment of doubtful debts for sundry debtors • business rate appeals.	Our findings from our review of judgements and estimates are: • We have reviewed the Council's disclosures for these items and are satisfied that they are appropriate and in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting. • The Council has concluded that group accounts are not required in 2013/14 and we consider this to be appropriate. Looking forward, the Council is more likely to be subject to the requirement to prepare group accounts, following the establishment of its alternative service delivery vehicles and this will impact upon the Council's closedown arrangements and the audit procedures required. • Pension liabilities - A firm of consulting actuaries (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions. We have reviewed the assumptions used by the actuary and are satisfied that they are reasonable and do not result in material misstatement of the pension liabilities. There are some aspects that we need to bring to your attention: • PFI – we have compared the Council's accounting entries with our own estimates and have reported a difference of £5.358m between the two. We have reported our detailed findings at pages 15-16. • Valuation of property plant and equipment - we have reported our specific findings at page 14. • 2013/14 is the first year of the new arrangements for the collection of non domestic rates. A key part of the management of the NDR fund is the Council's estimation of the provision needed for appeals against rateable values on properties. The Council has made an appropriate provision for the liability associated with appeals that have been lodged. However, the Council (along with many other councils), has concluded that it can not accurately predict the liability associated with future appeals and has disclosed this as a contingent liability. The Council considers that this risk is factored into its financial plan.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Movement in Reserve Statement £000
Income relating to capital grant for schools, where no 'conditions' for repayment of the grant, removed from capital grants receipts in advance, accounted for as income in the CIES (taxation and non specific grant income) and then transferred to the capital grants unapplied account via the MIRS.			
• Cr Taxation and non specific grant income	(8,887)		
• Dr Capital grants receipts in advance		8,887	
MIRS (adjustment between accounting basis and funding basis under regulation):			
• Dr General Fund			8,887
• Cr Capital Grant unapplied account		(8,887)	
Overall impact	**(8,887)**	**0**	**8,887**

Page 21

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification - CIES	87,790 (87,790)	Taxation and non specific grant income (CIES,note 4 and note 29) Other housing services (CIES)	The housing benefit subsidy grant income and housing benefit administration grant was included in 'taxation and non specific grant income' on the CIES and in note 4 and note 29 as the Council considered these to be a non ring fenced grant. This is re-classified as income relating to 'housing services' - per the specific requirements of SERCOP, confirmed with CIPFA. The comparatives for 2012/13 have also been restated. This adjustment also affects the cash flow statement and the MIRS.
2	Misclassification - CIES	(1,294) 1,294	Public health income Public health expenditure	Increase in income and reduction in expenditure.
3	Misclassification – Balance sheet	12,164 (12,146)	Capital grants receipts in advance Long term creditor	The balance does not represent grant income available to the Council as it is monies held by the Council in administering the Growing Places Fund on behalf of the Cheshire & Warrington Local Enterprise Partnership. It is now correctly shown as a long term creditor.
4	Disclosure -changes to IAS19 (relating to pension transactions)	Various	CIES, Note 32 and 33 Pension Scheme, Note 36 Changes to Accounting policy and Prior Period Adjustments, Note 48 Accounting Policies	Changes to description used in the CIES, disclosure notes and accounting policies to reflect new terminology applied by changes to IAS19 relating to pension disclosures. Amendment to correct contribution amounts, include additional disclosures required by the Code, correct the summary of the amounts reported in the CIES to ensure consistency with other areas of the accounts. Additional disclosures to report the impact of the changes to IAS 19 on the comparative figures for 2012/13.
5	Disclosure	Various	Note 1 Adjustments between accounting basis and funding basis under regulations	Amendments to entries for non current assets written off on disposal and transfer of sale proceeds to accord with the Code requirements. Amendment to depreciation and provision for financing reflects adjustment to transactions relating to PFI assets (associated amendments to note 6 and note 34)
6	Disclosure	Various	Note 6 Property Plant and Equipment	Additional explanation to explain significant asset disposals, amendment to revaluation table and other narrative.
7	Misclassification	Various	Note 12 Debtors	Amendment to move £0.271 from long term debtors to current debtors (also reflected on balance sheet). Restatement of prior year comparators for transactions associated with NDR to ensure consistent disclosure with the classification applied in 2013/14

Misclassifications & disclosure changes (continued)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure	8,887	Note 16c capital grant unapplied	Amended to reflect additional £8.887m of grants with conditions met in yet, transferred via the CIES and MIRS, from the capital grants receipt in advance account (as reported at page 17)
9	Disclosure	Various	Note 36 Changes to accounting policy and prior period adjustments	The accounting transactions and disclosures relating to the restatement of PFI assets and liabilities are removed. This note now includes disclosures relating to the change in IAS 19 which affects the pension transactions for 2012/13 reported in the accounts and affecting the CIES, the MIRS and the Cash Flow Statement. As the Council has also amended the classification of housing benefit subsidy and administration grants, the impact on 2012/13 is also reported in order to provide a clear link with the 2012/13 comparatives reported in the CIES.
10	Disclosure	Various	Note 37 Private Finance Initiative	Disclosures improved by including description of the scheme, disclosure of the in year transactions, inclusion of lifecycle costs in future payments.
11	Disclosure	Various	Note 10 and Note 47 Financial instruments	Amendments to reflect changes elsewhere in the statements, additional disclosure of the credit rating of investments and additional disclosure of the analysis of the age of financial assets that are past due as at the reporting date but not impaired.
12	Disclosure	Various	Collection Fund and notes	Amended to provide additional information on the main statement to meet the requirements of the Code which sets out the items of accounts that must be separately reported including: • The distribution of the prior year surplus or deficit on the fund allocated to the precepting/associated bodies • Further detail of costs charged to the collection fund • The demand upon the collection fund allocated to the precepting/associated bodies • The allocation of the overall balance to the precepting/associated bodies The comparatives for 2012/13 are corrected to agree to the audited financial statements for 2012/13 and expanded to provide the same detail. The notes to the collection fund are updated to describe the new arrangements for non domestic rates under the Business Rates retention Scheme. Revised banding information is reported for Council Tax.
13	Disclosure	Various	Cash flow statement	Amendment to reflect changes elsewhere in the financial statements.

Page 23

Unadjusted misstatements and uncertainties

The table below provides details of matter identified where no adjustments are made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
As set out at page 15 the Council's PFI liabilities disclosed on the Statement of Financial Position fall below our range of estimates. The opposite entry would ultimately affect the capital adjustment account.		5,358	The variance identified is not material. Management propose to review the underlying model during 2014/15 and consider the specific inputs and determine if these should be amended.
Uncertainty relating to the accounting treatment of Dedicated Schools Grant currently accounted for as receipt in advance, rather than being accounted for as income and transferred to an earmarked reserve.	(6,028)	6,028	This should not impact upon a users interpretation of the accounts, as the amount involved is not material.
Overall impact	**(6,028)**	**11,386**	

Page 24

Internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Issue and risk	Recommendations
Our review of controls in the IT environment identified the following matters where aspects of the controls in place could be enhanced. • Minimum password length is only 8 characters and does not require complex password • Documented policies and procedures for batch administration have not been formally established (eg monitoring, configuration, error resolution) within Northgate and so there is a risk that these are not formalised or communicated to those responsible for observing or implementing them. The effectiveness of batch management processes may be diminished due to environmental and/or operational changes. • At least one individual with Oracle Financials application-level security administration rights also performs development duties, the combination of which creates an segregation of duties conflict. Also developers are sometimes provided access to the APPS Oracle database-level account which grants them greater than read-only access into the production Oracle database. This presents a risk of override or circumvention of internal controls and processes, risk to security administration processes or access restrictions. • User accounts and associated permissions are not formally reviewed for appropriateness. This presents a risk that dormant accounts could be used to hide user activity, users could gain unauthorised and inappropriate access rights that they are not entitled to and access to domain resources may not be restricted on the basis of legitimate business need.	• Password minimum length should be in line with best practice and set to be at least 9 characters. • Documented policies and procedures addressing the topics of batch administration, monitoring and error handling within Northgate should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • The responsibility of administering security within Oracle Financials should be performed by IT system administrators who do not perform programming duties, and the practice of granting programmers greater than read-only access into production environments should be halted. Alternatively, management should implement a formal/ documented monitoring process designed to review the actions performed within the Oracle application and database production environments by developers. • Management should periodically perform formal reviews the user accounts and group membership assignments within Active Directory for appropriateness.
Since the Oracle upgrade in 2011, there has been a posting problem which primarily relates to scheduled payments. Once the payments schedule has been set up, the accounting for all the payments on it is held until the final payment date on the schedule. This results in the bank and creditor balances being overstated. Finance staff correct for this through journal which is then reversed in the following period. The balance is £1.093m at the balance sheet date representing 908 transactions.	Continue to pursue an IT solution to this matter so that payments are properly accounted for in the general ledger without the need for manual intervention. In the meantime ensure that appropriate evidence is retained to support all adjusting journals.

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Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee who confirmed there to be no fraud with a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. • In particular, representations will be requested from management for not amending the financial statements for the items identified on page 24.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. Disclosures have been amended as set out at pages 22- 23. There are some immaterial disclosure that the Council may wish to exclude from the financial statements in the future. There are a small number of disclosures where no comparatives are provided including the related parties note, pooled budget disclosures, shared service costs and dedicated schools grant. Where possible, this additional information is being included.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed. In particular, representations will be requested from management to confirm that where annual returns were not obtained for accounts purposes, that alternative sources of information were obtained and that the disclosures are complete.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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Section 3: Value for Money

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

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience.

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

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

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

Our approach

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013/14 and what that says about those arrangements
- any significant risks that we have identified, following up matters of significance from previous years' audits.

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have carried out work in the following areas to address the risks identified:

- Review the Council's financial resilience, as reflected in the medium term financial strategy and the savings factored into the annual budgets.
- Review the Council's arrangements for identifying and reflecting the financial implications of the development of alternative delivery models in its medium term financial plans.
- Review the Council's progress in planning for its role under the Better Care Fund (previously Integration Transformation Fund).
- Review the evidence of improvements in the arrangements to protect children following the Ofsted inspection report published in April 2013.
- Review the Council's progress in implementing actions to address the matters raised in the 2012/13 VfM conclusion specifically:
    - arrangements to procure goods and services.
    - understanding of costs and performance.
    - arrangements to develop business proposals and manage significant projects.

Overall VfM conclusion

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

Key findings

The Council has demonstrated improvements in its arrangements, particularly where weaknesses were highlighted in previous audits and we are pleased to confirm that we intend to issue an unqualified VfM conclusion.

Overall our work highlights that the Council managed its finances effectively for 2013/14 within its revenue budget of £260m, achieved a surplus of £0.9m (after creating new earmarked reserves of £12.4m approved in July 2014 and £0.5m elections reserve set up in October 2013)increasing its general reserves to £19.8m. It has consolidated improvements to its financial planning and controls, updated its medium term financial strategy, identified measures to address the £8.3m net budget deficit and approved a balanced budget for 2014/15. There remains a financial gap of £22m over the following two years, which whilst not as large as that faced by Councils with greater reliance on government grant, represents a significant challenge.

During 2013/14 the Council appointed its senior leadership team after a period of key posts being filled on an interim basis. The management review accompanies changes to the Council's approach to deliver services and to achieve the outcomes set out in the Three Year Council Plan.

The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.

Looking ahead, the Council is developing Commissioning Plans to draw together the intentions for service areas, providing further scope to set out clearly how the governance, risks and financial plans are addressed at a operational level.

We set out overleaf a summary of our findings against six risk areas, where we have assessed the Council's performance against the Audit Commission's criteria. We summarise our assessment using a red, amber or green (RAG) rating. Our overall assessment for each areas is green, reflecting our balanced assessment that the arrangements are adequate. There are aspects however where further improvements may be made and we include specific recommendations in the action plan at Appendix B focusing on the Council's developments in key areas.

- As part of its move to become a commissioning council, the Council has challenged the way activities are delivered and explored new ways of delivering activities. We have highlighted the importance of reviewing the governance arrangements to ensure these are operating as intended and that any risks to service delivery or internal controls are identified and addressed.
- Another aspect to changing service delivery is the integration promoted through the Better Care Fund. Throughout 2014/15, the partners need to work together to develop the plans more fully and to apply these to integrate care and support services across the borough and deliver on the required national conditions set by the Department of Health.
- The Council has continued to review and develop its arrangements for procurement, recognising the significant contracts that are due for renewal over the next three years and the scope for efficiency savings through effective contract management, procurement and commissioning activities.
- The Council has worked to implement the detailed recommendations arising from the OFSTED inspect of the Council's arrangements for the protection of children (March 2013). The multi agency Improvement Board has monitored this progress and confirmed there has been significant improvements made since the original inspection.

We have discussed our detailed findings with the Chief Operating Officer. Management's response to our recommendations is included in the action plan at appendix B.

Theme	Summary findings	Overall conclusion
Key indicators of performance	Key indicators covering liquidity, borrowing, performance against budget and reserves indicate the secure financial position of the Council at 31 March 2014: • The Council's working capital ratio for 2012/13 was 0.93 and increased to 1.20 at 31 March 2014 (draft accounts). • The Council collected 98.1% of council tax due and 98.3% of business rates (reported by the Council to be upper quartile performance). • The Council has a strong local tax base and lower dependence on government grant. The budget report for 2014/15 highlights that the funding for Council Services from Council Tax and Business Rates increased to over 75% of the total. This reduces the Council's exposure to the risk of reductions in Government grant funding. However the resources available for service expenditure may still fluctuate, particularly local funding from business rates. • Council's long term borrowing ratio (as a percentage of tax revenue) was the lowest of the comparator group in 2012-13 at 0.61, (also in 2011/12) and reduced slightly to 0.59 on the basis of 2013/14 figures (draft accounts). The Council's capital financing requirement exceeds the amounts actually borrowed, the shortfall is funded from cash balances. Borrowing of £6m has been repaid in 2013/14 and no new external loans were taken out. In line with the treasury management strategy, the Council has used its own cash balances to finance capital expenditure rather than new borrowing (since April 2009) as a deliberate cost measure . The Council's MTFS recognises that this level of internal borrowing will not be sustainable in the longer term and external borrowing will be required in future years. • The outturn position for 2013/14 shows an underspend of £0.897m (0.35%) against the revenue budget of £260m, with net transfers to earmarked reserves of £13m (to bring total to £26.3m now set aside for a range of specific purposes) and net increase in general reserves of £0.9m to £19.8m. The gross revenue to expenditure ratio illustrates that Cheshire East Council has low levels of reserves compared to the average but the ratio has now increased to 7% closer to the prior year average position of 9%. • The balances attributed to schools at 31 March 2014 is £8.8m (£12.626m in 2012/13) with 15 schools transferred to academy status in 2013/14. The key indicator shows that 5% of the dedicated schools grant allocation remained unspent at the end of the year compared to 7% in 2012/13 (2012/13 average of 6%) - an indication that schools are retaining appropriate levels of reserves. • During 2013/14, the Council reviewed the capital programme to ensure that only schemes meeting the Council's priorities remained in the programme. The Council reduced its capital budget from £121m to £78.6m and incurred capital expenditure of £65.6m against this revised capital budget. The underspend of £13m has been re-profiled as this is expected to be incurred in future years as part of the four year capital programme totalling £229m. • Total employee expenditure (per the segmental reporting analysis included in the financial statements) has continued to reduce from £306.3m in 2011/12, £287.1 million in 2012/13 to £261.6 million in 2013/14. This reduction of 8% on costs reflects a 5% reduction in the number of people employed by the Council (headcount per Final Outturn review of Performance 2013/14). The Council has a number of key workforce development projects underway to support the Council's transformation of the way that services are delivered. The Senior Management Review is now complete and expects to achieve savings of £5m by 2014/2015, one year ahead of schedule.	Key indicators indicate the secure financial position of the Council

Page 30

Theme	Summary findings	Overall conclusion
Strategic financial planning	The Council has updated its Medium Term Financial Strategy (MTFS) for the period 2014 to 2017. It identifies budget shortfalls, for which the Council is yet to identify savings of £6.6m in 2015-16 and £15.6m in 2016/17. With a strong tax base, the Council is less reliant on government grant than other local authorities, nevertheless the need for additional savings and efficiency measures represents a challenge that is being tackled as the Councils progresses towards its balanced budget position for the next financial year. The annual budget planning is now integrated with the MTFS. The Council has arrangements in place to ensure that the MTFS and the annual budget is updated, and remains responsive to the key planning assumptions which impact on the Council's operations, the level of savings to be identified and the changes in its operating models. There is an established process to review, report and seek approval for changes to revenue budgets and the capital programme. The Council has developed new models to deliver services and the pace of these change has increased with four new alternative delivery models launched early in 2014/15. This shift to a commissioning role, presents the Council with different risks to its financial planning and governance arrangements.	Overall we are satisfied that the Council has adequate arrangements for strategic financial planning
Financial governance	The Council appointed to the key management posts in 2013/14.This provides the Council with a stable and accountable management team to promote and direct the improvements to its governance arrangements. Members receive comprehensive financial management information through budget setting and performance reports, linking back to the Council's Outcomes set out in its Three Year Plan. This level of reporting enables Members to have an oversight of performance against the budget. During 2013/14 there was still some variation on the revenue outturn position being forecast during the year, which in part reflects management's 'prudence', but a more reliable estimate was established at an earlier stage of the year. Subsequent information, funding changes and monitoring of the change management programme, will mean that some budget changes will continue to be required. As the Council consolidates its financial monitoring arrangements, it should be able to demonstrate further improvements to financial forecasts and accurate financial planning to support achievement of the Council's outcomes. Other financial reports include updates on the Council's Treasury Management activities. In October 2013 this reporting suite was supplemented with a 'Value for Money Overview' providing information on key financial health indicators. This included some information on cost of services. There is scope to enhance the performance management framework to include unit cost information, as trends in spending or comparisons with other councils, as a supporting indicator to link between expenditure decisions and service outcomes. The Audit and Governance Committee provide adequate challenge but there is scope to improve the focus of its discussions to provide more effective oversight, support and challenge for the Council's financial management and system of internal control. The Council has made recent improvements to the capital budget approvals process for 2014/15 to distinguish between the different elements of the programme from commitments, through to schemes which are aspirational. In future it should be more evident how the programme is progressing, enhancing reporting along with improvements to the capital planning process, gateway reviews and improvements to manage the delivery of capital projects.	Overall we are satisfied that the Council has adequate arrangements for financial governance

Page 31

Theme	Summary findings	Overall Conclusion
Financial control	The Council applied new arrangements to prepare and approve the MTFS for 2014 – 2017 and the annual budget for 2014/15. In addition, the enhanced arrangements for the project management and the performance management framework are now in place to provide scrutiny and challenge to major projects and programmes for change. The annual savings target is incorporated into this medium term financial planning and subsequent financial and performance monitoring, closely linked to the Council's Outcomes, and is not separately reported as it is integral to overall performance.The Council secured an overall underspend of £0.9m in 2013/14, identified sufficient measures to remove the financial gap of £8.3m for 2014/15 and has made progress in addressing the financial gap of £6.6m for 2015/16. The arrangements for budget monitoring and reporting are established. Financial and performance reporting is underpinned by a detailed understanding by portfolio holders of their service areas, including progress against efficiency plans. Briefings to all members have been provided at key stages throughout the year. Internal Audit have concluded that the Council's framework of risk management, control and governance is adequate for 2013/14. With appropriate arrangements in place to deliver a risk based internal audit programme, IA are working with senior management to promote the timely implementation of recommendations. The Council continues to strengthen its risk management framework, with a risk management policy, risk assessment, monitoring and reporting arrangements in place. As reflected in the Risk Management Annual Report, the risk management procedures are being updated to respond to the changes to service delivery models in order to ensure that the risks associated with the new organisations have been identified and prioritised and are being appropriately managed. This should ensure that the new vehicles have effective risk management procedures in place. It is important that the governance arrangements are reviewed to make sure that they operate as intended and enable the Council to identify and address any risks to service delivery or internal controls.	`

Theme	Summary findings	Overall Conclusion
Improving efficiency & productivity	The Council has established a project management structure and formal gateway decision and reporting arrangements for major schemes or those with specific risks. This provides a platform for scrutiny and challenge at key stages of delivery and development of the schemes. The Council has now put in place new overview and scrutiny committees that will have a role in ensuring that the Council's major projects secure the desired outcomes. The performance management framework provides the Council with a measure of the effectiveness of key services as mapped to its strategic 'Outcomes'. Overall these measures concluded performance across the wide range of council services to be within an acceptable range of the target or showing good progress. Information and data quality is key to effective performance management. The Council's Transparency Project includes actions to deliver compliance with information assurance standards. The Data Quality Strategy is to be reviewed as part of this project to ensure that the organisation promotes the importance of good quality data as part of effective information governance. The 2012/13 VFM Conclusion highlighted weakness in the arrangements to procure goods and services. Council has now reviewed its procurement activity, established a Procurement Board, engaged some consultancy support and is now working with another authority to implement an improvement plan. Further developments in 2013/14 include data analysis, the streamlining of some procedures and has secured savings of £0.9m in that year. This continues to be an area of development and it is important that the Council effectively links its contract management, procurement and commissioning activities to avoid duplications and maximise the savings to be secured. In March 2013 the Council received the results of an OFSTED inspection which concluded the arrangements for the protection of children to be inadequate. The inspection assessed the Council's performance across three main areas - quality of practice (inadequate), effectiveness of help provided (adequate) and leadership & governance (adequate). OFSTED's main concerns related to management decision making and case planning. No children or young people were identified where immediate action was needed to protect them from significant harm. In response the Council developed a Children's Improvement Plan. The multi agency Improvement Board confirmed that there had been significant improvement since the inspection through the implementation of the Improvement Plan to meet the recommendations from OFSTED and the Improvement Notice. Where the recommendations are not yet fully implemented, the new improvement plan, developed in conjunction with all partners, takes forward these remaining actions for review by the Improvement Board or the Local Safeguarding Children Board as appropriate. The Board noted that external validation from OFSTED (Improvement Pilot) and the LGA peer review confirmed their view that there had been significant improvement since the original inspection. Further assurance is provided by peer challenges, audit, reviews, surveys and performance information.	Overall we are satisfied that the Council has adequate arrangements in place to improve efficiency and productivity

Page 33

Theme	Summary findings	Overall Conclusion
Prioritising resources	There is leadership from senior management and members on prioritising resources and spending reductions and action to review and challenge activities which do not contribute sufficient value towards the Council's Outcomes. Effective consultation remains important to engage staff and the public and to promote transparent decision making as the Council makes further changes to the way it delivers its services. Evidence of decisions, consideration of key factors and the rationale for judgements are documented through the reports and minutes of the Committees, Cabinet and Council meetings. The revised project and programme management approach is now an established part of the Council's governance framework and informs decision making. The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has established an agreed process of key reporting and decision stages to set up a new delivery vehicle and to assess the different options to determine the appropriate way forward. The performance management framework and project management arrangements provide a mechanism for management and Members to identify and monitor the impact of their decisions upon service quality and performance in priority areas. There is scope to identify where benchmarking information can be used effectively to drive improvement and to include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes. The Better Care Fund is part of a staged process to focus and increase joint working with the NHS seeking to improve the health and well being outcomes for Cheshire East residents. The Council developed its joint Better Care Fund Plans for submission in April 2014 but at this initial stage, these plans did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators. Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the borough and deliver on the required national conditions set by the Department of Health. The more detailed plans will be submitted in September 2014.	Overall we are satisfied that the Council has adequate arrangements in place to prioritise resources

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Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	205,050	206,120
Grant certification (actual fee is not finalised)	26,900	22,501
Total audit fees	**231.950**	**228,621**

The Audit Commission has provided the Council with a direct rebate on the audit fee of £28,061. This reduction is not reported in the fees above.

There is an additional fee of £1,070 is respect of additional work that is required for opinion purposes on business rates, as we are no longer required to complete work grant certification work in this area.

To reflect this the indicative fee for grant work has reduced from that reported in the audit plan to £22,501 to reflect the removal of fees for schemes no longer requiring certification (such as business rates) and also to reflect the removal of council tax benefit from the housing benefit subsidy scheme.

The actual fee for grant certification is not yet finalised as this work is not complete. Any proposed amendments will be discussed with the Chief Operating Officer and must also be approved by the Audit Commission.

Fees for other services

Service	Fees £
None	

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we have previously reported to the Audit and Governance Committee, the safeguards to mitigate the threat to the independence of the auditor arising from the appointment of the former Engagement Lead to the post of Head of Corporate resources and Stewardship (Deputy Section 151 officer). These arrangements have been agreed with the Audit Commission and are reported at page 14 of the Audit Plan.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

Appendix A: Action plan – financial statements

This action plan includes the recommendations arising from our audit of the financial statements (the specific recommendation in respect of the value for money conclusion are reported at appendix B).

Rec No.	Recommendation	Management response	Responsibility & timescale
1 **Page 13**	The presentation of adjustments to cost and value of property plant is not in accordance with the Code. We recommend that the Council complete a full review in 2014/15 of the underlying asset register and the associated capital expenditure, with specific regard to the Code requirements to ensure that : • Where assets are enhanced and an adjustment is identified to remove the value of the original asset being replaced that this is reported as de-recognition in the cost or valuation section of the note and also as de-recognition in the accumulated depreciation and impairment section. • Any further adjustment that meets the definition of impairment, is reported in the accumulated depreciation and impairment section of the note.	A full review of the asset register and associated capital expenditure will be undertaken in 2014/15 to ensure full consideration of the Code requirements.	Corporate Finance Manager March 2015
2 **Page 14**	The Council should ensure that it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. This assessment needs to take place sufficiently early in the close down process to determine if any additional revaluations needs to take place. The final assessment must then cover all those assets that have not been subject to revaluation in the year. This assessment must be backed up with analysis and market trend information appropriate to the Council's circumstances.	The Council will ensure it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. Earlier engagement will take place with the external valuers, Deloitte to ensure an assessment has been undertaken on all assets not subject to revaluation within the year.	Head of Corporate Resources and Stewardship March 2015
3 **Page 15**	There remain some differences between the Council 's overall PFI liability and future disclosures and those shown by the GT model. These differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme. We recommend that the Council reviews the initial construction costs within the accounting model .	We will review the initial construction costs within the accounting model - agreed in 2009/10. We will reconsider our accounting treatment in consultation with the auditors.	Corporate Finance Manager March 2015

Page 40

Rec No.	Recommendation	Management response	Responsibility & timescale
4 **Page 17**	We recommend that the Council consider the accounting treatment of Dedicated Schools Grant and assess whether any balances to be carried forward each year would be more appropriately accounted for as an earmarked reserve.	We will review accounting treatment of the Dedicated Schools Grant as part of the 2014/15 closedown process.	Accountancy Services Manager March 2015
5 **Page 17**	We recommend that the Council reviews its approach to capital accounting entries in 2014/15: • To operate a dedicated capital receipts reserve where the accounting entries can then be more clearly shown to be consistent between the reserves, the Movement in Reserves Statement adjustment note and the statement of capital expenditure and financing at note 34. • To amend the use or alternatively remove the unnecessary disclosures for the capital grant unapplied account to report grant received and applied in year as a direct charge to the capital adjustment account.	The requirement for a dedicated earmarked reserve for revenue contributions to future capital expenditure will be actioned in 2014/15. We will review the disclosure of the capital grant unapplied account as part of the 2014/15 accounts closedown process.	Corporate Finance Manager March 2015
6 **Page 17**	We recommend that the Council reviews its remaining balances held as receipts in advance to reassess the requirement that these may only be held as a liability where there are conditions in place that are not yet satisfied, and that otherwise the income should be recognised .	The Council will review balances held as receipts in advance to assess the appropriate accounting treatment.	Corporate Finance Manager March 2015
7 **Page 20**	Looking forward, the Council is more likely to be subject to the requirement to prepare group accounts. This assessment of the scope and application of these requirements should be identified and factored into closedown arrangements. This should also be discussed with the audit team as soon as possible. There are specific and additional audit procedures that auditors are required to complete where group accounts are prepared.	The development of group accounts will be considered as part of the planning arrangements for the 2014/15 closedown, in particular the resources and training requirements. We will discuss our proposals with the auditors at an early stage.	Chief Operating Officer March 2015
8 **Page 25**	Continue to pursue an IT solution for the payment posting delay in Oracle, so that payments are properly accounted for in the general ledger without the need for manual intervention. In the meantime ensure that appropriate evidence is retained to support all adjusting journals.	The Council is working with CoSocius to review the processes and ensure payments are properly accounted for without the need for manual intervention.	Corporate Finance Manager Corporate Manager Information Communication Strategy and Technology March 2015

Page 41

Rec No.	Recommendation	Management response	Responsibility & timescale
9 **Page 25**	Specific work on IT controls recommended that : • Password minimum length should be in line with best practice and set to be at least 9 characters • Documented policies and procedures addressing the topics of batch administration, monitoring and error handling within Northgate should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • The responsibility of administering security within Oracle Financials should be performed by IT system administrators who do not perform programming duties, and the practice of granting programmers greater than read-only access into production environments should be halted. Alternatively, management should implement a formal / documented monitoring process designed to review the actions performed within the Oracle application and database production environments by developers. • Management should periodically perform formal reviews the user accounts and group membership assignments within Active Directory for appropriateness.	• CoSocius is undertaking password complexity work and will implement new policies in line with adopt best practice. It is recognised that financial management access requires additional security i.e. two factor authentications. • CoSocius is reviewing a number of elements including Standardisation of Smartforms, and other improvements needed via increased automation. This will reduce errors. We will use Meta-compliance to communicate, train and test adherence to these policies. • CoSocius has the access to carry out system administration and development. Segregation between these access rights is required and will be in place by March 2015. This work has started and assurance activities are ongoing. • Managers are responsible for ensuring staff have the correct and appropriate permissions to perform their role and to keep that up to date. We are reviewing starters and leaver data to strengthen accountability and streamline processes. Staff are reminded of their responsibilities in a number of ways including Team Talk.	Corporate Manager Information Communication Strategy and Technology March 2015

Page 42

Appendix B: Action plan – value for money

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Financial Governance	Encourage focus of consideration and discussions of the Audit and Governance Committee to provide apolitical, effective oversight, support and challenge for the Council's financial management and the system of internal control.	The Chief Operating Officer will continue to work with the Chairman/Vice-Chairman and the established Officer/Member groups to: • develop the role of the Committee; • further develop the approach to agenda planning; • provide an appropriate focus for debate; and • implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment.	Chief Operating Officer	March 2015
Financial Governance	Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes.	The Chief Operating Officer will consider appropriate use of unit costs in performance reports. For example, indicators such as % spending on professional services and £m spending on assets could be included alongside appropriate targets. Financial data, which forms part of the Commissioning Plans, will continue to be analysed and compared during the medium term financial planning cycle.	Chief Operating Officer	March 2015
Financial Governance	Demonstrate the improvements to the capital planning process, gateway reviews and managing the delivery of these projects to reduce the amount of slippage and inform accurate forecasting in 2014/15.	The targets of remaining within a £14m Capital Financing Cap and also to restrict any new external borrowing will stay in place for 2015/16. The approach to the monitoring and management of capital profiling and forecasting will continue to be refined. This will provide a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes.	Chief Operating Officer	March 2015

Page 43

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Financial Control	Reassess the governance and risk management arrangements for the new ASDVs and the Council's commissioning relationship with them, to make sure that they are operating as intended and they enable the Council to sufficiently identify and address any risks to service delivery or internal controls.	The Council will continue to: • review and develop the governance framework for ASDVs in the light of experience, and as operational arrangements mature, in accordance with the approach set out in the report to Cabinet in March 2014; and • embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes.	Chief Operating Officer Executive Director Strategic Commissioning	Ongoing
Prioritising Resources	The submitted Better Care Fund plans did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators. Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the county area.	The Council is continuing to develop the BCF arrangements with its Clinical Commissioning Group partners. Further assessments of progress are being undertaken by the Department of Health. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance. The more detailed plans will be submitted in September 2014.	Executive Director of Strategic Commissioning Director, Adult Social Care	March 2015
Improving Efficiency and Productivity	Review the Data Quality Strategy and the associated measures as part of the Transparency Project to promote the importance of good quality data in effective information governance.	The current Data Quality Strategy will be reviewed to ensure that it remains fit for purpose. A fundamental review of the Strategy will be undertaken as part of the Council's developing approach to increasing transparency.	Chief Operating Officer	March 2015
Improving Efficiency and Productivity	Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured.	The Council's Procurement Improvement Plan is being implemented - overseen by the Procurement Board. The work includes a review of Contract Procedures Rules, introduction of Risk Based Sourcing, enhancing the ability of local suppliers to compete for Council contracts. A review of all commissioning activity is scheduled to ensure that the Council is able to maximise the savings and vfm of all contract renewals.	Chief Operating Officer	March 2015

Appendix B: Action plan – value for money

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Improving Efficiency and Productivity	Continue to implement the recommendations arising from the OFSTED inspection and improvement notice regarding the arrangements for the protection of children.	External evaluation, including the Ofsted improvement pilot and Local Government Association (LGA) Peer Review, has confirmed that good progress has been made in improving safeguarding arrangements for children in Cheshire East. As at the end of March 2014, a significant number of Ofsted and Improvement Notice recommendations have been 'signed off' by the Improvement Board. A new Children's Improvement Plan for 2014-15 has been approved by the Improvement Board to meet the outstanding recommendations. Audit and other activity is also now monitored by the multi-agency Local Safeguarding Children Board (LSCB).	Director of Children's Services	Next Ofsted Inspection (the Improvement Notice will not be lifted until the next inspection (unannounced)

Appendix C: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE EAST COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Cheshire East Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Chief Operating Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Chief Operating Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cheshire East Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

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

Certificate

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

- the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Jon Roberts

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

Colmore Plaza
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AT

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 25 September 2014
Report of: Chief Operating Officer
Title: Audit Findings and Action Plan, 2013/14
Portfolio Holder: Councillors Peter Raynes and Barry Moran

1.0 Report Summary

1.1. Grant Thornton expect to provide an unqualified opinion on the accounts by the statutory deadline of 30 September. They will also provide an unqualified conclusion on the Council’s arrangements for securing value for money. The auditor’s report recognises the significant progress the Council has made to address the weaknesses set out in their qualified conclusion last year. Grant Thornton said:

Audit Opinion

It is pleasing to report that we anticipate that we will provide the Council with an unqualified opinion, in line with the reporting timescale required under the Accounts and Audit (England) Regulations 2011.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified vfm conclusion. This is an improvement from the previous year's qualified vfm conclusion and the Council is to be commended for the improvements made to its arrangements during the year.

1.2. This independent validation of the improvements the Council has made reflects its ongoing commitment to develop and embed its arrangements for securing and demonstrating value for money and to improve financial reporting. The auditors have also made a number of recommendations for further improvement which the Chief Operating Officer has agreed to implement.

1.3. This report sets out the Council’s management response to the 2013/14 Audit Findings Report presented by Grant Thornton to the Audit and Governance Committee on 25 September 2014. Specific improvement actions are proposed to address the auditors’ recommendations including target dates for implementation.

2.0 Recommendations

2.1. The Committee is asked to note and endorse the management responses and action plan set out in Appendix 1.

3.0 Reasons for Recommendations

3.1 The external auditors are required under the Audit Commission's Code of Practice to report whether, in their opinion, the Council's financial statements present a 'true and fair view' of the financial position for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. They are also required to reach a conclusion on the whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

3.2 In arriving at their opinion and conclusion for 2013/14, the auditors have made a number of specific recommendations for improvement. The Chief Operating Officer and Corporate Leadership Board have accepted all of the auditors recommendations and assigned officers responsible for their implementation within an agreed timescale. It remains important that the Council addresses these issues in order to sustain the positive progress already made - and acknowledged - by the auditors. These improvements will support the Council's commitment to continuing to strengthen its financial reporting, stewardship and governance arrangements.

4.0 All wards Affected

5.0 Policy Implications – none

6.0 Financial Implications (Authorised by the Chief Operating Officer)

6.1. The Chief Operating Officer expects any cost implications arising from the recommendations in this report will be contained within existing budgets.

7.0 Legal Implications (Authorised by the Head of Legal Services)

7.1. There are no specific legal implications arising from the recommendations in this report.

8.0 Risk Assessment

8.1. Failure to satisfactorily address the audit findings and recommendations from 2013/14 may expose the Council to adverse comments from its auditors in the current and future financial years. This could also lead to reputational damage and the possibility of increased audit fees. The management responses in Appendix 1 are intended to avoid this outcome, improve overall financial stewardship and therefore mitigate this risk.

9.0 Background

9.1. The Council's auditors, Grant Thornton presented their annual audit findings report to the Audit & Governance Committee on 25 September. These findings formed the basis of their audit opinion on the financial statements, and value for money conclusion. Grant Thornton expect to provide an unqualified opinion on the accounts by the statutory deadline of 30 September.

9.2. Grant Thornton will also provide an unqualified conclusion on the Council's arrangements for securing value for money. The auditor's report recognises the significant progress the Council has made to address the weaknesses set out in their qualified conclusion last year:

The Council has demonstrated improvements in its arrangements, particularly where weaknesses were highlighted in previous audits and we are pleased to confirm that we intend to issue an unqualified VfM conclusion.

9.3. This independent validation of the improvements the Council has made reflects its ongoing commitment to develop and embed its arrangements for securing and demonstrating value for money. The auditors specific recommendations for improvements are set out in Appendix 1. Their recommendations cover three main areas:

- Financial statements - seven recommendations:
  - two in respect of valuation of and accounting for property, plant and equipment;
  - three regarding the accounting treatment of capital receipts including capital grants and receipts in advance;
  - one in respect of the Council's PFI scheme; and
  - one relating to the likely requirement to produce group accounts in 2014/15.
- IT Controls – two recommendations.
- Value for Money – eight recommendations:
  - Financial Governance, three recommendations regarding the Audit and Governance Committee, use of appropriate unit cost data and capital planning;
  - Financial control, one recommendation regarding the governance and risk management arrangements of the Council's new service delivery vehicles;
  - Prioritising resources, one recommendation regarding the ongoing development of the Better Care Fund with the Council's NHS partners; and
  - Improving efficiency, three recommendations regarding data quality, procurement and the Council's improvement plan for the protection of children.

9.4. In developing responses to these recommendations, managers have paid due regard to the need for actions proposed to be robust, realistically deliverable within the agreed timescales and also proportionate. It is also important that these actions complement and build on the substantial progress that has already been made.

9.5. The auditor's report references specific improvements in the Council's arrangements including:

- Managing its finances effectively for 2013/14, within its revenue budget of £260m, achieving a surplus of £0.9m, increasing its general reserves to £19.8m. The Council also created new earmarked reserves of £12.4m in addition to the £0.486m elections reserve set up in October 2013.
- Consolidating improvements to its financial planning and controls, updating its medium term financial strategy, identifying measures to address the £8.3m net budget deficit and approving a balanced budget for 2014/15.
- Completing the appointments to its senior leadership team, after a period of key posts being filled on an interim basis.
- The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.
- The Council collected 98.1% of council tax due and 98.3% of business rates (upper quartile performance).
- The Council has a strong local tax base and lower dependence on government grant. The budget report for 2014/15 highlights that the funding for Council Services from Council Tax and Business Rates increased to over 75% of the total requirement. This reduces the Council's exposure to the risk of reductions in Government grant funding. However the resources available for service expenditure may still fluctuate, particularly local funding from business rates
- The Council's long term borrowing ratio (as a percentage of tax revenue) was the lowest of the comparator group in 2012-13 at 0.61, (also in 2011/12) and reduced slightly to 0.59 on the basis of 2013/14 figures. The Council's capital financing requirement exceeds the amounts actually borrowed, the shortfall is funded from cash balances. Borrowing of £6m has been repaid in 2013/14 and no new external loans were taken out. This is a deliberate and planned strategy.
- The balance attributed to schools at 31 March 2014 is £8.8m. The key indicator shows that 5% of the dedicated schools grant allocation remained unspent at the end of the year compared to 7% in 2012/13 (2012/13 average of 6%) - an indication that schools are retaining appropriate levels of reserves.

- Total employee expenditure has continued to reduce from £306.3m in 2011/12, £287.1 million in 2012/13 to £261.6 million in 2013/14. This reduction of 8% on costs reflects a 5% reduction in the number of people employed by the Council (headcount per Final Outturn review of Performance 2013/14). The Council has a number of key workforce development projects underway to support its transformation of the way that services are delivered. The Senior Management Review is now complete and expects to achieve savings of £5m by 2014/2015, one year ahead of schedule.
- Members receive comprehensive financial management information through budget setting and performance reports, linking back to the Council's Outcomes set out in its Three Year Plan. This level of reporting enables Members to have an oversight of performance against the budget.
- Financial and performance reporting is underpinned by a detailed understanding by portfolio holders of their service areas, including progress against efficiency plans. Briefings to all members have been provided at key stages throughout the year.
- The Council continues to strengthen its risk management framework, with a risk management policy, risk assessment, monitoring and reporting arrangements in place.

9.6. The management responses to the specific recommendations made by Grant Thornton are presented in Appendix 1. These actions will embed, sustain and complement the range of positive developments that are already in place. The Council’s main aim is to continue to provide the quality services that its residents and businesses need off a reducing cost base compared with previous years. The actions agreed in this report target continued improvements to the Council’s overall financial governance and stewardship of the organisation.

10.0 Access to information

10.1. The background papers relating to this report can be inspected by contacting the report writer:

Name: Peter Bates
Designation: Chief Operating Officer
Tel No: 01270 686013
Email: peter.bates@cheshireeast.gov.uk

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Management Action Plan **Appendix 1**

Financial Statements

Area	Recommendation	Responsibility	Timescale	Management response
Property, plant & equipment	The presentation of adjustments to cost and value of property plant is not in accordance with the Code. We recommend that the Council complete a full review in 2014/15 of the underlying asset register and the associated capital expenditure , with specific regard to the Code requirements to ensure that : Where assets are enhanced and an adjustment is identified to remove the value of the original asset being replaced that this is reported as de-recognition in the cost or valuation section of the note and also as de-recognition in the accumulated depreciation and impairment section. Any further adjustment that meets the definition of impairment, is reported in the accumulated depreciation and impairment section of the note.	Corporate Finance Manager	March 2015	A full review of the asset register and associated capital expenditure will be undertaken in 2014/15 to ensure full consideration of the Code requirements.
	The Council should ensure that it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. This assessment needs to take place sufficiently early in the close down process to determine if any additional revaluations needs to take place. The final assessment must then cover all those assets that have not been subject to revaluation in the year. This assessment must be backed up with analysis and market trend information appropriate to the Council's circumstances.	Head of Corporate Resources and Stewardship	March 2015	The Council will ensure it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. Earlier engagement will take place with the external valuers, Deloitte to ensure an assessment has been undertaken on all assets not subject to revaluation within the year.

Page 55

Area	Recommendation	Responsibility	Timescale	Management response
Private Finance Initiative	There remain some differences between the Council's overall PFI liability and future disclosures and those shown by the GT alongside more general disclosures issues. These differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme. We recommend that the Council reviews the initial construction costs within the accounting model.	Corporate Finance Manager	March 2015	We will review the initial construction costs within the accounting model - agreed in 2009/10. We will reconsider our accounting treatment in consultation with the auditors.
Capital accounting	We recommend that the Council reviews its approach to capital accounting entries in 2014/15 . To operate a dedicated capital receipts reserve where the accounting entries can then be more clearly shown to be consistent between the reserves, the Movement in Reserves Statement adjustment note and the statement of capital expenditure and financing at note 34.	Corporate Finance Manager	March 2015	The requirement for a dedicated earmarked reserve for revenue contributions to future capital expenditure will be actioned in 2014/15.
	To amend the use or alternatively remove the unnecessary disclosures for the capital grant unapplied account to report grant received and applied in year as a direct charge to the capital adjustment account.	Corporate Finance Manager	March 2015	We will review the disclosure of the capital grant unapplied account as part of the 2014/15 accounts closedown process.
	We recommend that the Council consider the accounting treatment of Dedicated Schools Grant and assess whether any balances to be carried forward each year would be more appropriately accounted for as an earmarked reserve.	Accountancy Services Manager	March 2015	We will review accounting treatment of the Dedicated Schools Grant as part of the 2014/15 closedown process.

Area	Recommendation	Responsibility	Timescale	Management response
Capital accounting	We recommend that the Council reviews all its remaining balances held as receipts in advance to reassess the requirement that these may only be held as a liability where there are conditions in place that are not yet satisfied, and the otherwise the income should be recognised.	Corporate Finance Manager	March 2015	The Council will review balances held as receipts in advance to assess the appropriate accounting treatment.
Group accounts	Looking forward, the Council is more likely to be subject to the requirement to prepare group accounts. This assessment of the scope and application of these requirements should be identified and factored into closedown arrangements. This should also be discussed with the audit team as soon as possible. There are specific and additional audit procedures that auditors are required to complete where group accounts are prepared.	Chief Operating Officer	March 2015	The development of group accounts will be considered as part of the planning arrangements for the 2014/15 closedown, in particular the resources and training requirements. We will discuss our proposals with the auditors at an early stage.
IT controls	Continue to pursue an IT solution for the payment posting delay in Oracle, so that payments are properly accounted for in the general ledger without the need for manual intervention. In the meantime ensure that appropriate evidence is retained to support all adjusting journals.	Corporate Finance Manager Corporate Manager Information Communication Strategy and Technology	March 2015	The Council is working with CoSocius to review the processes and ensure payments are properly accounted for without the need for manual intervention.

Area	Recommendation	Responsibility	Timescale	Management response
IT Controls	Specific work on IT controls recommended that:			
	• Password minimum length should be in line with best practice and set to be at least 9 characters.	Corporate Manager Information Communication Strategy and Technology	March 2015	CoSocius is undertaking password complexity work and will implement new policies in line with adopt best practice. It is recognised that financial management access requires additional security i.e. two factor authentications.
	• Documented policies and procedures addressing batch administration, monitoring and error handling within Northgate should be established, approved and communicated to those responsible for implementing and/or abiding by them.			CoSocius is reviewing a number of elements including Standardisation of Smartforms, and other improvements needed via increased automation. This will reduce errors. We will use Meta-compliance to communicate, train and test adherence to these policies.
	• The responsibility of administering security within Oracle Financials should be performed by system administrators with no programming duties. The practice of granting programmers greater than read-only access into production environments should be halted – or you should implement a formal monitoring process designed to review the actions performed.			CoSocius has the access to carry out system administration and development. Segregation between these access rights is required and will be in place by March 2015. This work has started and assurance activities are ongoing.
	• Management should periodically perform formal reviews the user accounts and group membership assignments within Active Directory for appropriateness			Managers are responsible for ensuring staff have the correct and appropriate permissions to perform their role and to keep that up to date. We are reviewing starters and leaver data to strengthen accountability and streamline processes. Staff are reminded of their responsibilities in a number of ways including Team Talk.

Value for Money

Area	Recommendation	Responsibility	Timescale	Management response
Financial Governance	Encourage focus of consideration and discussions of the Audit and Governance Committee to provide apolitical, effective oversight, support and challenge for the Council's financial management and the system of internal control.	Chief Operating Officer	March 2015	The Chief Operating Officer will continue to work with the Chairman/Vice-Chairman and the established Officer/Member groups to: • develop the role of the Committee; • further develop the approach to agenda planning; • provide an appropriate focus for debate; and • implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment.
	Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes.	Chief Operating Officer	March 2015	The Chief Operating Officer will consider appropriate use of unit costs in performance reports. For example, indicators such as % spending on professional services and £m2 spending on assets could be included alongside appropriate targets. Financial data, which forms part of the Commissioning Plans, will continue to be analysed and compared during the medium term financial planning cycle.

Area	Recommendation	Responsibility	Timescale	Management response
	Demonstrate the improvements to the capital planning process, gateway reviews and managing the delivery of these projects to reduce the amount of slippage and inform accurate forecasting in 2014/15.	Chief Operating Officer	March 2015	The targets of remaining within a £14m Capital Financing Cap and also to restrict any new external borrowing will stay in place for 2015/16. The approach to the monitoring and management of capital profiling and forecasting will continue to be refined. This will provide a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes.
Financial Control	Reassess the governance and risk management arrangements for the new ASDVs and the Council's commissioning relationship with them, to make sure that they are operating as intended and they enable the Council to sufficiently identify and address any risks to service delivery or internal controls.	Chief Operating Officer Executive Director of Strategic Commissioning	Ongoing	The Council will continue to: • review and develop the governance framework for ASDVs in the light of experience, and as operational arrangements mature, in accordance with the approach set out in the report to Cabinet in March 2014; and • embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes.

Area	Recommendation	Responsibility	Timescale	Management response
Prioritising Resources	The submitted Better Care Fund plans did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators. Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the borough.	Executive Director of Strategic Commissioning Director, Adult Social Care	March 2015	The Council is continuing to develop the BCF arrangements with its Clinical Commissioning Group partners. Further assessments of progress are being undertaken by the Department of Health. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance. The more detailed plans will be submitted in September 2014.
Improving Efficiency and Productivity	Review the Data Quality Strategy and the associated measures as part of the Transparency Project to promote the importance of good quality data in effective information governance.	Chief Operating Officer	March 2015	The current Data Quality Strategy will be reviewed to ensure that it remains fit for purpose and supports the Council's developing approach to increasing transparency.
	Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured.	Chief Operating Officer	March 2015	The Council's Procurement Improvement Plan is being implemented - overseen by the Procurement Board. The work includes a review of Contract Procedures Rules, introduction of Risk Based Sourcing, enhancing the ability of local suppliers to compete for Council contracts. A review of all commissioning activity is scheduled to ensure that the Council is able to maximise the savings and vfm of all contract renewals.

Area	Recommendation	Responsibility	Timescale	Management response
	Continue to implement the recommendations arising from the OFSTED inspection and improvement notice regarding the arrangements for the protection of children.	Director of Children's Services	Next unannounced Ofsted Inspection (the Improvement Notice will not be lifted until the next inspection. As this will be unannounced, the date cannot be confirmed).	External evaluation, including the Ofsted improvement pilot and Local Government Association (LGA) Peer Review, has confirmed that good progress has been made in improving safeguarding arrangements for children in Cheshire East. As at the end of March 2014, a significant number of Ofsted and Improvement Notice recommendations have been ‘signed off’ by the Improvement Board. A new Children’s Improvement Plan for 2014-15 has approved by the Improvement Board to meet the outstanding recommendations. Audit and other activity is also now monitored by the multi agency Local Safeguarding Children Board (LSCB).

 Agenda Item 7

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	25 September 2014
Report of:	Chief Operating Officer
Subject/Title:	2013-14 Statement of Accounts
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

1.1 At the meeting on 26 June 2014 Members received a report setting out the key elements of the Council's pre-audit Statement of Accounts for 2013/14. The external audit of these Accounts is now largely complete and the external auditors, Grant Thornton anticipate providing an unqualified opinion.

1.2 An updated Statement of Accounts, informed by the findings from the audit process is now presented to the Committee for consideration prior to publication.

2.0 Recommendation

2.1 That the Statement of Accounts be considered and approved as presenting a true and fair view of the Council's expenditure and income for the year and its overall financial position (subject to final audit clearance).

2.2 The Chairman of Audit and Governance Committee be given delegated authority to sign off the final Accounts on completion of the audit process on behalf of the Committee, in consultation with the Chief Operating Officer.

3.0 Reasons for Recommendations

3.1 To ensure compliance with the Accounts and Audit Regulations 2011.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Implications for Rural Communities

7.1 None

8.0 Financial Implications (Authorised by the Chief Operating Officer)

8.1 As covered in the report.

9.0 Legal Implications (Authorised by the Head of Legal Services)

9.1 There are no specific legal implications with regard to this report.

10.0 Risk Management

10.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

11.0 Background and Options

11.1 At the time of writing the following amendments have been agreed and reflected in the final Statement of Accounts.

- The figures contained within the pre-audit Statement of Accounts included an amount for third party income generated from the PFI Extra Care Housing Scheme; this included a separate asset value and deferred liability balance of £16.4m reported as a prior period adjustment. It has been agreed that retaining this presentation would overstate the fair value of the Council's assets; these values have therefore been removed from the balance sheet.
- There remains some differences between the Council's overall PFI liability and future disclosures; these will be reviewed for the 2014/15 Accounts.
- Income relating to capital grants for schools (£8.9m) has been removed from capital grants receipts in advance and has been accounted for as income in the Comprehensive Income and Expenditure Statement and transferred to the capital grants unapplied grants.
- The Housing Benefit Subsidy grant income and administration grant (£87.8m) was treated as non ring fenced grant and included within 'taxation and non specific grant income' ; this has now been reclassified as income relating to the Housing Service.
- An amount of £12.2m held by the Council in administering the Growing Places Fund on behalf of the Cheshire & Warrington Local Enterprise Partnership has been reclassified as a long term creditor rather than capital grants received in advance.

- Various amendments have been made relating to pension transactions to reflect changes to IAS 19.

12.0 Summary of Final Accounts

12.1 The full set of Accounts will be provided to Members at the Committee. The changes outlined in the body of this report have had no material impact on the position reported in June. The revised summary statements are provided below.

Comprehensive Income and Expenditure Account

Summarised Comprehensive Income and Expenditure Statement	2013-14			2012-13
	Spend £000	Income £000	Total £000	Total £000
Expenditure on Services	691,355	(379,349)	312,006	319,658
Corporate and Democratic Core	7,945	(6,895)	1,050	3,471
Non-distributed Costs	(4,982)	(28)	(5,010)	4,828
Cost of Services	**694,318**	**(386,272)**	**308,046**	**327,957**
Other Operating Income & Expenditure	48,604	(1,270)	47,334	44,443
Financing and Invt Income and Expenditure	26,344	(920)	25,424	23,355
Taxation and Non-Specific Grant Income	0	(332,244)	(332,244)	(322,819)
(Surplus)/Deficit on Services	**769,266**	**(720,706)**	**48,560**	**72,936**
Surplus on Revaluation of Assets/Invts	0	0	(20,032)	6,611
(Surplus)/Deficit on Pensions	0	0	(49,696)	64,684
Total	**0**	**0**	**(21,168)**	**144,231**

12.2 This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

12.3 Movement in Reserves Statement

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

Summarised Movement in Reserves Statement	General Fund £000	Earmarked Reserves £000	Other Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Opening Balance 1/4/13	18,936	21,911	12,593	180,236	233,676
Surplus / (Deficit) on Services	(48,560)				(48,560)
Other Expenditure and Income				69,728	69,728
Accounting Adjustments	64,033		12,221	(76,254)	0
Transfer to Earmarked Reserves	(14,576)	13,244	1,332		0
Closing Balance 31/3/14	**19,833**	**35,155**	**26,146**	**173,710**	**254,844**

Balance Sheet

12.4 This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

Summarised Balance Sheet	31 March 2014 £000	Restated 31 March 2013 £000
Property, Plant & Equipment	752,998	795,193
Investment Property	11,539	9,846
Other Non-Current Assets	2,229	1,861
Long Term Investments and Debtors	29,976	27,881
Long Term Assets	**796,742**	**834,781**
Short Term Investments	18,072	11,490
Debtors	57,998	48,443
Cash & Cash Equivalents	26,036	32,688
Other Current Assets	6,454	1,569
Current Assets	**108,560**	**94,190**
Creditors	(77,390)	(71,489)
Short Term Borrowing	(12,570)	(7,588)
Current Liabilities	**(89,960)**	**(79,077)**
Provisions	(12,576)	(7,323)
Long Term Borrowing	(115,223)	(126,264)
Net Pension Liability	(388,432)	(431,324)
Other Long Term Liabilities	(44,267)	(51,307)
Long Term Liabilities	**(560,498)**	**(616,218)**
Net Assets	**254,844**	**233,676**
Usable Reserves		
Capital Receipts Reserve	1,704	1,077
Capital Grants Unapplied	24,442	11,516
Schools Reserves & Balances	8,810	12,626
Earmarked Reserves	26,345	9,285
General Fund Reserve	19,833	18,936
Total Usable Reserves	**81,134**	**53,440**
Unusable Reserves		
Revaluation Reserve	189,189	185,172
Capital Adjustment Account	384,568	434,443
Pensions Reserve	(388,432)	(431,324)
Other Unusable Reserves	(11,615)	(8,055)
Total Unusable Reserves	**173,710**	**180,236**
Total Reserves	**254,844**	**233,676**

13.0 Next Steps

13.1 The final version of the Statement of Accounts will be published on the Cheshire East website before the statutory deadline of 30^{th} September following completion of the final elements of the audit and receipt of the necessary approvals.

13.2 Headline information from these Accounts will be made available in the form of a Summary Statement of Accounts.

14.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Wilcox
Designation: Corporate Finance Manager
Tel No: (01270) 685869
Email: joanne.wilcox@cheshireeast.gov.uk

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Statement of Accounts
2013 / 2014

www.cheshireeast.gov.uk

Cheshire East Council

Introduction to the 2013/14 Statement of Accounts

Cheshire East is the third largest Council in the Northwest of England and is responsible for over 500 services, supporting over 370,000 local people with annual spending of approximately £760m. The complexity of customer demands and the size of the organisation make it important to manage performance and control expenditure to ensure the best outcomes for residents and businesses.

The journey to becoming a strategic commissioning council is now well developed. This report covers the first year of the Council's three year plan (2013/14 – 2015/16). An ambitious but measured approach is being taken to achieving the Council's aims whilst effectively dealing with the challenges of austerity.

The Council's philosophy is about much more than simply reducing costs through arranging cheaper provision or about traditional outsourcing. New approaches to service delivery are being developed to get the best from in-house services. These include joint ventures between the Council and other providers, new delivery vehicles including Council owned and controlled companies, social enterprises and Trusts. During 2013/14 the Council accelerated its programme of significant change and innovation. The Council's review of its management structure, roles and responsibilities, completed in early 2014 is a significant step forward. The senior officer leadership team is now in place with permanent appointments to all executive posts.

In 2013/14 the Council generated a small surplus of £0.9m (0.35%) against its approved revenue budget of £260m. Its overall financial health, performance and resilience is strong despite taking over £50m out of its cost base since 2011. In addition to its strong financial performance the Council can highlight a number of operational achievements throughout 2013/14. These include:

- success in attracting new businesses – it is only one of three hot spots for new business creation outside London;
- the best performing council in the North West, (and one of the best overall), in decreasing the number of young people classed as not in education, employment or training (NEET);
- highest ever number of good and outstanding schools - 87.3%;
- adoption timeliness and outcomes have improved;
- Adult Social Care (ASC) project to redesign assessment and care management;
- a compelling business case for Crewe as a HS2 Hub station, providing high-speed connectivity to London but, more critically, the potential to drive major growth and regeneration benefits for Crewe and the wider region;
- recycling rates increased to an all time high of 54%;
- collecting over 99% of Council Tax and Business Rates within three years – which places us in the top third of best performing unitary councils;
- successful completion of circa £65m capital programme; including £12.7m investment on the highways infrastructure, £3.9m on Crewe Rail Exchange, £4.9m on the Councils ICT infrastructure; and
- rolling out superfast broadband across Cheshire.

The strong financial position illustrated in this Statement of Accounts for 2013/14 is a testimony to the Council's enhanced governance, innovative service delivery arrangements and effective stewardship of public money. Given the national context and austerity challenge the results achieved in 2013/14 are impressive. Our overriding commitment is to put residents' interests first.

Cllr Peter Raynes
Finance Portfolio Holder

Introduction to the 2013/14 Statement of Accounts

Message from Peter Bates, Chief Operating Officer

Welcome to the Statement of Accounts for Cheshire East Council for the financial year 2013/14. These statements form an important part in demonstrating how the Council manages the public money it is responsible for. They provide a summary of the financial performance of the Council in the delivery of services to the residents and businesses of Cheshire East for the year ended 31 March 2014. The accounts and accompanying documents are subject to an external independent review by Grant Thornton UK LLP. On completion of their work their audit opinion will form part of this document.

This report demonstrates that the overall performance, financial health and resilience of Cheshire East Council is strong. This position reflects the improvements in governance, effective stewardship of public funds and a clear focus on putting residents first. On 17 July 2014, the Council approved the creation of new earmarked reserves of £12.4m. This will ensure that the overall level of reserves held are sufficient to continue to protect the Council against its assessed financial risks as well as providing opportunities for future investment in its identified priorities.

We all know that the financial and operating environment for the public sector is difficult and uncertain. In 2013/14 the Council adapted well to changes in funding from business rates, the introduction of the local replacement for council tax benefit and the integration of public health services. Central Government's commitment to reduce the high levels of national debt has contributed to local government going through a period of unprecedented change and financial challenge. Cheshire East Council's response continues to be based on innovation and creativity.

The Council also continues to be relentless in its pursuit of greater efficiency and productivity to enable it to deliver a high level of sustainable, quality services for a lower overall cost. Cheshire East Council is now well placed to meet the challenges set out in its medium term financial strategy that was approved at Council in February 2014.

Our commissioning intentions to develop better ways to achieve the Council's five stated outcomes by using a mix of delivery vehicles is continuing to gain momentum. Our strategy now has a more commercial and 'Resident First' outlook. There are many challenges ahead but the pre audit outturn for 2013/14 highlights impressive financial and operational performance for Cheshire East Council.

These statements are intended to help the reader in understanding the Council's finances and allow them to be compared with other local authorities. By producing this report, I aim to give electors, local residents, Members, partners, other stakeholders and interested parties confidence that public money received and spent by the Council has been properly accounted for and that its financial standing is secure. My foreword covers:

- General information on the Council and a financial overview;
- Information on where expenditure was incurred and sources of income in 2013/14;
- Commentary on the financial statements;
- Future opportunities and challenges for the Council in 2014/15 onwards.

Contents

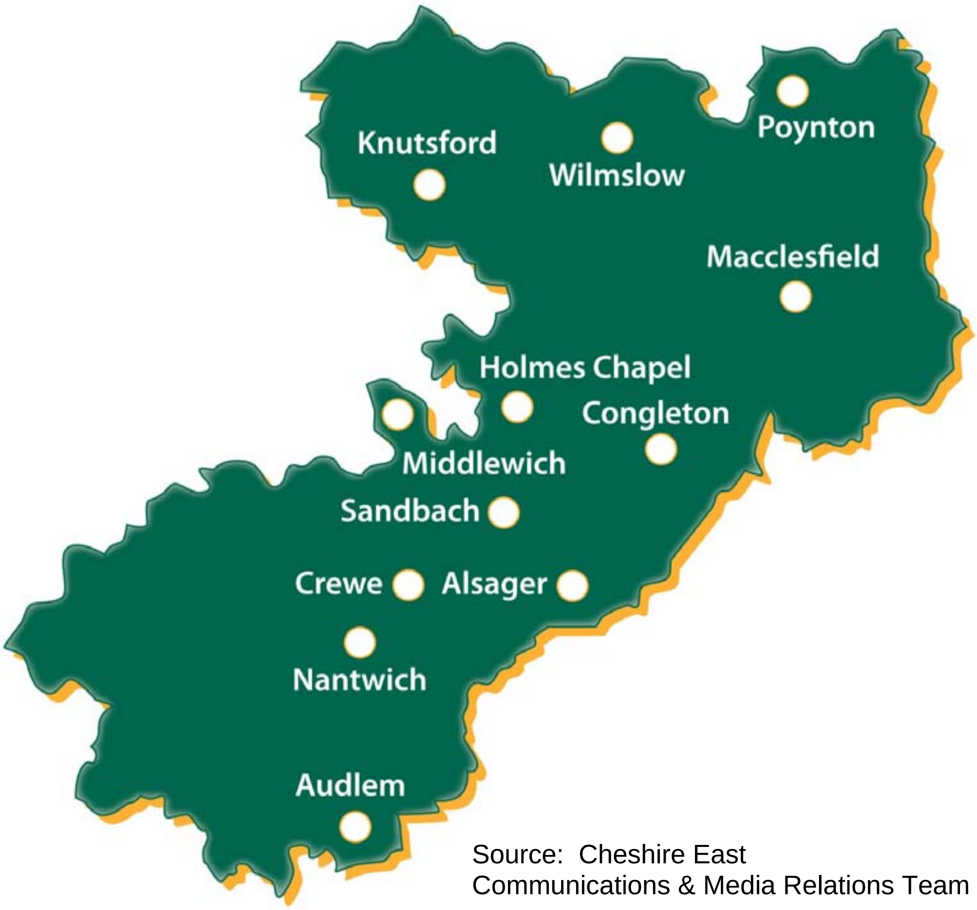
Index of Notes to the Financial Statements

Explanatory Foreword – General Information and Financial Overview

An introduction to Cheshire East

Cheshire East Council is an all-purpose ‘unitary’ local authority providing key public services to over 370,000 local residents in Northwest England.

Covering a largely rural area of approximately 117,000 hectares, the Council is one of the largest local authorities in England; maintaining the area as a green and sustainable place is one of the Council’s planned outcomes. The borders include the towns of Macclesfield, Congleton and Crewe. The area lies within the historic County of Cheshire between the urban areas of Manchester to the North and Stoke-on-Trent to the South.



Source: Cheshire East
Communications & Media Relations Team

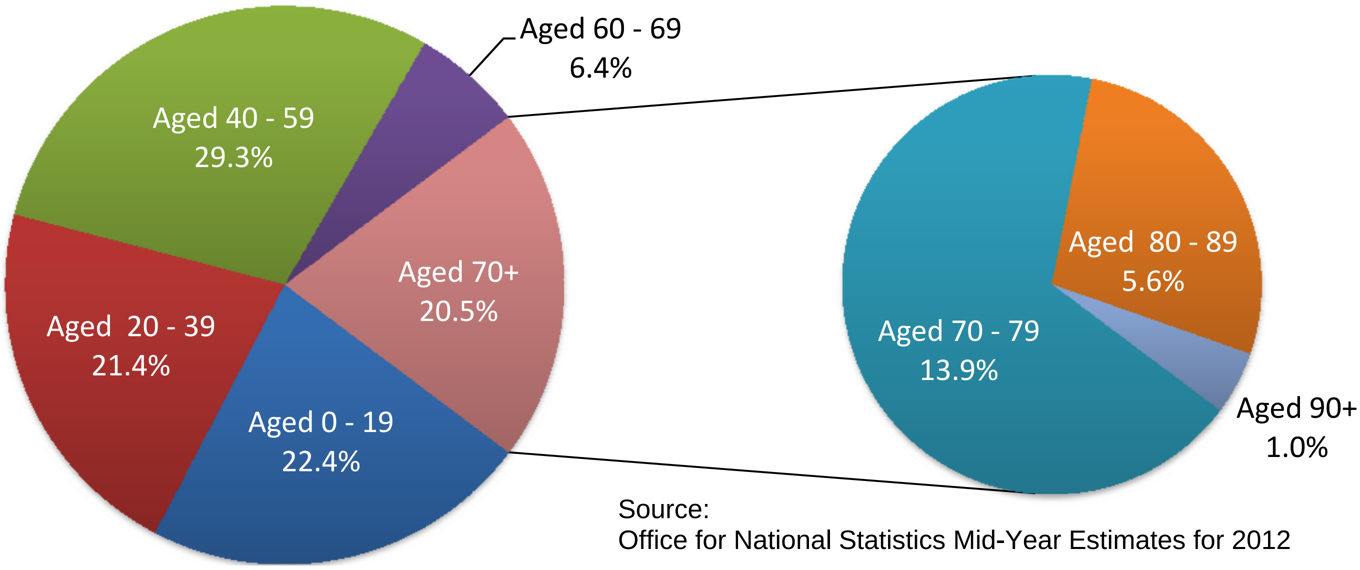
Regeneration, both in terms of employment opportunities and physical redevelopment, is recognised as being very important to the future prosperity of the Borough and is a key aim for the Cabinet.

The Council is committed to deliver services that meet the needs of its local residents and businesses, serving both its towns and rural environment. Those needs are influenced by the makeup of the population, education, local economy, health and housing issues.

Putting Residents First

Population: Office for National Statistics Mid-Year Estimates for 2012 show an estimated population of 372,100. Cheshire East has a relatively older population than average, with 26.9% of the population aged 60+. This analysis is much higher than the national average of 22.7% and is reflected in the Council's targeted outcome to support people to live well and for longer.

Cheshire East Population Structure – Analysis by Age Group



Source:
Office for National Statistics Mid-Year Estimates for 2012

Economy: Economic data tells us:

- Cheshire East's unemployment claimant count in March 2014 was 4,202 and the rate is 1.8% (compared to March 2013 rate of 2.5%). This is below the claimant count rates for Cheshire West & Chester (2.2%), the North West (3.2%) and the UK (2.9%).
- 3.9% of the Borough's 18-24 year-olds are claiming Jobseeker's Allowance – a much higher rate than for other age groups, but significantly lower than it was in March 2013 (6.0%) and lower than in the North West (5.5%) and the UK (5.0%).
- Cheshire East's mean household income is £39,900, 13% above the UK average (£35,300). However, at individual settlement level, income is below the UK average in three of the Borough's 24 main towns and settlements: Crewe, Shavington and Handforth. At the other end of the spectrum, mean household income is more than 25% above the UK average in eight of the 24 towns and settlements, these eight are all in the north or centre of the Borough.

Having a strong local economy is also one of the Council's outcomes, as well as developing life skills to help people thrive. Government changes to introduce business rate retention and council tax support schemes in 2013/14 mean the Council's financial health is more directly affected by local economic results – however, current data shows the Council in a strong position.

Local government is going through an unprecedented period of change. Reducing resources, increasing cost pressures, complex demands and rising customer expectations mean that we must constantly look for ways to improve our services while delivering better value for money. "We must do more for less".

In responding to this challenge, we are doing things differently. Cheshire East has become a ‘commissioning council’, more strategic and focused on service excellence – putting residents and businesses first. As a commissioning council we are constantly looking for the best way to deliver services for our residents – we call this ‘Best Fit’. The Council’s focus is to deliver a high level of sustainable, quality, and cost effective services that are needed by Cheshire East residents and businesses.

Cheshire East Council is a multifunctional and complex organisation. Its policies are developed by the Political Leadership and implemented by the Cabinet and Corporate Leadership Board of the Council.

The Political Structure of the Council in 2013/14

As a politically-led organisation Cheshire East has 82 elected members selected from 52 wards. Elections are held every four years, with the next one due in May 2015.

The electorate in Cheshire East is one of the largest in the UK with almost 300,000 registered voters. The Members are led by a Conservative majority. The political make up of the Council is:

Conservative	50
Labour	14
Liberal Democrat	12
Independent or Other	6

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The requirements of the Act are such that the Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

Councillor Michael Jones, Leader of the Council, heads a Cabinet of nine portfolio holders. The Council also has an annually appointed Mayor for civic functions.

The Management Structure

Supporting the work of elected Members is the organisational structure of the Council headed by the Corporate Leadership Board (CLB). This is made up of the Council’s most senior officers and ensures that the key Statutory Officers are represented at the most senior level of the Council. During 2013/14 the Council made permanent appointment to all of its senior positions:

- **Chief Executive** (Head of Paid Service) - Mike Suarez from July 2013 (previously Kim Ryley, interim).
- **Executive Director of Strategic Commissioning** - Lorraine Butcher (this is a new role leading on outcome-focussed commissioning of services).
- **Director of Children Services -** Tony Crane.
- **Director of Adult Services** - Brenda Smith.

- **Director of Economic Growth and Prosperity** - Caroline Simpson.

- **Director of Public Health** - Heather Grimbaldeston.

- **Head of Legal Service & Monitoring Officer -** Anita Bradley from February 2014 (previously Suki Binjal, interim).

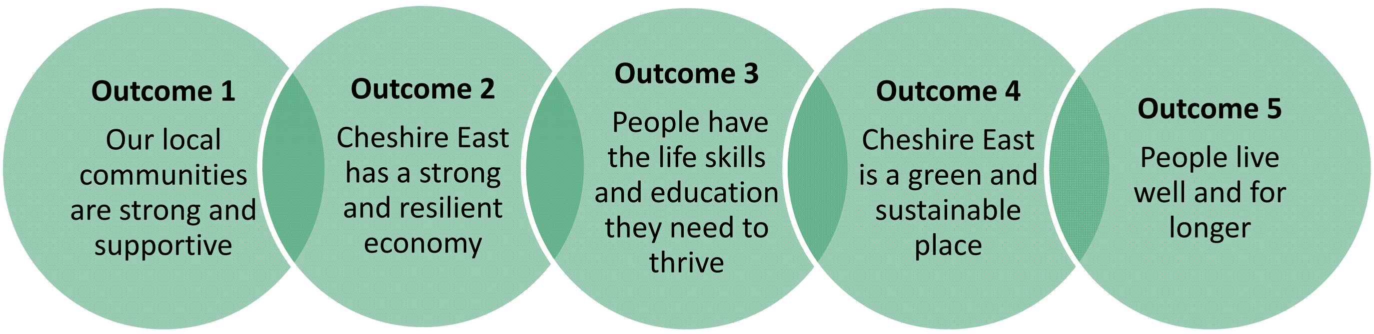
I am also a member of CLB and the Council's Section 151 Officer. Rachel Musson fulfilled this role on an interim basis until I joined in October 2013. I am the Chief Financial Advisor to the Authority and accountable for the leadership and management of key support and enabling services, together with the responsibility for the technical professional functions, such as Accountancy, Human Resources, Internal Audit, ICT, Democratic and Legal Services.

For a more complete list of appointments please refer to the Council's website.

The Three Year Plan

The Council's Three Year Plan 2013/14 – 2015/16 is one of our key strategic documents. Importantly it supports elected members, staff and partners to work together to deliver the vision for Cheshire East. Its primary purpose is to set out our story of place together with our priorities – in summary it identifies what we are doing and why we are doing it.

The Council's operating structure is focused on allocating commissioning resources to appropriate service providers to achieve the five community-based outcomes set out in the plan:



Source: Cheshire East Council Three Year Plan 2013 – 2016

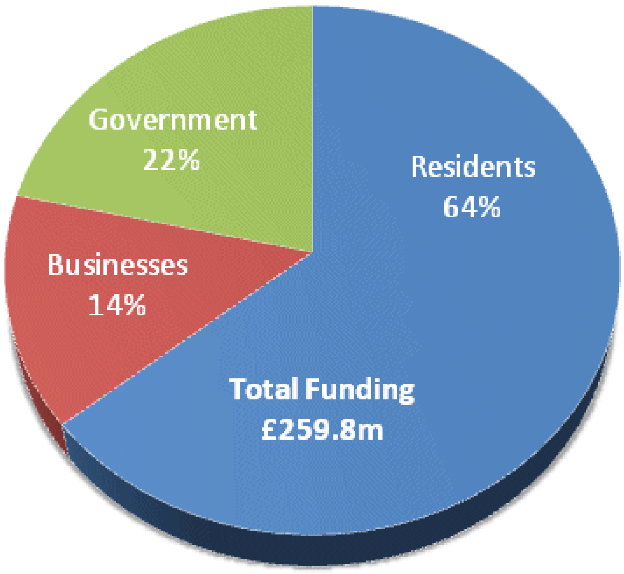
This structure is underpinned by our commitment to be a responsible, effective and efficient Council.

Financial Overview

Central Government's commitment to reduce the high levels of national debt has contributed to local government going through a period of unprecedented change and financial challenge. Cheshire East Council's response continues to be based on innovation and creativity. The Council also continues to be relentless in its pursuit of greater efficiency and productivity to enable it to deliver a high level of sustainable, quality services for a lower overall cost.

Compared to most other English councils, Cheshire East is less reliant on government revenue grant as local businesses and residents provide a higher proportion of the Council's overall funding. The Council has discretion to increase local taxes but it has not done so now for four consecutive years as it continues to strive to 'put residents first' and support the local economy.

Residents fund most of the Council's net budget

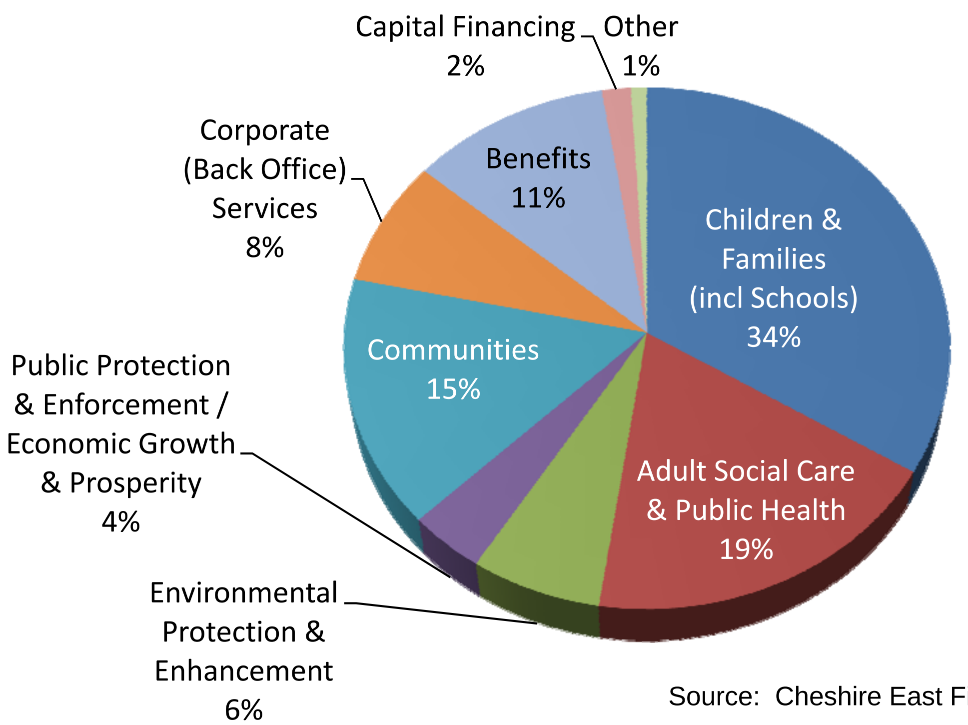


Source: Cheshire East Finance Team, 2014

The Council's strong tax base – and thereby greater independence - provides financial stability and offers some 'local protection' from the impact of national economic fluctuations. The importance of the local economy both to the Council and the country as a whole cannot be underestimated, with more than 17,000 businesses located in the Borough – greater than any neighbouring council.

The difficult decision of prioritising and allocating scarce resources to Council services is the role of elected members, with only schools, benefits and public health expenditure largely dictated by central or national policies. As you might expect, the Council allocates funding to a wide range of services but, in putting residents first, most funding is focused on resources for social care and communities.

Most funding is focused on social care and communities



Source: Cheshire East Finance Team, 2014

Revenue Outturn position

The Council's strong financial position as at 31 March 2014 reflects its enhanced governance, innovative delivery arrangements and effective stewardship of public money. The accounts report a small surplus of £0.9m (0.35%), compared to an approved revenue budget of £260m. A summary of where the money is spent is shown below:

2013/14 FINAL OUTTURN (Gross Revenue Budget £643.8m)	Revised Budget (net) £m	Final Outturn Position £m	Over / (Under) spend £m	Change from Third Quarter £m
Commissioning Services				
Children & Families	56.6	56.0	(0.6)	(0.5)
Adult Social Care & Public Health	93.3	92.6	(0.7)	(1.1)
Environmental Protection & Enhancement	38.1	38.5	0.4	0.1
Public Protection & Enforcement	(0.4)	0.8	1.2	(0.2)
Economic Growth & Prosperity	13.2	13.0	(0.2)	0.3
Communities	11.8	11.6	(0.2)	0.7
Corporate Services	47.7	44.1	(3.6)	(3.5)
Central Budgets	(0.5)	2.3	2.8	3.6
TOTAL NET BUDGET	**259.8**	**258.9**	**(0.9)**	**(0.6)**

Source: Cabinet Agenda 1 July 2014: Final Outturn Review of Performance Report 2013/14

The overall headline surplus of £0.9m includes:

- an underspend of £3.7m by Commissioning and Corporate Services; this is made up of a range of savings including securing planned cost reductions earlier than forecast; and
- an increased investment of £2.8m on central budgets.

Additional grants received in year - together with the service under spend - provided the flexibility to create earmarked reserves and fund additional capital investment.

General reserves (excluding schools) have increased in 2013/14 in line with budgeted estimates. General Reserves are now at £19.8m (7% of the net budget). Earmarked reserves are now £26.3m – excluding schools reserves and balances which are £8.8m.

The overall value of reserves is at a level that is sufficient to continue to protect the Council against its assessed financial risks and also to provide opportunities for future investment. This strengthening of the balance sheet, during these challenging times, is a positive indicator of the Council's good financial control aligned to its strategic intentions.

Some of the key issues which have affected the level of service expenditure and performance during the year are detailed below.

Children

Our Children's Services achieved some notable successes this year, including:

- 4forAdoption - national award and increased number of placements;
- Fewer NEETs than elsewhere in the North West;
- The number of good and outstanding schools in Cheshire East is the highest it has ever been at 87.3% overall;
- 37 less children are now in care (10% reduction compared to last year) with fewer of them placed in residential settings outside the Borough. As well as meaning that children are nearer home, providing better outcomes for them, the reduction in these high cost placements provides a financial benefit for the Council.

FACT:
Cheshire East Borough Council won Best Adoption Service of the year in 2013

We continue to invest in improvements in the areas highlighted by the Ofsted improvement plan - including the implementation of a new care and assessment system and managing expected areas of risk such as the social care bill.

Schools brought forward balances of £12.6m on 1 April 2013. During 2013/14, 15 schools converted to academy status, taking their budget surplus (£1.5m) with them. A new policy for holding earmarked reserves for specific projects within schools is now in place so that by 31 March 2014 schools have a total carry forward of £8.8m, with £3.3m identified for specific schools and the remaining £5.5m held as uncommitted balances.

Adult Social Care and Independent Living

In adult care we have improved commissioning of health network contracts and our redesign of the care and assessment process is making good progress.

Our Mental Health service continues to work effectively with adults of all ages who are experiencing mental health problems and need intensive support to enable them to move on and achieve for themselves. In this important area the success of the team and their interventions are reflected in short term interventions (maximum of 6 weeks) achieving 84% engagement rates with individuals with 99% successfully completing a period of reablement support with no further input required.

In our survey of users of our Care4C services 89% say it helps to improve their quality of life, 99% say they are treated with dignity and respect; 92% feel they have the right support from people who do the job well.

Other one-off actions that helped to deliver an underspend despite increasing demand during the year include effective and targeted vacancy management, reimbursements from care costs of some £2m (eg direct payments and prepaid card).

Public Health

During the year our Public Health service reviewed all areas of expenditure and re-negotiated contracts – including those inherited from the former Central and Eastern Primary Care Trust. The new service model will ensure a shift towards community based services and ensuring we have in place a co-ordinated approach to care with integrated services.

Prudent financial management supported the reversal of inherited financial risk and will enable the redistribution of expenditure in 2014/15 and beyond. The underspend of £1.6m is taken forward in a new Public Health Reserve. Plans are already in place for a Public Health Transformation Fund – this will use be used to invest in areas identified in the Director of Public Health annual report, the Joint Strategic Needs Assessment and the Council's Outcome 5 "Live Well and For Longer".

We continue to Integrate our services. The Public Health, Communities and Adult Social Care teams are working together with Health partners on two major change programmes to develop more integrated services for Cheshire East.

Environmental Protection and Enhancement

Our waste services secured some significant achievements this year, including an increase in the amount of waste re-used above the 1,000 tonne target and an all-time high of 54% in recycling rates. Other notable achievements include:

- The establishment of the Council's Environmental Services Company (ANSA) and its Bereavement Services Company (Orbitas).
- The Ranger Service continues to strive to deliver a high quality service, managing facilities and delivering events and activities whilst preserving the conservation value of the assets.
- High quality green space – where we retained six 'Green Flag' awards in Brereton Heath Local Nature Reserve, Congleton, The Moor, Bollington Recreation Ground, Sandbach Cemetery and Tegg's Nose Country Park.

Public Protection and Enforcement

Our public protection and enforcement service also achieved some notable successes this year, these include:

- Emergency Planning, a shared service with Cheshire West & Chester Council, co-ordinated the response to 20 incidents including the extreme weather which impacted on Sandbach and Crewe. Our Building Surveyors also responded out of hours during the storms on the 12th February 2014, safe guarding lives and protecting our buildings and assets.
- The Building Control team continues to excel as they became National LABC Building Excellence Awards winners for the best Conversion category for Brown Street Mill, playing a major part in improving local living standards. They also achieved their income targets and retained their 77% market share in the face of stiff competition.
- Car Parking income of £5.3m; this was under target by 7% but was offset by vacancy management and savings on supplies within the Environmental Health service.

Economic Growth and Prosperity

Cheshire East is one of only three hotspots outside of London for new business creation - evidence that the Council's approach to economic growth is working for local people. The service also reported a small underspend in year. Other achievements include:

- leading a high profile HS2 submission with a compelling economic and transport case for inclusion of a new Superhub HS2 Station for Crewe.

- helping securing the future of the 142 hectare Alderley Park site through collaboration with an industry and government Task Force. In March 2014, this led to the Council procuring an interest in Manchester Science Park which then acquired the Alderley Park site from AstraZeneca.
- Securing planning consent for the 19,000 sqm Silk Street development in Macclesfield town centre. Led by developer Wilson Bowden, the £90m scheme will comprise a department store, 19 high street shops, an eight screen cinema complex, restaurants and a multi-storey car park.
- Securing the £800m expansion of Bentley Motors in Crewe to accommodate its new SUV model, which will secure existing jobs and create 1,000 more new high-value, high-skill jobs.

Communities

Visits to our leisure facilities increased 4% on the previous year, and leisure service volunteers increased by 10%. We transferred our leisure services into a new Leisure Trust – Everybody Sport and Recreation - on 1 May 2014.

Youth offences and school absenteeism have both reduced supporting the Council's outcome to make communities stronger. A £0.4m earmarked reserve has been created to extend the life of the Emergency Assistance scheme beyond 2014/15 when the guaranteed funding comes to an end. In addition, a reserve of £1.8m has been created to invest in partnerships, community hubs and to extend the community grant scheme. This will include a Residents First Fund which will support appropriate local initiatives.

Other notable achievements include:

- Co-ordinating public-facing activities such as Winter Warmth campaigns, Nantwich Road Safety Week (May 2013), Feeling Good Event 2014.
- Establishing new community events to promote strategic issues, for example, Crewe Health Fayre now attracts over 500 people a year to promote health improvements in the local population.
- Setting up Work Clubs and then recruiting volunteers to run them – 16 new clubs established in 2013/14.
- Supporting groups to develop community led action plans – e.g. Crewe South Community First Panel and Parish Planning.
- Enabling young people in Wilmslow to decide how public money should be spent on their priorities to develop new local facilities and activities.

Corporate Services – a responsible, effective and efficient organisation

Underpinning the delivery of valued services to residents are processes and procedures that support efficiency and transparency in all activities of the Council. These services do not produce an outcome which is easily measured by our residents and businesses. However, professional services, such as legal and accountancy are monitored closely to secure best value from our systems and our assets. The overall development and co-ordination of the financial strategy of the Council in these austere times is a critical component.

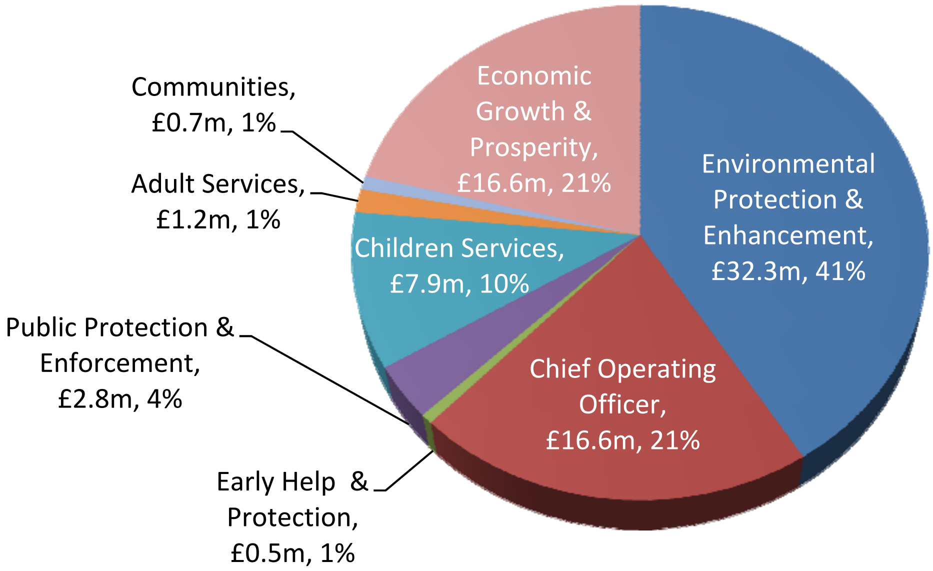
During 2013/14 the Council's professional services focused on developing the structure for a commissioning council. HR led on the significant management restructure and the transfer of staff to new service delivery models. Our accountancy, legal and ICT teams worked together to create the technical environment for new delivery models to function.

In the summer of 2014 the Chief Operating Officer undertook a benchmarking exercise on professional services to gauge relative costs and increase opportunities to follow-up on best practice. This will provide further challenge to the costs and operating models for support services.

Capital Programme

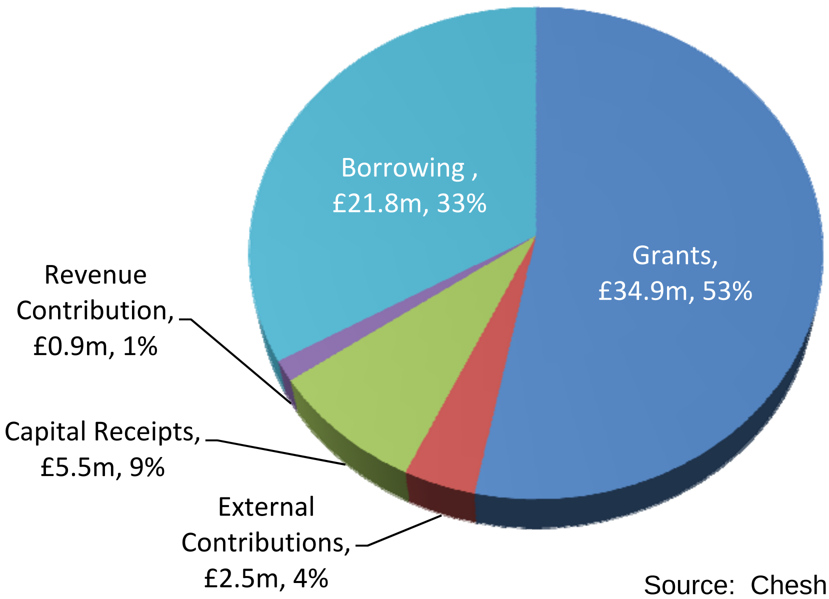
Capital expenditure represents money spent by the Council on purchasing, upgrading and improving assets that will be of benefit to the community over many years.

The Capital Budget for 2013/14 was £78.7m



Source:
Cheshire East Finance Team, 2014

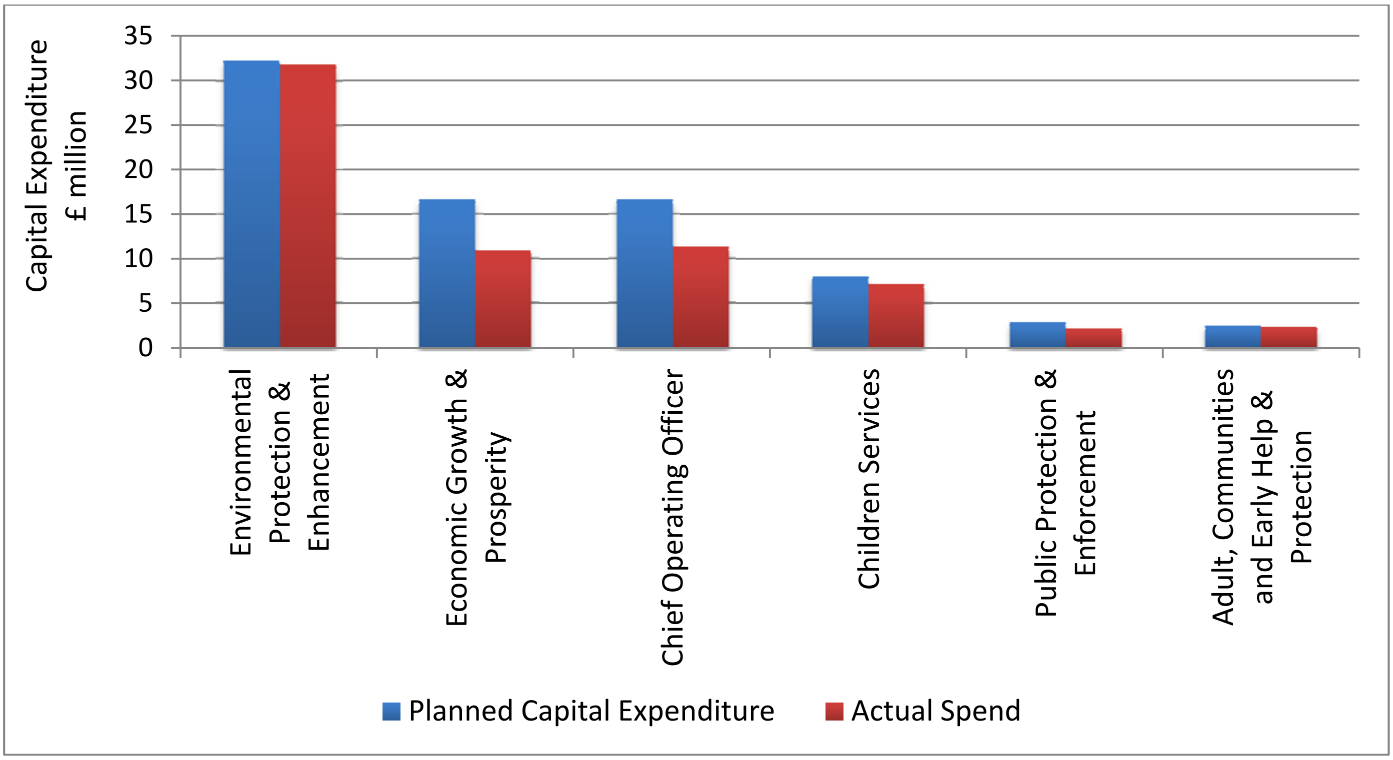
The majority of the Council's capital expenditure is funded from grants:



Source: Cheshire East Finance Team, 2014

The Council achieved £65.6m of its approved capital programme, representing a delivery rate of 83%. A further £0.128m was spent on finance leases; £1.051m on schemes fully funded by developer contributions and the investment of £2.6m to help to acquire the Alderley Park site from AstraZeneca. A more detailed analysis of planned capital expenditure compared to actual spend is shown below.

Actual capital expenditure compared to planned, 2013/14



Source: Cheshire East Finance Team, 2014

The variation of £13.1m between the approved capital programme and the final outturn position primarily relates to the following schemes - Connecting Cheshire £3.1m; South Macclesfield Development £4m; Crewe Rail Exchange £1m and the Asset Management Maintenance Programme £1.8m. Some of this planned spending for 2013/14 has been deliberately re-profiled into 2014/15 to ensure that the council maximises external (public and private) investment to minimise the direct cost to the local taxpayer. This does not therefore present any financial issues for the Council to address. The Council will always try to arrange to spend external sources of funding first and to try to create the right conditions for additional private sector investment.

The forecast for planned spend was updated throughout the year and reported in the Quarterly Reviews of Performance. In November 2013 a review was undertaken on schemes wholly or partly funded from Council resources. This ensured only schemes meeting the Council's key priorities remained in the programme and any unspent balances were released to finance appropriate new initiatives.

Schemes with significant spend and major achievements in this financial year include:

The **Connecting Cheshire Partnership** aims to bring Superfast Broadband and improved broadband speeds to communities and businesses across Cheshire, Halton and Warrington.

The **Crewe Rail Exchange** delivered major improvements to Crewe Station and its users.

Investment in **highways infrastructure** in 2013/14 amounted to £12.7m as part of a two year programme of works.

Explanatory Foreword – Expenditure and Income Commentary

Explanation of the financial statements

The Accounts and Audit (England) Regulations 2011 require the Council to produce a Statement of Accounts for each financial year. These Statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In 2013/14 there have been no significant changes in the Code's requirements, however a number of developments in 2013/14 have an influence of the presentation of the 2013/14 accounts and the reported financial position of the Council including:

- Introduction of the Business Rates Retention Scheme.
- Transfer of Public Health services to Council control.
- Updated Pension Fund liabilities.
- Creation of new Council owned companies.

The statements contain a number of different elements which are explained below.

The Financial Statements

Movement in Reserves Statement - this shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. Useable reserves include the Capital Grants Unapplied Account which are grants received but not yet utilised.

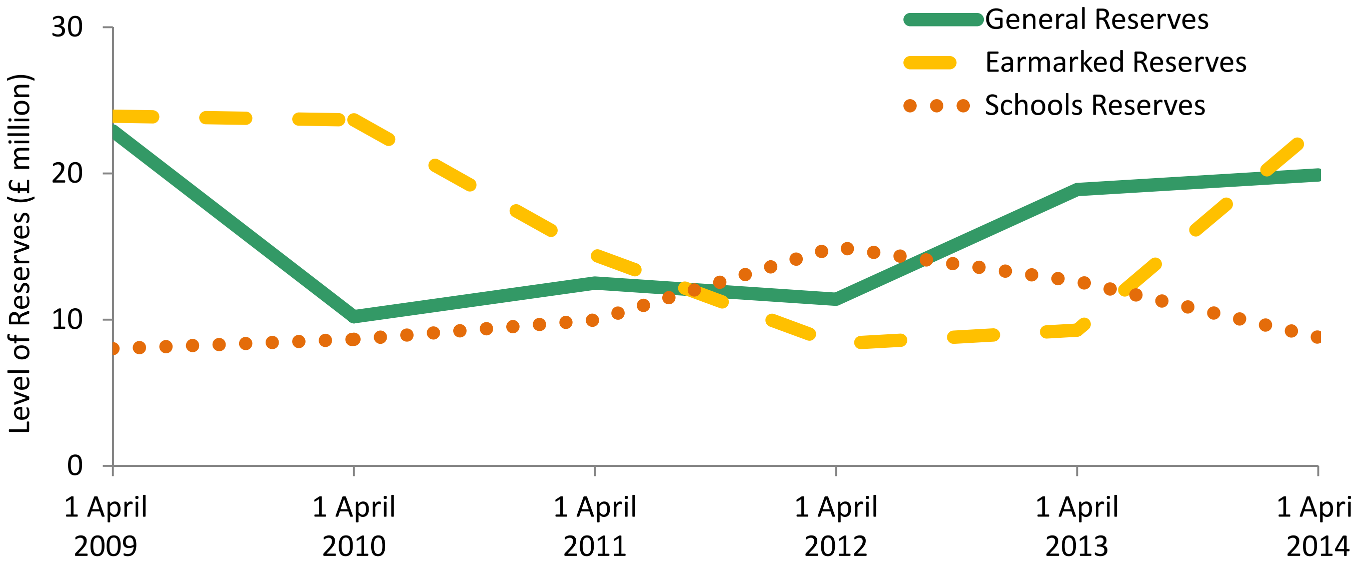
The 'Surplus or (Deficit) on the provision of services' line shows the true economic cost of providing the Council's services, which is shown in more detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund 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.

The Council's long term strategy is to hold appropriate levels of general reserves to provide funds for investment and to protect the Council against financial risks.

General and Earmarked reserves (excluding schools) have increased in 2013/14 to £46.2m; further details are provided in Note 2 on page 33. This includes General Reserves which closed at £19.8m, 7% of the net budget. The overall level of reserves is adequate to continue to protect the Council against financial risks and to provide opportunities for investment in the medium term. In July 2014 the Council approved the creation of £12.4m new earmarked reserves in addition to the £0.5m approved in October 2013 taking the total to £12.9m

Reserve levels are adequate, and consistent with the current strategy



Source: Statements of Accounts, Cheshire East Council, 2009-2014

Comprehensive Income and Expenditure Statement – this statement reflects the sum of all income, expenditure, gains and losses incurred by the Council in the last 12 months and explains how the Balance Sheet position has changed between the two financial years. This statement shows the Council's financial position in accordance with accounting practice which means that the costs include notional charges for items such as depreciation, impairment, capital grants and capital charges.

The first and second sections of the statement show the Surplus or Deficit on Provision of Services. In 2013/14 there is a deficit on the provision of services of £48.6m. The final section shows gains for the year of £69.7m, giving a total movement in the balance sheet of £21.2m. These changes consist of:

- revaluation gains in the values of properties (£19.9m) – see Note 17a for further details;
- changes to expectations regarding future pension costs (£49.7m) – see Notes 17d and 33.

The format of the statement is based on Service Reporting Code of Practice (SeRCOP) which defines how expenditure and income should be categorised. The aim of this analysis is to ensure all authorities are reporting data consistently to assist comparison between Councils. A reconciliation of the analysis by service on the face of the Comprehensive Income and Expenditure Statement compared to the analysis of service as reported in the management accounts is provided in Note 21 'Amounts Reported for Resource Allocations Decisions (Segmental Reporting)'.

Balance Sheet – this shows the value of the Council's asset and liabilities at the Balance Sheet date. These are matched by reserves which are split into two categories usable and unusable reserves. Unusable reserves are not available to be used to support services and are in the main used to hold unrealised gains and losses, where the actual gain or loss will only become available once another event has occurred. For example Revaluation Reserve for Non Current Assets will only become available if the asset is sold and the full value of the asset realised.

The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2014 and includes both the General Fund and the Collection Fund balances. The Council continues to demonstrate a healthy Balance Sheet, with net assets of £254.8m, (£233.7m at 31 March 2013), an increase of £21.2m (9.0%). This net increase is mainly as a result of a decrease in the pension liability (+£42.9m); a decrease in non-current assets (-£40.1m) and repayment of long term borrowing (+£6m).

Cash Flow Statement – this statement shows the changes in the Council's cash and cash equivalents during the reporting period. It 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.

Cash balances at the end of March 2014 have decreased by £6.7m to £26.0m compared to the closing balance of £32.7m at March 2013. This represents a reduction of £14.6m held in instant access accounts and an offsetting reduction of £7.9m in payments committed at year end but not yet taken from the bank account.

<u>Actual cash balances available for investment have remained consistently high since 2009</u>

Source: Cheshire East Finance Team 2014

Supplementary Statements

The **Collection Fund** is maintained separately from all of the other funds and accounts. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NNDR) and its distribution to central government and precepting bodies.

For Cheshire East, the Council Tax precepting bodies are the Police and Crime Commissioner for Cheshire and the Cheshire Fire and Rescue Authority.

Council Tax was frozen for 2013/14 at £1,216.34 for a Band D Property. When multiplied by the tax base of 137,122.19, the expected income for the year was £166.8m (Cheshire East element only, excluding Parish Council Precepts). This figure can vary during the year if more discounts and exemptions are granted or more properties are built. The Council expects to collect at least 99% of the amount billed and that this will be achieved within three years. In fact the collection rate for the three year period was 99.42%.

This financial year the local government finance regime has been revised with the introduction of the retained business rates scheme and the localisation of Council Tax Support. The main aim of these schemes is to give Councils a greater incentive to grow the local economy. The business rate retention scheme in particular does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base. The scheme allows the Council to retain a proportion of the total NNDR received. The Cheshire East share of business rates is 49% with the remainder paid to precepting bodies. For Cheshire East the NNDR precepting bodies are Central Government (50% and Cheshire Fire and Rescue Authority (1% share).

Cheshire East is a tariff authority and paid over £27.8m to Central Government, leaving a retained rates income of £40.3m for 2013/2014. As part of the 2013/2014 transactions, a provision of £3.3m has been created to fund potential successful valuation appeals that are currently in progress.

As with Council Tax, the Council expects to collect at least 99% of the amount billed and that this will be achieved within three years. The collection rate for the three year period to 31 March 2014 was 99.35%.

Statement of Responsibilities - this sets out the respective responsibilities of the Authority and the Chief Operating Officer (Section 151 Officer)

Independent Auditor's Report – gives the auditors opinion of the financial statements and of the authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Explanatory Foreword - Future Opportunities and Challenges

Medium Term Financial Strategy 2014/15 – 2016/17

The Council's medium term financial strategy was approved by Council in February 2014 and illustrated the scale of the challenge the Council faces over the next few years. The strong financial performance delivered in 2013/14 provides a good platform for the future.

Alongside its ambitious major change programmes the Council expects to continue to balance its budget despite increased demands and higher public expectations. This will be achieved by innovation, creativity and a hard commercial focus on reducing costs, increasing productivity and income generation. It remains clear that the overall cost base of the Authority will have to continue to reduce.

The Council will continue to strive for further improvement across all aspects of the 500+ services that it is responsible for – delivering more for less. Compared to most other English councils, Cheshire East is less reliant on government revenue grant as local businesses and residents provide a higher proportion of the Council's overall funding.

In this context it is also important to note that total spending per head of population is below average compared to nearest neighbours. This is an important indicator in demonstrating the effective targeted use of resources and value for money (VFM) provided by Cheshire East.

Resident First Commitment

The Council has previously outlined its Three Year Plan to become a strategic commissioning council. An ambitious but measured approach has been taken to achieving the Council's 'Resident First' aims whilst effectively dealing with the challenge of austerity.

This approach has provided a platform to redefine and reinvent the Council in a systematic and resident focused way. Clear measurable progress has been achieved and the financial health, resilience and operational performance of the Council have all improved during 2013/14. Residents are benefitting from better overall services whilst Council Tax levels have been frozen now for four consecutive years.

Our commissioning journey is continuing at pace:

- The separation of service providers and desire to achieve a 'best fit' approach to delivery can be evidenced with Leisure Services moving into Everybody Sport and Leisure Trust (ESAR), environmental (ANSA) and bereavement services (Orbitas) are now being provided by wholly-owned companies.
- Further commissioning reviews are focusing on transport and planning services in 2014/15.
- Pioneering work is continuing with the local community to improve early intervention and support for vulnerable children and adults. Delivering better outcomes for our residents at lower cost.
- To enhance service accessibility – many services are also being reviewed through a digital lens to enable greater control and choice for the customer

The opportunities that we want to exploit by continuing to revolutionise our delivery arrangements is based on the belief that we can create the right arrangements so that the provider can be more focused, innovative and get closer to the resident to understand their needs and deliver at a better price.

The Council's financial resilience will be further enhanced by creating the right conditions for private sector investment and targeting further growth in the local economy, for example:

- Activity is on-going to exploit opportunities in the energy market, such as looking at renewable energy supplies and developing ideas to help with fuel poverty challenges in our communities.
- Investment has been made in Alderley Park with the Manchester Science Park to secure jobs and attract future investment.
- Enhancing and marketing our award winning visitor attractions such as the jewel in the crown Tatton Park – tourism for Cheshire East generally is booming with visitor numbers swelling to 13.9 million in 2013/14 – this is worth an estimated £737m to the local economy.
- A compelling bid has been made to the government which sets out a clear vision (backed up by detailed analysis) to bring HS2 to Crewe and maximise the huge potential local and regional economic impact.

In February 2014 the Council approved a balanced position for 2014/15, but like most authorities the report also highlighted the level of potential medium-term financial deficits. There are clearly many challenges ahead for the whole of the public sector, and innovation and creativity will become an essential feature of successful organisations. Working collaboratively and effectively in key areas around the health and social care agenda with our partners will also be critical for the future.

Cheshire East Council is in good shape to meet the financial challenge head on. The overall performance, financial health and resilience of the Council is strong.

Acknowledgements

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from my team and other services, who have assisted in the preparation of this document. I would also like to thank them for all their support and expertise during the 2013/14 financial year.

I hope you find this foreword and accompanying statements clear and informative. If you require any further information, please contact Cheshire East Customer Services on 0300 123 55 00 (all calls at local rates).

Peter Bates

Peter Bates CPFA CIPD MBA
Chief Operating Officer (Section 151 Officer)

Movement in Reserves Statement

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

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.

Movement in Reserves 2013/14:

		Usable Reserves						
		General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves** £000	Unusable Reserves £000	**Total Authority Reserves** £000
Opening balance at 1 April 2013		**18,936**	**21,911**	**1,077**	**11,516**	**53,440**	**180,236**	**233,676**
Movement in Reserves 2013/14								
Surplus / (deficit) on provision of services		(48,560)	0	0	0	**(48,560)**	0	**(48,560)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	69,728	**69,728**
Total Comprehensive Income and Expenditure		**(48,560)**	**0**	**0**	**0**	**(48,560)**	**69,728**	**21,168**
Adjustments between accounting basis and funding basis under regulations	Note 1	64,033	0	(714)	12,935	**76,254**	(76,254)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**15,473**	**0**	**(714)**	**12,935**	**27,694**	**(6,526)**	**21,168**
Transfers between Earmarked and General Reserves	Note 2	(14,576)	13,244	1,341	(9)	**0**	0	**0**
Increase / (Decrease) in Year		**897**	**13,244**	**627**	**12,926**	**27,694**	**(6,526)**	**21,168**
Closing Balance at 31 March 2014		**19,833**	**35,155**	**1,704**	**24,442**	**81,134**	**173,710**	**254,844**

Movement in Reserves 2012/13 (Restated):

		Usable Reserves						
		General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Opening balance at 1 April 2012		**11,381**	**23,301**	**16,309**	**9,794**	**60,785**	**317,122**	**377,907**
Movement in Reserves 2012/13								
Surplus / (deficit) on provision of services		(72,936)	0	0	0	**(72,936)**	0	**(72,936)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	(71,295)	**(71,295)**
Total Comprehensive Income and Expenditure		**(72,936)**	**0**	**0**	**0**	**(72,936)**	**(71,295)**	**(144,231)**
Adjustments between accounting basis and funding basis under regulations	Note 1	79,925	0	(15,978)	1,722	**65,669**	(65,669)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**6,989**	**0**	**(15,978)**	**1,722**	**(7,267)**	**(136,964)**	**(144,231)**
Transfers between Earmarked and General Reserves		566	(1,390)	746	0	**(78)**	78	**0**
Increase / (Decrease) in Year		**7,555**	**(1,390)**	**(15,232)**	**1,722**	**(7,345)**	**(136,886)**	**(144,231)**
Closing Balance at 31 March 2013		**18,936**	**21,911**	**1,077**	**11,516**	**53,440**	**180,236**	**233,676**

Further details on the restated amounts are provided in Note 36.

Comprehensive Income and Expenditure Statement

This statement consolidates all the gains and losses experienced by the Council during the year showing the economic cost in year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 2012/13 *				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
29,511	(24,672)	**4,839**	Central Services to the public	8,498	(4,616)	**3,882**
39,370	(8,832)	**30,538**	Cultural and Related Services	35,100	(8,090)	**27,010**
40,191	(5,658)	**34,533**	Environmental and Regulatory Services	39,421	(4,930)	**34,491**
13,357	(5,610)	**7,747**	Planning Services	18,161	(6,845)	**11,316**
308,047	(217,139)	**90,908**	Education and Children's Services	286,611	(198,069)	**88,542**
36,948	(8,006)	**28,942**	Highways and Transport Services	49,693	(10,072)	**39,621**
91,853	(87,191)	**4,662**	Other Housing Services	100,083	(89,360)	**10,723**
153,944	(36,455)	**117,489**	Adult Social Care	141,582	(43,604)	**97,978**
0	0	**0**	Public Health	12,206	(13,762)	**(1,556)**
8,858	(5,387)	**3,471**	Corporate and democratic core	7,945	(6,895)	**1,050**
4,897	(69)	**4,828**	Non distributed costs	(4,982)	(29)	**(5,011)**
726,976	**(399,019)**	**327,957**	**Cost of Services**	**694,318**	**(386,272)**	**308,046**
45,898	(1,455)	**44,443**	Other Operating Expenditure (Note 3)	48,604	(1,270)	**47,334**
25,355	(2,000)	**23,355**	Financing and Investment Income and Expenditure (Note 4)	26,344	(920)	**25,424**
0	(322,819)	**(322,819)**	Taxation and Non-Specific Grant Income (Note 5)	0	(332,244)	**(332,244)**
798,229	**(725,293)**	**72,936**	**(Surplus) or Deficit on Provision of Services**	**769,266**	**(720,706)**	**48,560**
		6,813	(Surplus) or deficit on revaluation of non current assets (Note 17a)			**(19,932)**
		(202)	(Surplus) or deficit on revaluation of available for sale financial assets			**(100)**
		64,684	Remeasurement of the net defined pensions benefit liability (Note 17d)			**(49,696)**
		71,295	**Other Comprehensive Income and Expenditure**			**(69,728)**
		144,231	**Total Comprehensive Income and Expenditure**			**(21,168)**

Balance Sheet as at 31 March 2014

This statement shows the Council's financial position at 31 March each year. The top part of the statement shows the assets and liabilities of the Council and the lower part shows the Council's reserves.

Restated 31 March 2013 £000		Notes	31 March 2014 £000
795,193	Property, Plant and Equipment	6	752,998
1,202	Heritage Assets	7	985
9,846	Investment Property	8	11,539
659	Intangible Assets	9	1,244
20,348	Long Term Investments	10	22,830
7,533	Long Term Debtors	12	7,146
834,781	**Long Term Assets**		**796,742**
11,490	Short Term Investments	10	18,072
1,050	Assets Held for Sale	11	5,744
519	Inventories		710
48,443	Current Debtors	12	57,998
32,688	Cash and Cash Equivalents	13	26,036
94,190	**Current Assets**		**108,560**
(7,588)	Short Term Borrowing	10	(12,570)
(71,489)	Current Creditors	14	(77,390)
(79,077)	**Current Liabilities**		**(89,960)**
(7,323)	Provisions	15	(12,576)
(126,264)	Long Term Borrowing	10	(115,223)
(431,324)	Net Pension Liability	33	(388,432)
(176)	Other Deferred Liabilities		(228)
(27,313)	Other Long Term Liabilities	10	(37,405)
(23,818)	Capital Grant Receipts in Advance	29	(6,634)
(616,218)	**Long Term Liabilities**		**(560,498)**
233,676	**Net Assets**		**254,844**
1,077	Capital Receipts Reserve	16b	1,704
11,516	Capital Grants Unapplied	16c	24,442
12,626	Reserves and Balances held by Schools	16d	8,810
9,285	General Fund Earmarked Reserves	16e	26,345
18,936	General Fund Reserve – Borough Fund	16a	19,833
53,440	**Usable Reserves**	16	**81,134**
185,172	Revaluation Reserve	17a	189,189
332	Available for Sale Financial Instruments Reserve		432
434,443	Capital Adjustment Account	17b	384,568
1,053	Capital Receipts Deferred		1,017
(1,557)	Financial Instrument Adjustment Account	17c	(1,761)
(431,324)	Pensions Reserve	17d	(388,432)
0	Collection Fund Adjustment Account	17e	(4,666)
(7,883)	Accumulated Absences Account	17f	(6,637)
180,236	**Unusable Reserves**	17	**173,710**
233,676	**Total Reserves**		**254,844**

Cash Flow Statement for the Year ended 31 March 2014

This statement shows how the movement in resources has been reflected in cash flows.

2012/13 (Restated) £000		Notes	2013/14 £000
(72,936)	Net surplus / (deficit) on the provision of services		(48,560)
126,466	Adjustment to surplus or deficit on the provision of services for non cash movements		122,382
(44,576)	Adjust for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities		(56,275)
8,954	**Net cash flows from operating activities**	18	**17,547**
(6,037)	Net cash flows from investing activities	19	(22,395)
(4,821)	Net cash flows from financing activities	20	(1,804)
(1,904)	**Net increase / (decrease) in cash and cash equivalents**		**(6,652)**
34,592	**Opening balance – cash and cash equivalents**	13	**32,688**
32,688	**Closing balance – cash and cash equivalents**	13	**26,036**
(1,904)	**Net increase / (decrease) in cash and cash equivalents**		**(6,652)**

Notes to the Statement of Accounts 2013/14

1. Adjustments between Accounting Basis and Funding Basis under Regulations

The Comprehensive Income and Expenditure Statement is produced in accordance with proper accounting practice. Statute, however, requires the Council to set its General Fund budget and council tax in a different manner.

This note details the adjustments made to the Comprehensive Income and Expenditure Statement (CIES) to obtain the General Fund position in line with statutory provisions. The adjustments are shown as a line in the Movement in Reserves Statement.

2013/14 Adjustments	Usable Reserves					
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Adjustments Involving the Capital Adjustment Account (CAA):						
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement (CIES):						
Depreciation and Impairment of Non-Current Assets	29,630	0	0	**29,630**	(29,630)	**0**
Revaluation Losses on Property, Plant & Equipment	34,816	0	0	**34,816**	(34,816)	**0**
Movement in market value of investment property	572	0	0	**572**	(572)	**0**
Amortisation of Intangible Assets	204	0	0	**204**	(204)	**0**
Capital grant and contributions applied	0	0	0	**0**	0	**0**
Revenue Expenditure Funded from Capital under Statute	9,280	0	0	**9,280**	(9,280)	**0**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	46,876	0	0	**46,876**	(46,876)	**0**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory Provision for financing of Capital Investment	(8,931)	0	0	**(8,931)**	8,931	**0**
Capital Expenditure Charged against General Fund	(2,581)	0	0	**(2,581)**	2,581	**0**
Adjustments Involving the Capital Grants Unapplied Account:						
Grant and contributions unapplied credited to CIES	(51,312)	0	51,312	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(38,377)	**(38,377)**	38,377	**0**
Adjustments Involving the Capital Receipts Reserve (CRR):						
Transfer of sale proceeds credited as part of gain/ loss on disposal to CIES	(4,963)	4,963	0	**0**	0	**0**
Use of Capital Receipts Reserve to finance capital expenditure	0	(5,700)	0	**(5,700)**	5,700	**0**
Contribution from CRR to finance payments into Government Capital Receipts Pool	13	(13)	0	**0**	0	**0**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	36	0	**36**	(36)	**0**

2013/14 Adjustments	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Usable Reserves: **Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
Adjustments Involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	0	0	0	**0**	0	**0**
Adjustments Involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the CIES are different from finance costs chargeable in accordance with statutory requirements	204	0	0	**204**	(204)	**0**
Adjustments Involving the Pension Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	38,275	0	0	**38,275**	(38,275)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(31,471)	0	0	**(31,471)**	31,471	**0**
Adjustments Involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rate income accredited to the CIES is different from the amount calculated for the year in accordance with requirements	4,666	0	0	**4,666**	(4,666)	**0**
Adjustments Involving the Unequal Payback Adjustment Account:						
Amount by which amounts charged for equal pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with requirements	0	0	0	**0**	0	**0**
Adjustments Involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,246)	0	0	**(1,246)**	1,246	**0**
Total Adjustments 2013/14	**64,033**	**(714)**	**12,935**	**76,254**	**(76,254)**	**0**

For comparison, the 2012/13 Adjustments (restated) are shown below.

2012/13 Adjustments (Restated)	Usable Reserves					
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Adjustments Involving the Capital Adjustment Account (CAA):						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES):						
Depreciation and Impairment of Non-Current Assets	30,456	0	0	**30,456**	(30,456)	**0**
Revaluation Losses on Property, Plant and Equipment (PPE)	40,163	0	0	**40,163**	(40,163)	**0**
Movement in market value of investment property	(222)	0	0	**(222)**	222	**0**
Amortisation of Intangible Assets	160	0	0	**160**	(160)	**0**
Capital grant and contributions applied	(31,222)	0	0	**(31,222)**	31,222	**0**
Revenue Expenditure Funded from Capital under Statute (REFCUS)	6,716	0	0	**6,716**	(6,716)	**0**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	53,181	(94)	0	**53,087**	(53,087)	**0**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory Provision for financing of Capital Investment	(11,014)	0	0	**(11,014)**	11,014	**0**
Capital Expenditure Charged against General Fund	(411)	370	(90)	**(131)**	131	**0**
Adjustments Involving the Capital Grants Unapplied Account:						
Grant and contributions unapplied credited to CIES	(33,034)	0	33,034	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	31,222	0	(31,222)	**0**	0	**0**
Adjustments Involving the Capital Receipts Reserve (CRR):						
Transfer of sale proceeds credited as part of gain/ loss on disposal to CIES	(11,539)	11,539	0	**0**	0	**0**
Use of Capital Receipts Reserve to finance capital expenditure	0	(27,828)	0	**(27,828)**	27,828	**0**
Contribution from CRR to finance payments into Government Capital Receipts Pool	24	(24)	0	**0**	0	**0**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	12	59	0	**71**	(71)	**0**
Adjustments Involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,041)	0	0	**(1,041)**	1,041	**0**
Adjustments Involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the CIES are different from finance costs chargeable in accordance with statutory requirements	56	0	0	**56**	(56)	**0**

2012/13 Adjustments (Restated)	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Usable Reserves: **Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
Adjustments Involving the Pension Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	38,236	0	0	**38,236**	(38,236)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(31,838)	0	0	**(31,838)**	31,838	**0**
Adjustments Involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rate income accredited to the CIES is different from the amount calculated for the year in accordance with requirements	5	0	0	**5**	(5)	**0**
Adjustments Involving the Unequal Payback Adjustment Account:						
Amount by which amounts charged for equal pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with requirements	(359)	0	0	**(359)**	359	**0**
Adjustments Involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	374	0	0	**374**	(374)	**0**
Total Adjustments 2012/13	**79,925**	**(15,978)**	**1,722**	**65,669**	**(65,669)**	**0**

2. Transfers to / from Earmarked Reserves

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

Earmarked Reserves	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000
School Balances:				
Primary and Nursery Schools	**8,119**	(1,987)	0	**6,132**
Secondary Schools	**3,645**	(1,692)	0	**1,953**
Special Schools	**862**	(137)	0	**725**
Total Schools Balances	**12,626**	**(3,816)**	**0**	**8,810**
General Fund:				
Carry Forwards by Service Managers	**1,622**	(1,622)	4,485	**4,485**
Communities Investment	**457**	(75)	2,386	**2,768**
Insurance Reserve – Cheshire East Fund	**1,382**	(1,359)	1,818	**1,841**
Insurance Reserve – Cheshire County Fund	**2,330**	(1,395)	0	**935**
PFI Equalisation Reserve	**1,128**	0	338	**1,466**
Revenue Grants transferred to Earmarked Reserves	**725**	(258)	0	**467**
Other Reserves	**367**	0	0	**367**
Education All Risks Scheme	**160**	0	101	**261**
Tatton Park	**238**	0	4	**242**
Long Term Sickness Scheme	**150**	0	63	**213**
Building Regulation Fee Earning	**181**	0	0	**181**
Economic Development Reserve	**223**	(82)	0	**141**
Climate Change	**67**	0	0	**67**
Invest to Save Reserve	**255**	(255)	0	**0**
Business Rates Support Scheme	**0**	0	5,071	**5,071**
Investment Reserve	**0**	0	2,050	**2,050**
NHS Section 256	**0**	0	1,784	**1,784**
Public Health	**0**	0	1,620	**1,620**
Children's Reserve	**0**	0	650	**650**
Individual Commissioning	**0**	0	580	**580**
Elections	**0**	0	486	**486**
Emergency Assistance	**0**	0	400	**400**
Pensions Contributions	**0**	0	150	**150**
Winter Weather	**0**	0	120	**120**
Total General Fund Reserves	**9,285**	**(5,046)**	**22,106**	**26,345**
Total Earmarked Reserves	**21,911**	**(8,862)**	**22,106**	**35,155**

3. Other Operating Income and Expenditure

2012/13 £000	Other Operating Expenditure	2013/14 £000
4,428	Precepts and Levies	4,524
24	Payments to Government Housing Capital Receipts Pool	13
41,409	(Gains) / losses on the disposal of non current assets	43,259
37	Other Expenditure	808
45,898	**Total**	**48,604**
2012/13 £000	**Other Operating Income**	**2013/14 £000**
(23)	Business Finance Loan Interest	(7)
(106)	Cheshire Lifestyle Services (CLS) Rental Income	0
(808)	Other Capital Income	(1,263)
(518)	Other Income	0
(1,455)	**Total**	**(1,270)**
44,443	**Net Other Operating Expenditure**	**47,334**

4. Financing and Investment Income and Expenditure

2012/13 £000		2013/14 £000
6,265	Interest Payable and Similar Charges	5,397
(1,417)	Interest and Investment Income	(1,395)
17,024	Net interest on the net defined pensions benefit liability	19,010
2,066	Trading Accounts (Surplus) / Deficit (Note 22)	1,937
(583)	Income and expenditure in relation to investment properties and changes in their fair value	475
23,355	**Total**	**25,424**

5. Taxation and Non-Specific Grant Income and Expenditure

2012/13 £000		2013/14 £000
(182,619)	Council Tax Income (Includes Parish Precepts £4.524m)	(171,432)
(66,390)	Non Domestic Rates income and expenditure	(35,438)
(1,287)	Revenue Support Grant	(55,855)
(39,489)	Non-ring fenced government grants	(18,207)
(33,034)	Capital grants and contributions	(51,312)
(322,819)	**Total**	**(332,244)**

6. Property, Plant and Equipment (PPE)

This Note details all property, plant and equipment and other assets that bring longer-term economic benefits or service potential. Bracketed figures (x) indicate a reduction in value.

2013/14 Property, Plant and Equipment	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	**Total PPE** £000	PFI Assets included in PPE £000
Cost or Valuation								
At 1 April 2013	551,281	54,977	361,088	1,638	28,599	6,404	**1,003,986**	26,196
Additions	10,393	6,535	33,234	133	862	3,761	**54,918**	0
New Finance Leases	0	128	0	0	0	0	**128**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(15,496)	0	0	0	7,096	0	**(8,401)**	0
Revaluation increases/(decreases) recognised in the Surplus or Deficit to the Provision of Services	(30,913)	0	0	(9)	(1,409)	0	**(32,331)**	0
Derecognition - Disposals	(53,985)	(692)	0	(20)	(204)	0	**(54,900)**	0
Derecognition - Other	0	0	0	0	0	0	**0**	0
Assets reclassified (to)/from Investment Properties	0	0	0	0	175	(1,160)	**(985)**	0
Assets reclassified (to)/from Assets Held for Sale	(160)	0	0	0	(2,915)	0	**(3,075)**	0
Assets reclassified within PPE	(1,648)	0	(68)	0	3,416	(1,700)	**0**	0
Other movements in Cost or Valuation	49	(3,920)	(8,403)	(3)	(28)	(1,064)	**(13,369)**	0
At 31 March 2014	**459,521**	**57,028**	**385,851**	**1,739**	**35,592**	**6,241**	**945,971**	**26,196**
Accumulated Depreciation and Impairment								
At 1 April 2013	(62,175)	(37,799)	(104,079)	(39)	(4,701)	0	**(208,793)**	(4,467)
Depreciation charge	(13,477)	(5,179)	(10,405)	0	(425)	0	**(29,486)**	(474)
Depreciation written out to the Revaluation Reserve	15,894	0	0	0	259	0	**16,153**	0
Depreciation written out to the Surplus or Deficit on the Provision of Services	5,472	0	0	0	22	0	**5,493**	0
Revaluation Losses /Reversals written out to the Revaluation Reserve	1,567	0	0	0	14	0	**1,581**	0
Revaluation losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	9,885	0	0	0	0	0	**9,885**	0
Derecognition - Disposals	8,615	620	0	0	17	0	**9,253**	0
Other movements in Depreciation and Impairment	3,210	0	2	0	(272)	0	**2,940**	0
At 31 March 2014	**(31,010)**	**(42,358)**	**(114,482)**	**(39)**	**(5,085)**	**0**	**(192,974)**	**(4,941)**
Net Book Value:								
At 31 March 2014	**428,511**	**14,670**	**271,369**	**1,700**	**30,507**	**6,241**	**752,998**	**21,255**
At 31 March 2013	**489,106**	**17,177**	**257,009**	**1,600**	**23,897**	**6,404**	**795,193**	**21,729**

Comparative figures for the previous year are as follows:

2012/13 Property, Plant and Equipment	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	**Total PPE £000**	PFI Assets included in PPE £000
Cost or Valuation								
At 1 April 2012	633,613	54,240	340,853	1,638	44,634	7,212	**1,082,190**	31,096
Additions	16,001	5,644	18,264	0	0	4,654	**44,563**	0
New Finance Leases	0	1,345	0	0	0	0	**1,345**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(19,458)	0	0	0	1,525	0	**(17,933)**	0
Revaluation increases/(decreases recognised in the Surplus or Deficit to the Provision of Services	(28,882)				(15,279)		**(44,161)**	
Derecognition - Disposals	(40,370)	(1,573)	0	0	(7,080)	0	**(49,023)**	0
Derecognition - Other	(5,917)	0	0	0	(2,245)	0	**(8,162)**	(4,900)
Assets reclassified (to)/from Investment Properties	0	0	0	0	(549)	0	**(549)**	0
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	7,235	0	**7,235**	0
Assets reclassified within PPE	2,838	0	2,203	0	293	(5,334)	**0**	0
Other movements in Cost or Valuation	(6,545)	(4,678)	(232)	0	64	(128)	**(11,519)**	0
At 31 March 2013	**551,280**	**54,978**	**361,088**	**1,638**	**28,598**	**6,404**	**1,003,986**	**26,196**
Accumulated Depreciation and Impairment								
At 1 April 2012	(69,202)	(33,566)	(94,180)	(38)	(13,010)	0	**(209,996)**	(3,993)
Depreciation charge	(14,606)	(5,665)	(9,899)	0	0	0	**(30,170)**	(474)
Depreciation written out to the Revaluation Reserve	6,954	0	0	0	201	0	**7,155**	0
Depreciation written out to the Surplus or Deficit on the Provision of Services	1,347	0			234		**1,581**	0
Revaluation Losses / (reversals) written out to the Revaluation Reserve	2,574	0	0	0	400	0	**2,974**	0
Revaluation losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	4,692			0	9,527		**14,219**	0
Derecognition - Disposals	4,763	1,430	0	0	196	0	**6,389**	0
Other movements in Depreciation and Impairment	1,304	0	0	0	(2,249)	0	**(945)**	0
At 31 March 2013	**(62,174)**	**(37,801)**	**(104,079)**	**(38)**	**(4,701)**	**0**	**(208,793)**	**(4,467)**
Net Book Value:								
At 31 March 2013	**489,106**	**17,177**	**257,009**	**1,600**	**23,897**	**6,404**	**795,193**	**21,729**
At 31 March 2012	**564,412**	**20,674**	**246,673**	**1,600**	**31,624**	**7,212**	**872,195**	**27,103**

Depreciation

All depreciation calculations are made on a straight-line basis. See accounting policies (Note 48v) for further details.

Significant Commitments Under Capital Contracts

The value of significant commitments under capital contracts, where amounts of greater than £0.5m are contracted to be paid after 31 March 2014, totals £49.1m (£6.7m as at 31 March 2013). These contracts are all fully funded and are summarised as follows:

Capital Project	Contract Total £000	Amount Paid Up To 31 March 2014 £000	Balance £000
Children's Services			
Dean Oaks PS – Basic Need	775	197	578
Wheelock Primary School – Phase 2	1,286	0	1,286
Lacey Green Academy	1,068	234	834
Economic Growth and Prosperity			
Crewe Green Link Road	17,000	0	17,000
A500 Widening Scheme at Junction 16	2,900	0	2,900
Public Protection and Enforcement			
Lifestyle Centre Crewe	980	594	386
Chief Operating Officer			
Connecting Cheshire – Superfast Broadband	28,729	2,609	26,120
Total	**52,738**	**3,634**	**49,104**

Revaluations

Property: The Council currently has a five year rolling programme in place to value its property.

This may be varied for properties that require an earlier valuation (e.g. where the market value significantly changes or the property is developed).

The valuations for March 2014 were carried out by Deloitte Real Estate in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (The Red Book).

In 2013/14 the entire school portfolio owned by Cheshire East Council has been re-valued using the Depreciated Replacement Costs method. A large number of the councils car park assets were also valued in 2013/14 to allow for a more accurate and consistent approach in valuation, valuing them at fair value using the Existing Use Value (EUV) method.

Estates and Farms: The valuation of the Farms Estates was carried out by David R Job MRICS, Farms Estate Shared Service Manager, Cheshire Farms Service, in accordance with the statement of methodology agreed by ACES (The Association of Chief Estate Surveyors and Property Managers in Local Government).

Vehicles, Plant, Furniture and Equipment: continue to be carried at cost, which the Council considers would not differ materially from other methods such as 'current prices where there is an active second-hand market' or 'latest list prices adjusted for the condition of the asset.

Property, Plant and Equipment	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	**Total Property, Plant and Equipment £000**	PFI Assets included in Property, Plant and Equipment £000
Carried at historical cost	0	57,028	385,851	1,739	0	6,241	**450,859**	0
Valued as Fair Value as at:								
31 March 2014	255,956	0	0	0	14,177	0	**270,133**	0
31 March 2013	32,752	0	0	0	12,379	0	**45,131**	26,196
31 March 2012	53,920	0	0	0	65	0	**53,985**	0
31 March 2011	84,282	0	0	0	4,097	0	**88,379**	0
31 March 2010	32,611	0	0	0	4,874	0	**37,485**	0
Total Cost or Valuation	**459,521**	**57,028**	**385,851**	**1,739**	**35,592**	**6,241**	**945,972**	**26,196**

Revaluation Losses

The Code requires disclosure by class of assets of the amounts for revaluation losses and revaluation reversals charged to the Surplus or Deficit on the Provision of Services.

These disclosures are consolidated in Note 6, reconciling the movement over the year in the Property, Plant and Equipment balances.

In 2013/14 the gross downward valuation for Property, Plant and Equipment was £40.732m, with £32.331m relating to gross revaluations losses and reversals being charged to the Surplus or Deficit on the Provision of Services.

The net movement on the revaluations carried out in 2013/14 on Property Plant and Equipment was a £7.62m gain, which includes the reversing of any prior year's accumulated depreciation and revaluation losses previously charged on the assets.

The main losses were on the revaluation of the Council's Car Parks which was £1.713m. There three notable valuation losses as a result of the Schools being re-valued in 2013/14 there were Pussbank Primary School £1.940m, Shavington Primary School £1.707m and Vernon Junior Primary School £1.157m. However, there were a number of revaluation gains, including Crewe Baths (£1.662m) and Nantwich Baths (£1.938m).

Disposals

During 2013/14 the Council sold a number of properties from its property portfolio, including the Parkgate Industrial Site in Knutsford for £2.0m. The former residential children's home Priors Hill in Macclesfield was sold for £0.666m and part of the Farms Estate in Goostrey was sold for £0.492m. A total of £2.103m net worth of assets generated a total capital receipt of £3.595m producing an overall gain for the Council of £1.491m.

7. Heritage Assets

The Heritage Assets that are held on the Council Balance Sheet at a value of £0.985m primarily relate to Civic Regalia or the ceremonial pieces that go alongside the formal civic ceremonies.

Civic Regalia, Ceramics Work and Figurines

The Authority's collection of Civic Regalia, Ceramics and Sculptures is reported in the Balance Sheet at insurance valuation based on market values. The collection was valued in November 2010 by Byrne's Auctioneers and Valuers LLP, based in Chester. The collection will not be re-valued annually, but a regular review is carried on certain valuable items within the collection to ensure the adequacy of the valuation.

In 2013/14 a number of items that had transferred from the former Crewe and Nantwich Borough Council have been passed on to the newly formed Crewe Town Council. The value of the assets totalled £0.217m.

The Civic Regalia, Ceramics and Sculptures Collection also has particularly significant items in terms of both value and note, including a William and Mary silver gilt mace by Anthony Nelme, London, dated 1693 and valued at £110,000, and an Artemis Sculpture valued at £100,000.

8. Investment Property

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

2012/13 £000		2013/14 £000
9,075	**Balance at start of the year**	9,846
	Expenditure incurred in year	1,415
0	Disposals	(1,185)
222	Net gains/(losses) from fair value adjustments	(572)
	Transfers:	
549	(To)/from Property, Plant and Equipment	985
0	(To)/from Assets Held for Sale	1,050
9,846	**Closing Balance at 31 March**	**11,539**

9. Intangible Assets

The carrying amount of intangible assets is amortised on a straight-line basis. See Accounting Policies, Note 48(o) for further details.

The amortisation of £204,287 charged to revenue in 2013/14 was charged to the Services identified as users of the assets.

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

2012/13 £000	Intangible Assets	2013/14 £000
	Balance at start of the year	
1,405	• Gross carrying amounts	1,837
(1,018)	• Accumulated Amortisation	(1,178)
387	**Net carrying amount at start of year**	**659**
432	Additions - Purchases	789
(160)	Amortisation for the year	(204)
659	**Net carrying amount at end of year**	**1,244**
	Comprising:	
1,837	• Gross carrying amounts	2,626
(1,178)	• Accumulated Amortisation	(1,382)
659	**Closing Balance at 31 March**	**1,244**

10. Financial Instruments

The following categories and values of Financial Instruments are carried in the Balance Sheet:

31 March 2013 Restated Long-Term £000	31 March 2013 Current £000		Notes	31 March 2014 Long-Term £000	31 March 2014 Current £000
		Investments:	10(a)		
0	9,482	Loans and Receivables		0	13,042
20,348	2,008	Available for Sale Financial Assets		22,830	5,030
20,348	**11,490**	**Total Investments**		**22,830**	**18,072**
		Debtors:			
		Loans and Receivables:			
45	0	- Mortgages		25	0
6,671	0	- Other Loans and Receivables		6,454	0
0	30,236	Financial Assets carried at Contract Amounts		0	30,051
6,716	**30,236**	**Total Debtors**		**6,479**	**30,051**
		Borrowings:	10(b)		
(127,777)	(6,075)	Financial Liabilities at Amortised Cost		(115,223)	(12,570)
(127,777)	**(6,075)**	**Total Borrowings**		**(115,223)**	**(12,570)**
		Other Long-Term Liabilities:			
(21,648)	0	PFI Liabilities	37	(21,028)	0
0		Other Long Term Liabilities		(12,164)	
(5,665)	(1,392)	Finance Lease Liabilities	35	(4,213)	(1,234)
(27,313)	**(1,392)**	**Total Other Long-Term Liabilities**		**(37,405)**	**(1,234)**
		Creditors:			
0	(46,722)	Financial Liabilities at Contract Amount		0	(47,500)
0	**(46,722)**	**Total Creditors**		**0**	**(47,500)**

Note 47 refers to the nature and extent of risks associated with financial instruments.

Financial Instruments - Income, Expense, Gains and Losses

2012/13 Financial Liabilities measured at Amortised Cost £000	2012/13 Financial Assets: Loans and Receivables £000	2012/13 Financial Assets: Available for Sale £000	2012/13 Total £000		2013/14 Financial Liabilities measured at Amortised Cost £000	2013/14 Financial Assets: Loans and Receivables £000	2013/14 Financial Assets: Available for Sale £000	2013/14 Total £000
7,585	0	0	**7,585**	Interest Expense	7,204	0	0	**7,204**
0	0	0	**0**	Impairment Losses	(324)	0	0	**(324)**
2	117	53	**172**	Fee Expenses	0	133	53	**186**
7,587	**117**	**53**	**7,757**	**Total Surplus or (Deficit) on the Provision of Services**	**6,880**	**133**	**53**	**7,066**
0	(485)	(5)	(490)	Interest Income	0	(431)	(14)	(445)
0	(34)	0	(34)	Interest Income Accrued on Impaired Financial Assets	0	(11)	0	(11)
0	**(519)**	**(5)**	**(524)**	**Total Income in Surplus or (Deficit) on the Provision of Services**	**0**	**(442)**	**(14)**	**(456)**
0	0	(202)	(202)	Gains on Revaluation	0	0	(86)	(86)
0	0	0	0	Losses on Revaluation	0	0	3	3
0	**0**	**(202)**	**(202)**	**Surplus/(Deficit) arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure**	**0**	**0**	**(83)**	**(83)**
7,587	**(402)**	**(154)**	**7,031**	**Net Gain/(Loss) for Year**	**6,880**	**(309)**	**(44)**	**6,527**

Financial Instruments - Fair Values of Assets and Liabilities

The fair value of financial assets at 31 March 2014 represents the amount that would need to be invested on 31 March 2014 at rates of interest prevailing on that date for the period up until the existing amounts are due to mature/be repaid to the Council which would generate an amount equal to that the Council is currently due to receive from its existing deposits.

31 March 2013 Carrying Amount £000	31 March 2013 Fair Value £000		31 March 2014 Carrying Amount £000	31 March 2014 Fair Value £000
		Assets:		
9,482	9,488	Loans and Receivables	13,042	13,050
6,716	6,716	Long Term Debtors	6,479	6,479
16,198	**16,204**	**Total Assets**	**19,521**	**19,529**

As at 31 March 2014, the only instance where the fair value of the financial assets held differed from their carrying value was in respect of four fixed term money market deposits due to mature in 2014/15. Money markets rates at 31 March 2014 had not changed significantly from those applicable at the time the loans were made. The fair value is higher to reflect the lower rate applicable to the remaining period of the loan.

The fair value of the financial liabilities represents the amount of loans that could be raised on 31 March 2014 which would give rise to the same profile of interest payments and principal repayments as those the Council is committed to under its existing loan agreements. This is based on the Public Works Loans Board (PWLB) repayment rates and market (LOBO) loan swap rates which take into account the value of any embedded options.

31 March 2013			31 March 2014	
Restated Carrying Amount	Restated Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Liabilities:		
133,852	161,652	Financial Liabilities	127,793	145,433
28,705	39,832	Other Long Term Liabilities	26,475	35,487
162,557	**201,484**	**Total Liabilities**	**154,268**	**180,920**

The market value of total borrowings was higher than their carrying value as at 31 March 2014. This is a result of the Council having all fixed rate loans within its portfolio which are at higher rates than the repayment and swap rates prevailing at 31 March 2014.

10(a) Investments

Long Term Investments at 31 March were as follows:

31 March 2013		31 March 2014
£000		£000
	Loans and Receivables:	
0	Alderley Park Holdings Ltd	580
	Available for Sale Financial Assets:	
20,347	Investec Managed Pooled Funds	20,439
0	Alderley Park Holdings Ltd Shares	1,070
0	Manchester Science Parks Ltd Shares	739
1	Government Consolidated Stock and War Stock	2
20,348	**Total Long Term Investments**	**22,830**

Shares were purchased on 27 March 2014 relating to the acquisition of the Alderley Park site. Investments in shares have been shown at their purchase price being the best indicator of their market value. The interest free loan to Alderley Park Holdings Ltd is £0.831m but is shown at its fair value based on market interest rates for the period of the loan.

The Pooled Funds shown as available for sale financial assets are investments with no determinable maturity date that the Council can sell at any time.

Short Term Investments at 31 March were as follows:

31 March 2013 £000		31 March 2014 £000
	Loans and Receivables:	
0	Barclays Bank	5,025
0	Federated Cash Plus Fund	3,025
6,026	Lloyds TSB Bank	3,003
0	Close Bros	3,001
0	Nationwide Building Society	2,003
3,002	RBS	0
438	Heritable Bank (in administration)	0
16	Other	10
9,482		16,067
	Available for Sale Financial Assets:	
2,008	Standard Chartered Bank	2,005
11,490	**Total Short Term Investments**	**18,072**

Short Term Investments represent all invested funds which are not immediately convertible to cash on 31 March 2014 but where repayment is expected before 31 March 2015. All investments are in sterling and were made in accordance with the Council's Treasury Management Strategy.

The general policy objective of the Council was the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments which take priority over yield.

10(b) Borrowing – Financial Liabilities at Amortised Cost

The amounts and maturity profile of borrowings are as follows:

Total 2012/13 £000	Debt Maturity	Lender: Public Works Loans Board £000	Lender: Banks £000	Total 2013/14 £000
	Short Term Borrowing			
7,588	Within the next financial year	12,370	200	12,570
7,588	**Total Short Term Borrowing**	**12,370**	**200**	**12,570**
	Long Term Borrowing			
11,136	1 – 2 years	8,543	50	8,593
20,618	2 – 5 years	18,000	25	18,025
16,750	5 – 10 years	10,750	0	10,750
0	10 – 15 years	2,543	0	2,543
21,845	15 – 20 years	21,310	0	21,310
3,936	20 – 25 years	2,034	0	2,034
20,282	25 – 30 years	7,629	12,544	20,173
31,697	More than 30 years	26,617	5,178	31,795
126,264	**Total Long Term Borrowing**	**97,426**	**17,797**	**115,223**
133,852	**Total Borrowing**	**109,796**	**17,997**	**127,793**

11. Assets Held for Sale

This includes assets that are valued at market price and are due to be sold in the near future.

Current Assets 2012/13 £000		Current Assets 2013/14 £000
9,314	**Balance outstanding at start of the year**	**1,050**
	Assets newly classified as held for sale:	
732	• Property, Plant and Equipment	3,023
0	• Investment Property	0
	Expenditure incurred in year	65
0	Revaluation losses	(768)
318	Revaluation gains	3,424
0	Impairment losses	0
	Assets declassified as held for sale:	
(5,764)	• Property, Plant and Equipment	(1,050)
(3,550)	Assets sold	0
1,050	**Closing Balance at 31 March**	**5,744**

12. Debtors

Current Debtors (short term - less than one year)

This Note provides details of the Council's current debt position as at 31 March 2014. These are assets valued at the contractual amount initially agreed and then adjusted for impairments (provision for bad and doubtful debt) if it is deemed that there is a risk that the full amount cannot be recovered.

31 March 2013 £000		31 March 2014 £000
	Central government bodies:	
3,793	HM Revenue & Customs - VAT reclaimable	7,399
576	NNDR Deficit - central government share	4,884
2,997	Housing and Council Tax benefit subsidy	25
	Government grants:	
1,773	- Capital	5,020
281	- Revenue	1,281
626	Other central government debtors and prepayments	1,072
(11)	Impairment on the above	(193)
10,035	**Total central government bodies**	**19,488**
	Other local authorities:	
1,304	Cheshire West & Chester Council	864
3,044	Other local authorities	2,271
(14)	Impairment on the above	0
4,334	**Total other local authorities**	**3,135**
	NHS bodies:	
2,574	Foundation Trusts, Clinical Commissioning Groups and other	4,543
(109)	Impairment on the above	(117)
2,465	**Total NHS bodies**	**4,426**
	Public corporations and trading funds:	
0	Public corporations and trading funds	35
0	Impairment on the above	0
0	**Total public corporations and trading funds**	**35**
	Other entities and individuals:	
13,338	Council tax payers	14,249
5,361	Benefits claimants	6,491
0	Growing Places fund – re-imbursement due	3,028
4,130	Deferred debtors	2,995
5,531	Business Rate payers	2,489
14,137	Other sundry debtors	12,501
3,409	Prepayments	1,210
(14,297)	Impairment on the above	(12,049)
31,609	**Total other entities and individuals**	**30,914**
48,443	**Total Current Debtors**	**57,998**

Long-Term Debtors (greater than one year)

Long-term Debtors at 31 March were as follows:

31 March 2013 £000		31 March 2014 £000
3,491	Finance Leases	3,228
1,572	Cheshire Lifestyle Services (CLS)	1,572
1,182	Soft Loans	1,260
1,082	Joint Assets – Cheshire East BC share of Cheshire West & Chester Council assets	938
161	Academies	123
45	Mortgages (Right to Buy and Housing Act Advances)	25
7,553	**Total Long-term Debtors**	**7,146**

Long-term debtors include soft loans. These are loans which have been granted either without interest payable or with interest payable at below market levels. The Council has issued the following soft loans:

31 March 2013 £000		31 March 2014 £000
621	Housing – Assisted Purchase Scheme	603
346	Housing – Private Sector Assistance	473
198	Congleton Town Hall	172
17	Foster Family	12
1,182	**Total Soft Loans**	**1,260**

13. Cash and Cash Equivalents

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

31 March 2013 £000		31 March 2014 £000
425	Cash held by the Council	344
(5,122)	Bank current accounts	2,943
37,385	Instant access investments	22,749
32,688	**Total Cash and Cash Equivalents**	**26,036**

14. Creditors

Current Creditors (short term - less than 1 year)

This Note provides details of the Council's current creditor position as at 31 March 2014.

Restated 31 March 2013 £000		31 March 2014 £000
	Central government bodies:	
	Grants received in advance from central government departments:	
(100)	- Revenue Grant	(7,161)
(1,058)	- Capital Grant	0
(4,469)	National Insurance and PAYE payable to HM Revenue & Customs	(3,819)
(1,373)	Superannuation Contributions payable to Teachers Pensions	(1,229)
(1,271)	Other central government creditors and receipts in advance	(4,520)
(8,271)	**Total central government bodies**	**(16,729)**
	Other local authorities:	
(16,104)	Cheshire West & Chester Council	(8,808)
(2,018)	Other local authorities	(1,185)
(18,122)	**Total other local authorities**	**(9,993)**
(2,169)	**NHS bodies – Foundation Trusts, Clinical Commissioning Groups and other**	**(1,672)**
(101)	**Public corporations and trading funds**	**(78)**
	Other entities and individuals:	
(7,883)	Accumulated absences - leave due to Council employees	(6,637)
(2,633)	Superannuation Contributions payable to LGPS (Cheshire Pension Scheme)	(2,491)
(1,578)	Council Tax received in advance	(1,886)
(1,392)	Finance Leases payable within 12 months (Note 35)	(1,234)
(3,718)	Highways Maintenance Contract Payments	(224)
(25,622)	Amounts due to other entities and individuals	(36,446)
(42,826)	**Total other entities and individuals**	**(48,918)**
(71,489)	**Total Current Creditors**	**(77,390)**

15. Provisions

The following table provides a summary of the provisions held:

Provision	Balance at 1 April 2013 £000	Additional provisions made in 2013/14 £000	Amounts used in 2013/14 £000	Balance at 31 March 2014 £000
Insurance Provision – Cheshire East Fund	4,122	980	(1,522)	**3,580**
Insurance Provision – Cheshire County Fund	872	106	(75)	**903**
Business Rates Retention Scheme Appeals	0	3,285	0	**3,285**
Provider Risk	200	1,415	0	**1,615**
Early Retirement Provision	493	1,032	0	**1,525**
Closed Landfill Sites	0	611	0	**611**
Local Land Charge	384	0	0	**384**
Land Charge Interest	166	0	0	**166**
Legal Costs	275	0	(45)	**230**
Highways Schemes	211	0	0	**211**
Gratuities and Pension	443	0	(443)	**0**
Other Provisions	157	7	(98)	**66**
Total Provisions	**7,323**	**7,436**	**(2,183)**	**12,576**

The **Insurance Provisions** for Cheshire East Council and the former Cheshire County Council cover the estimated settlement costs of claims received up to 31 March 2014.

The **Business Rates Retention Scheme Appeals** provision has been created to cover the risk of possible successful business rates appeals. On April 2013 the new Business Rates Retention Scheme was introduced to replace the previous National Pooling System for business rates. The new scheme allows local authorities to share in the risks and rewards associated with the collection of business rates.

The **Provider Risk** provision was set up in 2012/13 to provide for continuity of Adults care provision in the event of external provider failure in the current economic climate.

The **Early Retirement Provision** has been created to meet the actuarial costs of early retirements which have been charged to the revenue account in full and will be paid over to the Pension Fund in 2014/15.

The **Closed Landfill Sites** provision has been set up to provide for the ongoing costs of closed landfill sites. After care costs include site maintenance/monitoring, gas management and leachate (liquid waste) management. The average outstanding liability period for the 5 sites identified within Cheshire East is 31 years.

The **Local Land Charge** provision has been created to fund potential claims which are likely to be made by Personal Search Companies in respect of charges levied by the Council between April

2009 and August 2010. The charges were levied for providing responses to specific land search enquiries (CON29R and CON29O selectable questions), however it is now understood that these responses should have been provided free of charge as they fell within the Environmental Information Regulations 2004.

The **Legal Costs** provision was set up in 2012/13 to meet the potential legal costs settlements in judicial review cases relating to Adults care provision.

The **Highways Schemes** provision has been created to meet the potential costs in relation to noise, disturbance and contractors claims in respect of major highways schemes.

The **Gratuities and Pension** provision was created to meet the potential increase in the costs of discretionary pensions and gratuities payments to teachers arising from a revised taxbase share of costs with Cheshire West & Chester Council and inflationary pensions increases.

Balances on **Other Provisions** include the Asset Recovery Scheme (£49,000), Domestic Violence Family Support Unit (£15,000) and Public Health Drainage (£2,000).

16. Usable Reserves

This Note lists those reserves that contain resources that the Council can apply to the provision of services, either by incurring expenses or undertaking capital investment; whether or not there are particular restrictions on exactly what the resources can be applied to. Relevant reserves include the Capital Reserve, Capital Grants Unapplied Account, General Fund balance and any earmarked reserves under the General Fund umbrella.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, and the Notes on Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1) and Transfers to/from Earmarked Reserves (Note 2).

16(a) General Fund Reserve – Borough Fund

The Borough Fund is the main fund of the Council to which all revenue receipts are credited and from which all revenue liabilities are discharged; all such transactions are recorded in the Council's Comprehensive Income and Expenditure Statement. The balance on the reserve at 31 March 2014 was £19.8m.

16(b) Capital Reserve

The Capital Reserve exists to finance capital projects and is maintained by receipts from the sale of land and buildings and by contributions from revenue. During 2013/14, £6.4m from the Reserve was used to finance capital expenditure, this includes £0.856m funding received from Revenue Contributions transferred into the Reserve throughout 2013/14. The main source of funding into the Reserve came from capital receipts £4.9m and transfers from other Reserves, such as the Capital Adjustment Account and the Capital Receipts deferred Account.

The 2013/14 closing balance on the Reserve was £1.7m. The movements in year are summarised below:

2012/13 £000	Capital Reserve	2013/14 £000
16,309	**Opening Balance at 1 April**	1,077
11,539	Usable Capital Receipts	4,950
27,848		6,027
(12,250)	Amount used to finance capital spending incurred in 2012/13	(6,368)
(15,578)	Amount used to finance capital spending incurred in Previous Years	0
0	Repayment to Capital Receipts Reserve from CAA – Waste PFI	668
(57)	Repayment to the Capital Adjustment Account – Cost of Disposals for sales achieved	0
	Appropriations to / (from):	
1,055	• General Fund	1,335
59	• Other Reserves	42
1,114		1,377
1,077	**Closing Balance at 31 March**	**1,704**
	Representing:	
1,077	Usable Capital Receipts	1,704
0	Other Monies	0
1,077	**Total Capital Reserve**	**1,704**

16(c) Capital Grants Unapplied

The Capital Grants Unapplied Account contains capital grants and contributions where no conditions remain. The grant income has been recognised through the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution had not been incurred by 31 March 2014.

As at 31 March 2014 the closing balance on the Capital Grants Unapplied Account was £24.4m.

2012/13 £000	Capital Grants Unapplied	2013/14 £000
9,794	**Opening Balance at 1 April**	**11,516**
33,034	Grants with conditions met in year (see Note 29)	51,312
0	Transfer from Capital Adjustment Account	138
0	Transfer to Capital Reserve Account	(9)
3	Interest received relating to Section 106 Agreements	0
	Grants used to finance Capital Expenditure	
(9,352)	Local Transport Plan	(18,918)
(13,643)	Department for Education (Capital Grants)	(7,359)
0	Department of Communities and Local Government	(518)
0	Department of Culture Media and Sport	(758)
0	Department of Health	(1,222)
0	Department of Transport – Pinch Point Funds	(100)
(85)	Department for Environment Food and Rural Affairs	(8)
(1,658)	Disabled Facilities Grant	(995)
(240)	Department of Energy & Climate Change	(179)
(43)	European Regional Development Fund	(846)
(961)	Other Grants	(961)
	Contributions used to finance Capital Expenditure	
(447)	Developers Contributions – Section 106 and 278	(899)
(10)	Department for Business Innovation and Skills Grant	0
(1,785)	Department of Transport – Section 31	0
(1,762)	Contribution from Network Rail	(3,940)
0	Contribution from British Telecom	(728)
(1,237)	Other Contributions	(1,084)
	Contributions used to finance Revenue Expenditure	
(92)	Application of Section 106 contribution to support revenue costs	0
11,516	**Closing Balance at 31 March**	**24,442**

16(d) Reserves and Balances Held by Schools under Delegated Schemes

The funding framework for schools is laid down in the Schools Standards and Framework Act 1998. Unspent budgets that have been delegated remain at the disposal of the school, even though they are still reserves held by the Council. In effect, these unspent balances represent a special form of reserve that is not available to the Council to use; it is a statutory earmarked reserve. As at 31 March 2014, the accumulated underspend on schools' budgets was £8.8m (£12.6m at 31 March 2013). Details on the movements are provided in Note 2 (Transfers to/from Earmarked Reserves).

16(e). General Fund Earmarked Reserves

These reserves are amounts set aside from General Fund balances, earmarked to provide finance for future expenditure plans. The balance as at 31 March 2014 was £26.3m (£9.3m at 31 March 2013). Details on the movements between Earmarked Reserves are provided in Note 2.

The **Insurance Reserves** for Cheshire East Council and the former Cheshire County Council represent the sums held to cover any potential future unknown claim liabilities.

A former Insurer of the Councils, Municipal Mutual Insurance (MMI), was liquidated in 1993 and since then had been hoping to achieve a solvent run-off when all outstanding liability claims were settled. Following a Supreme Court judgement, it was concluded that a solvent run-off could not be achieved and the Scheme of Arrangement was formerly triggered on 13 November 2012. This decision resulted in a claw-back of claim payments, excluding the first £50,000, with any future claim settlement to be funded by the Cheshire East Council and Cheshire County Insurance Funds.

The levy notice was issued on 1 January 2013 and resulted in a payment of £1,454,172 compared to the estimated liability of £1.5m reported in the 2012/13 Statement of Accounts. The most significant impact was on the former Cheshire County Council Fund, with a payment due of £1,240,676; a further payment of £213,496 related to the former district councils and was met from the Cheshire East Fund.
The following new earmarked reserves have been created in 2013/14:-

- **The Business Rates Support Scheme (£5.071m)** has been established to manage cash flow implications following changes from the 2012/13 NNDR system.

- **The Investment Reserve (£2.050m)** has been established to support investment that can increase longer term financial independence and stability of the Council.

- **The NHS Section 256 Reserve (£1.784m)** will support adult social care which also has a health benefit, as agreed with Eastern Cheshire and South Cheshire Clinical Commissioning Groups (CCG's) and governed by Cheshire East, Health and Wellbeing Board.

- **The Public Health Reserve (£1.620m)** is the ring-fenced underspend to be invested in areas to improve performance against key targets. This includes the creation of an innovation fund to support partners to deliver initiatives that tackle key health issues.

- **The Children's Social Care Reserve (£0.650m)** has been established to support implementation of the Children's Social Care Bill.

- **The Individual Commissioning Reserve (£0.580m)** is to provide capacity to perform Deprivation of Liberties and Best Interest reviews of care customers following recent case law.

- **The Elections Reserve (£0.486m)** is to provide funding for the costs of Elections arising every four years.

- **The Emergency Assistance Reserve (£0.400m)** will be used to extend the life of the Emergency Assistance scheme to provide funding to the most vulnerable beyond 2014/15 when the funding ceases.

- **The Pensions Contributions Reserve (£0.150m)** has been created to meet the impact of a reduced workforce on fixed contributions to the Past Service Pensions deficit.

- **The Winter Weather Reserve (£0.120m)** represents sums set aside to provide for future adverse winter weather expenditure.

17. Unusable Reserves

17(a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2012/13 £000	Revaluation Reserve	2013/14 £000
220,312	**Opening Balance at 1 April**	**185,172**
20,608	Upward revaluation of assets	64,875
	Restated Balance from prior year adjustments	4
(27,421)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(44,948)
(6,813)	**Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**19,931**
(5,161)	Difference between fair value depreciation and historical cost depreciation	(4,196)
(23,166)	Accumulated losses on assets sold or scrapped	(11,718)
(28,327)	**Amount written off to the Capital Adjustment Account**	**(15,914)**
185,172	**Closing Balance at 31 March**	**189,189**

17(b) 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, revaluation 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.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13 £000	Capital Adjustment Account	2013/14 £000
466,282	**Opening Balance at 1 April**	**434,443**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(30,456)	• Charges for depreciation and impairment of non current assets	(29,630)
(40,164)	• Revaluation losses on Property, Plant and Equipment	(34,816)
(160)	• Amortisation of intangible assets	(204)
(6,716)	• Revenue expenditure funded from capital under statute	(9,280)
(53,087)	• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(46,877)
28,327	Adjusting amounts written out of the Revaluation Reserve	15,914
	Capital financing applied in the year:	
27,828	• Use of the Capital Receipts Reserve to finance new capital expenditure	5,700
31,222	• Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	38,517
	Repayment of Prior Years Financing paid back to the Capital Adjustment Account	(138)
11,014	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	8,930
131	• Capital expenditure charged against the General Fund	2,581
222	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(572)
434,443	**Closing Balance at 31 March**	**384,568**

17(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance on the account of £1.76m is represented by three specific items:

- **PWLB, unamortised premiums and discounts** – a number of loans were repaid early in July 2011 with the premiums / discounts being charged through the accounts over 10 years. In 2013/14 £43,000 was charged leaving a balance of £274,000 to be charged in future years.
- **Lender Option Borrowers Option (LOBO) loans** – these arise from the change to the basis on which stepped LOBO loans are recorded using the effective interest rate. The amounts will be credited/charged to the General Fund through the Movement in Reserves Statement over the remaining lives of the loans (between 30 and 41 years remaining). In 2013/14 £13,000 was credited leaving a balance of £725,000 to be charged in future years.
- **Soft Loans** – these are interest free loans where the balance represents the reduced value of the debt for future interest calculated at market rates. In 2013/14 the balance increased by £234,000 to £762,000 mainly due to a new interest free loan granted to Alderley Park Holdings Ltd, a company in which the Council has an interest.

17(d) 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 credit balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Restated 2012/13 £000		2012/13 £000
(360,242)	**Opening Balance at 1 April**	(431,324)
(64,684)	Net interest on the net defined pensions benefit liability	49,696
(38,236)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(38,275)
31,838	Employer's pensions contributions and direct payments to pensioners payable in the year	31,471
(431,324)	**Closing Balance at 31 March**	**(388,432)**

17(e) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NNDR income in the CIES compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance on the Account effectively shows the Council's share of the overall Collection Fund surplus or deficit.

31 March 2013 £000		31 March 2014 £000
5	**Opening Balance at 1 April**	0
(5)	Amount by which income credited to the CIES is different from income calculated for the year in accordance with statutory requirements	4,666
0	**Closing Balance at 31 March**	**4,666**

17(f) Accumulated Absences Account

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

2012/13 £000		2013/14 £000
(7,509)	**Opening Balance at 1 April**	**(7,883)**
7,509	Settlement or cancellation of accrual made at the end of the preceding year	7,883
(7,883)	Amounts accrued at the end of the current year	(6,637)
(374)	**Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**1,246**
(7,883)	**Closing Balance at 31 March**	**(6,637)**

18. Cash Flow Statement - Operating Activities

2012/13 £000		2013/14 £000
(72,936)	**Net surplus / (deficit) on the provision of services**	**(48,560)**
	Adjust net surplus or deficit on the provision of services for non cash movements:	
30,456	Depreciation	29,630
40,164	Impairment and downward valuations	34,816
160	Amortisation	204
141	Reductions in fair value of Soft Loans (non Subsidiary) made in the year	72
(52)	Soft Loans (non Subsidiary) - Interest adjustment credited to CIES during year	(117)
26	Adjustments for effective interest rates	249
(55)	Increase/Decrease in Interest Creditors	(105)
(7,101)	Increase/Decrease in Creditors	6,571
14	Increase/Decrease in Interest and Dividend Debtors	(19)
3,805	Increase/Decrease in Debtors	(5,994)
163	Increase/Decrease in Inventories	(191)
6,398	Pension Liability	6,804
78	Contributions to/(from) Provision for Equal Pay	0
0	Contributions to/(from) Provision for Early Retirement	1,032
0	Contributions to/(from) Reserve for Accumulated Absences	(1,246)
1,206	Contributions to/(from) other Provisions	4,221
53,087	Carrying amount of non-current assets sold	46,934
(222)	Movement in Investment Property Values	572
(202)	Unrealised (gains)/losses on Available for for Sale :ong Term Investments	
(600)	Adjustment for non cash income included in the CIES - Capital Grants Unapplied	(1,051)
(998)	Issuance of Council mortgages and finance leases relating to deferred capital receipts	0
126,466	**Adjustment to surplus or deficit on the provision of services for non cash movements**	**122,382**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities:	
(33,034)	Capital Grants credited to surplus or deficit on the provision of services	(51,312)
(11,542)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,963)
(44,576)	**Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities**	**(56,275)**
8,954	**Net Cash Flows from Operating Activities**	**17,547**

The cash flows for operating activities include the following items:

2012/13 £000	Operating activities within the cash flow statement include the following cash flows relating to interest	2013/14 £000
1,177	Interest Received	1,408
(6,294)	Interest Paid	(5,502)

2012/13 £000	Operating activities within the cash flow statement include the following cash flows relating to interest	2013/14 £000

19. Cash Flow Statement - Investing Activities

2011/12 £000		2012/13 £000
(41,399)	Purchase of Property, Plant and Equipment, investment property and intangible assets	(57,604)
(76,400)	Purchase of short and long term investments	(103,149)
(370)	Other Payments for Investing Activities	(1,244)
11,352	Proceeds from the sale of property plant and equipment, investment property and intangible assets	5,129
68,799	Proceeds from short-term and long-term investments	93,938
31,981	Other receipts from Investing Activities	40,535
(6,037)	**Total Cash Flows from Investing Activities**	**(22,395)**

20. Cash Flow Statement - Financing Activities

2012/13 £000		2013/14 £000
5,200	Cash receipts of short and long term borrowing	0
(2,450)	Billing Authorities - Council Tax and National Non-Domestic Rates adjustments	1,886
0	Appropriation to/from Collection Fund Adjustment Account	4,666
(5,813)	Repayment of Short-Term and Long-Term Borrowing	(5,998)
(1,176)	Payments for the reduction of a finance lease liability	(1,738)
(582)	Payments for the reduction of a PFI liability	(620)
(4,821)	**Total Cash Flows from Financing Activities**	**(1,804)**

21. Amounts Reported for Resource Allocation Decisions (Segmental Reporting)

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's Cabinet on the basis of budget reports analysed across Directorates. 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;
- expenditure on some support services is budgeted for centrally and not charged to Directorates.

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

This reconciliation shows how the total Net Expenditure figure relates to the Service Outturn reported in the Final Outturn Review of Performance 2013/14 – Report to Cabinet.

Reconciliation of Directorate Analysis to Service Outturn 2013/14	Original Net Budget **£000**	Revised Net Budget **£000**	Actual Expenditure **£000**	Net Directorate Underspend **£000**
Net Expenditure per Directorate Analysis (Below)	**265,500**	**259,800**	**254,874**	**(4,926)**
Service Costs charged centrally (included in Other Service Costs in the table below)	0	0	4,026	4,026
Service Outturn (as per Final Outturn Report)	**265,500**	**259,800**	**258,900**	**(900)**

Service Directorate Analysis 2013/14	Adult Social Care and Public Health **£000**	Children's Services **£000**	Environmental and Public Protection, Communities Economic Growth and Prosperity **£000**	Corporate Services **£000**	Total **£000**
Fees, charges and other service income	(21,032)	(16,094)	(49,730)	(12,687)	**(99,543)**
Government Grants	(38,073)	(190,372)	(90,842)	(298)	**(319,585)**
Total Income	**(59,105)**	**(206,466)**	**(140,572)**	**(12,985)**	**(419,128)**
Employee expenses	31,869	164,332	46,321	27,495	**270,017**
Other service expenses	119,867	97,956	156,703	29,459	**403,985**
Total Expenditure	**151,736**	**262,288**	**203,024**	**56,954**	**674,002**
Net Expenditure	**92,631**	**55,822**	**62,452**	**43,969**	**254,874**

Reconciliation of Service Directorate Analysis to Comprehensive Income and Expenditure Statement 2013/14	Directorate Analysis £000	Services & Support Services not in analysis £000	Amnts not reported to Mgmt for decision-making £000	Amounts not included in CIES £000	Approp'ns - Earmarked Reserves £000	**Cost of Services £000**	Corporate Amounts £000	**Total £000**
Fees, charges and other service income	(99,543)	0	0	10,369	0	**(89,174)**	(11,632)	**(100,806)**
Surplus or deficit on associates & joint ventures	0	0	0	0	0	**0**	0	**0**
Interest and investment income	0	0	0	0	0	**0**	(1,402)	**(1,402)**
Income from Council Tax	0	0	0	0	0	**0**	(171,311)	**(171,311)**
Deficit on Collection Fund	0	0	0	0	0	**0**	(121)	**(121)**
Government grants and contributions	(319,585)	0	0	250	0	**(319,335)**	(161,062)	**(480,397)**
Total Income	**(419,128)**	**0**	**0**	**10,619**	**0**	**(408,509)**	**(345,528)**	**(754,037)**
Employee expenses	270,017	0	(8,410)	(5,981)	0	**255,626**	5,981	**261,607**
Other service expenses	403,985	0	(64)	(4,897)	(8,166)	**390,858**	5,705	**396,563**
Support Service recharges	0	0	0	(1,255)	0	**(1,255)**	1,255	**0**
Depreciation, amortisation and impairment	0	0	73,749	(423)	0	**73,326**	423	**73,749**
Changes in Value of Investment Properties	0	0	0	0	0	**0**	475	**475**
Interest Payments	0	0	0	0	0	**0**	5,397	**5,397**
Pension Interest Cost and Rate of Return on Pension Assets	0	0	0	0	0	**0**	19,010	**19,010**
Council Tax & Housing Benefits Admin Grant	0	0	(2,000)	0	0	**(2,000)**		**(2,000)**
Precepts and Levies	0	0	0	0	0	**0**	4,524	**4,524**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	13	**13**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	0	**0**	43,259	**43,259**
Total Expenditure	**674,002**	**0**	**63,275**	**(12,556)**	**(8,166)**	**716,555**	**86,042**	**802,597**
(Surplus) or deficit on the provision of services	**254,874**	**0**	**63,275**	**(1,937)**	**(8,166)**	**308,046**	**(259,486)**	**48,560**

Reconciliation of Directorate Analysis to Service Outturn 2012/13	Original Net Budget £000	Revised Net Budget £000	Actual Expenditure £000	Net Directorate Overspend £000
Net Expenditure per Directorate Analysis (Below)	**252,273**	**261,465**	**261,989**	**524**
Service Costs charged centrally (included in Other Service Costs in the table below)	0	0	1,299	1,299
Service Outturn (as per Final Outturn Report)	**252,273**	**261,465**	**263,288**	**1,823**

Service Directorate Analysis 2012/13 (Restated see below)	Adult Social Care and Public Health £000	Children's Services £000	Environmental and Public Protection, Communities Economic Growth and Prosperity £000	Corporate Services £000	Total £000
Fees, charges and other service income	(34,970)	(17,250)	(50,303)	(9,578)	**(112,101)**
Government Grants	(19,873)	(209,262)	(4,002)	(105,736)	**(338,873)**
Total Income	**(54,843)**	**(226,512)**	**(54,305)**	**(115,314)**	**(450,974)**
Employee expenses	34,505	183,857	50,992	21,706	**291,060**
Other service expenses	121,208	101,374	81,140	118,181	**421,903**
Total Expenditure	**155,713**	**285,231**	**132,132**	**24,573**	**712,963**
Net Expenditure	**100,870**	**58,718**	**77,827**	**24,573**	**261,989**

Reconciliation of Service Directorate Analysis to Comprehensive Income and Expenditure Statement 2012/13 (Restated see below)	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to Mgmt for decision-making £000	Amounts not included in CIES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(112,101)	106	0	10,255	**(101,740)**	(11,456)	**(113,196)**
Interest and investment income	0	0	0	0	**0**	(1,440)	**(1,440)**
Income from Council Tax	0	0	0	0	**0**	(182,996)	**(182,996)**
Deficit on Collection Fund	0	0	0	0	**0**	377	**377**
Government grants and contributions	(338,873)	0	0	281	**(338,592)**	(142,575)	**(481,167)**
Total Income	**(450,974)**	**106**	**0**	**10,536**	**(440,332)**	**(338,090)**	**(778,422)**
Employee expenses	291,060	(1,629)	(3,522)	(5,261)	**280,648**	6,378	**287,026**
Other service expenses	421,368	(194)	(70)	(6,129)	**414,975**	4,689	**419,664**
Support Service recharges	0	0	0	(1,269)	**(1,269)**	1,269	**0**
Depreciation, amortisation and impairment	0	0	75,740	(244)	**75,496**	244	**75,740**
Changes in Value of Investment Properties	0	0	0	0	**0**	(222)	**(222)**
Interest Payments	535	0	0	0	**535**	5,730	**6,265**
Pension Interest Cost and Rate of Return on Pension Assets	0	0	0	0	**0**	17,024	**17,024**
Council Tax & Housing Benefit Admin Grants	0	0	0	0	**0**	0	**0**
Precepts and Levies	0	0	0	0	**0**	4,428	**4,428**
Payments to Housing Capital Receipts Pool	0	0	0	0	**0**	24	**24**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	**0**	41,409	**41,409**
Total Expenditure	**712,963**	**(1,823)**	**72,148**	**(12,903)**	**770,385**	**80,973**	**851,358**
(Surplus) or deficit on the provision of services	**261,989**	**(1,717)**	**72,148**	**(2,367)**	**330,053**	**(257,117)**	**72,936**

22. Trading Operations

The Council has 3 major trading units covering a range of activities which generate income from third parties or from charges made to other areas of the Council. Some trading activities have net expenditure budgets, which reflect the operational and accounting policies approved by the Council in setting its budget and do not aim to recover all their costs through the level of charges. Details of Trading Operations are shown below:

2012/13				2013/14		
Gross Expenditure £000	Gross Income £000	(Surplus) / Deficit £000	Trading Operation	Gross Expenditure £000	Gross Income £000	(Surplus) / Deficit £000
6,317	(5,883)	**434**	Catering	5,880	(5,683)	**197**
1,167	(1,218)	**(51)**	Cleaning	960	(1,014)	**(54)**
5,012	(3,329)	**1,683**	Tatton Park	5,717	(3,923)	**1,794**
12,496	**(10,430)**	**2,066**	**Total**	**12,557**	**(10,620)**	**1,937**

Tatton Park operates as a trading operation and includes all trading outlets (except the operational net cost of running the Stables Restaurant and Gardener's Cottage - see Note 38 on Related Parties), events and visitor attractions, operating on a 99-year lease to the Council from the National Trust. Tatton was set up on a trading account basis to facilitate improved freedoms and flexibilities and to exploit additional income sources whilst operating within the context of a 5-year business plan.

23. Members' Allowances

The total amount spent on Members' allowances in 2013/14 was £1.5m. This figure includes the basic allowance, special responsibility allowance and Member pension costs. It does not include the direct reimbursement of costs incurred. The costs are reflected in the Comprehensive Income and Expenditure Statement under Corporate and Democratic Core.

2012/13 £000		2013/14 £000
985	Basic Allowance	977
381	Special Responsibility Allowance	388
131	Pension	142
1,497	**Total Members' Allowances**	**1,507**

Further Information on Members' allowances can be obtained from the Council website (http://www.cheshireeast.gov.uk) or from Democratic Services, Westfields, Middlewich Road, Sandbach CW11 1HZ.

24. Officers' Remuneration

The number of officers whose remuneration exceeded £50,000 in 2013/14 is detailed below:

2012/13 Schools	2012/13 Other	2012/13 Total	Remuneration Band	2013/14 Schools	2013/14 Other	2013/14 Total
57	31	**88**	£50,000 - £54,999	55	28	**83**
39	19	**58**	£55,000 - £59,999	24	23	**47**
34	19	**53**	£60,000 - £64,999	26	17	**43**
16	2	**18**	£65,000 - £69,999	18	6	**24**
6	4	**10**	£70,000 - £74,999	1	5	**6**
3	3	**6**	£75,000 - £79,999	3	6	**9**
2	1	**3**	£80,000 - £84,999	1	1	**2**
2	2	**4**	£85,000 - £89,999	0	2	**2**
1	3	**4**	£90,000 - £94,999	1	5	**6**
2	2	**4**	£95,000 - £99,999	1	1	**2**
2	0	**2**	£100,000 - £104,999	1	1	**2**
0	0	**0**	£105,000 - £109,999	1	1	**2**
0	0	**0**	£110,000 - £114,999	0	0	**0**
0	0	**0**	£115,000 - £119,999	0	0	**0**
0	2	**2**	£120,000 - £124,999	0	1	**1**
0	0	**0**	£125,000 - £129,999	0	1	**1**
0	0	**0**	£130,000 - £134,999	0	1	**1**
0	2	**2**	£135,000 - £139,999	0	0	**0**
0	0	**0**	£140,000 - £144,999	0	1	**1**
0	0	**0**	£145,000 - £149,999	0	0	**0**
0	0	**0**	£150,000 - £154,999	0	0	**0**
0	0	**0**	£155,000 - £159,999	0	0	**0**
0	0	**0**	£160,000 - £164,999	0	0	**0**
0	0	**0**	£165,000 - £169,999	0	0	**0**
0	0	**0**	£170,000 - £174,999	0	0	**0**
0	0	**0**	£175,000 - £179,999	0	0	**0**
0	0	**0**	£180,000 - £184,999	0	0	**0**
0	0	**0**	£185,000 - £189,999	0	0	**0**
164	**90**	**254**		**132**	**100**	**232**

Remuneration includes salary, payments to salaried and agency staff, taxable benefits such as car allowances, termination payments and backdated Single Status payments. Direct reimbursement of costs incurred and pension contributions are excluded.

Senior employees are included in the above figures. Further information about the remuneration of senior employees, including the names of any officers with salaries of £150,000 or more per year, is provided in Note 25.

25. Officers' Remuneration – Senior Employees

The Council is required to disclose the remuneration of senior employees. These include the statutory officers and any person having responsibility for the management of the Council, to the extent that the person has power to direct or control the major activities of the Council.

2013/14 Remuneration

The Council is required to disclose the remuneration of senior employees. These include the statutory officers and any person having responsibility for the management of the Council, to the extent that the person has power to direct or control the major activities of the Council. The figures below relate to 2013/14 and include salaried, agency and other contracted-in employees.

Job Title / Name	Salary, Fees and Allowances £	Expenses & Allowances £	Compensation for Loss of Employment £	Employer's Pension Contribution £	**Total** £
Chief Executive - Interim (to 30 June 2013) – Kym Ryley	39,296	113	0	0	**39,409**
Chief Executive – (from 1 Aug 2013) – Mike Suarez	107,500	129	0	22,300	**129,929**
Director of Strategic Commissioning	134,708	0	0	30,040	**164,748**
Director of Children's Social Care	97,500	114	0	21,743	**119,357**
Head of Early Intervention and Prevention	90,020	128	0	20,074	**110,222**
Corporate Manager Education Strategy	76,969	322	0	17,163	**94,454**
Head of Integrated Safeguarding	75,005	0	0	16,726	**91,731**
Head of Environmental Protection and Enhancement	72,606	1,218	0	16,191	**90,015**
Head of Public Protection and Enforcement	73,295	32	0	16,345	**89,672**
Director of Adult Social Care and Independent Living	92,209	184	0	20,563	**112,956**
Principal Manager Care4ce	60,366	82	0	13,462	**73,910**
Head of Communities (from 16 December 2013)	23,441	28	0	5,227	**28,696**
Director of Economic Growth and Prosperity	90,206	84	0	20,766	**111,056**
Head of Development (from 29 April 2013)	73,783	0	0	16,452	**90,235**
Head of Strategic and Economic Planning	69,087	183	0	15,586	**84,856**
Corporate Manager Strategic Infrastructure	64,025	97	0	14,277	**78,399**
Visitor Economy, Culture and Tatton Park Manager	59,896	0	0	13,357	**73,253**
Principal Manager – Built Environment Protection	52,905	116	0	11,724	**64,745**
Planning and Place Shaping Manager	39,459	0	0	8,799	**48,258**
Director of Public Health (from 1 April 2013)	140,993	0	0	18,094	**159,087**
Head of Strategic Commissioning and Safeguarding	76,962	27	0	17,163	**94,152**
Corporate Manager Health Improvement	61,098	0	0	13,625	**74,723**
Principal Manager – Regulatory and Health Protection	52,572	68	0	11,724	**64,364**

Job Title / Name	Salary, Fees and Allowances £	Expenses & Allowances £	Compensation for Loss of Employment £	Employer's Pension Contribution £	**Total** £
Chief Operating Officer and Section 151 Officer – Interim (to 30 September 2013, contracted in)	102,600	9,226	0	0	**111,826**
Chief Operating Officer and Section 151 Officer (from 1 October 2013)	60,260	74	0	13,380	**73,714**
Head of Performance Customer Services and Capacity (to 31 October 2013)	49,465	50	0	11,031	**60,546**
Head of Corporate Resources and Stewardship (Deputy S151 Officer – from 21 January 2014)	15,451	0	0	3,501	**18,952**
Corporate Manager Resources	71,212	0	0	15,880	**87,092**
Corporate Manager ICT	56,773	0	0	12,660	**69,433**
Corporate Manager Challenge and Innovation	64,176	0	0	14,311	**78,487**
Corporate Manager Commissioning	58,959	20	0	13,148	**72,127**
Corporate Manager Commissioning	56,043	45	0	13,148	**69,236**
Corporate Manager Business Intelligence and Data	55,780	0	0	12,439	**68,219**
Head of HR and Organisational Development	90,320	0	0	20,141	**110,461**
Head of People and Organisational Development	67,013	0	0	15,256	**82,269**
Principal Manager HR Delivery	64,852	0	0	14,462	**79,314**
Head of Governance and Democratic Services	76,842	123	0	15,571	**92,536**
Head of Legal Services and Monitoring Officer Interim (to 18 June 2013, agency basis)	43,625	0	0	0	**43,625**
Head of Legal Services and Monitoring Officer (from 10 June 2013 to 2 March 2014, agency basis)	136,322	8,213	0	0	**144,535**
Head of Legal Services and Monitoring Officer (from 3 February 2014)	12,054	0	0	2,688	**14,742**
Legal Team Manager (to 30 November 2013)	39,764	0	53,534	0	**93,298**
Total 2013/14	**2,845,412**	**20,676**	**53,534**	**539,017**	**3,458,639**

During 2013/14, the Chief Executive and the Head of Governance and Democratic Services earned Returning Officer and Deputy Returning Officer fees respectively. These are included in the Salary, Fees and Allowances figures above and were as follows:

	Returning Officer	Deputy Returning Officer	Total
	£	£	£
Local Borough and Parish / Town Council elections	6,985	3,090	10,075

In addition to the remuneration disclosed above for 2013/14, the Director of Public Health received a non-cash benefit in the form of a leased car. The benefit of this to the employee was valued at £2,021.

The roles of Head of ICT Shared Services and Head of HR & Finance Shared Services are jointly funded with Cheshire West & Chester Council. The Head of HR and Finance Shared Service left during the year, after which both roles were undertaken by the former Head of ICT Shared Service. During 2013/14, the Councils incurred a total cost of £105,000 and £35,000 respectively for these posts, with 50% of the cost being met by Cheshire East.

2012/13 Remuneration

The comparable data for the previous year was as follows:

Job Title / Name	Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Employment	Employer's Pension Contribution	**Total**
	£	£	£	£	£
Chief Executive (to 30 June 2012) – Erika Wenzel	43,250	0	93,250	9,428	**145,928**
Chief Executive – Interim (from 13 August 2012) - Kim Ryley	46,672	32	0	0	**46,704**
Strategic Director – Children, Families and Adults	120,000	0	0	26,160	**146,160**
Head of Individual Commissioning and Personalisation (from 7 January 2013)	17,546	36	0	3,825	**21,407**
Head of Care4CE (to 30 April 2012)	7,284	15	55,000	1,588	**63,887**
Care4CE Service Manager - Operations	60,646	19	0	13,210	**73,875**
Head of Business Management, Performance and Standards (to 30 April 2012)	11,836	15	35,462	1,390	**48,703**
Head of Business Management, Performance and Standards (from 1 May 2012)	60,595	0	0	13,210	**73,805**
Head of Strategic Commissioning and Safeguarding	77,916	0	0	16,986	**94,902**
Services Manager – Strategy Planning and Performance	76,974	407	0	16,778	**94,159**
Head of Service – Children's Social Care (from 15 October 2012)	41,724	63	0	9,096	**50,883**
Head of Service – Early Intervention and Prevention	94,948	402	0	20,698	**116,048**
Head of Service – Safeguarding and Specialist Services (to 18 May 2012)	10,137	17	24,275	2,210	**36,639**
Head of Service – Safeguarding and Specialist Services (from 2 July 2012)	70,702	0	0	15,413	**86,115**
Strategic Director – Places and Organisational Capacity (to 31 December 2012)	91,500	320	45,750	19,947	**157,517**
Head of Development / Acting Strategic Director – Places and Organisational Capacity	91,890	115	0	20,667	**112,672**
Head of Community Services	69,495	0	0	15,150	**84,645**
Head of Highways and Transport	58,266	0	0	12,702	**70,968**
Head of Health Improvement	61,098	0	0	13,319	**74,417**
Director of Finance and Business Services (to 15 February 2013)	79,299	0	45,160	17,287	**141,746**
Head of Technical Strategy and Planning	51,748	32	0	10,083	**61,863**
Finance Manager	71,212	28	0	15,524	**86,764**
Procurement Manager	57,140	0	0	12,457	**69,597**
Borough Solicitor and Monitoring Officer (to 31 December 2012)	68,236	0	28,861	12,583	**109,680**
Acting Borough Solicitor and Monitoring Officer (from 21 January 2013, agency basis)	29,900	0	0	0	**29,900**
Democratic and Registration Services Manager	71,534	178	0	13,320	**85,032**
Legal Team Manager	61,098	121	0	13,319	**74,538**
Head of HR and Organisational Development	90,320	0	0	19,690	**110,010**
HR Strategy Manager	63,595	0	0	14,017	**77,612**
HR Delivery Manager	64,299	0	0	14,017	**78,316**
Head of Performance Customer Services and Capacity	78,906	75	0	17,202	**96,183**
Total 2012/13	**1,899,766**	**1,875**	**327,758**	**391,276**	**2,620,675**

26. Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14, incurring liabilities of £3.567m (£2.996m in 2012/13). Of this total, £0.640m was payable to 19 senior officers in the form of compensation for loss of office, with a further £0.222m of enhanced pension benefits. The remaining £2.695m is payable to 151 officers from various Services who were made redundant as part of the Council's rationalisation of Services.

A summary of the number and value of exit packages is provided below:

Exit package cost band (including special payments)	(a) Number of compulsory redundancies		(b) Number of other departures agreed		(c) Total number of exit packages by cost band [(a) + (b)]		(d) Total cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £000	2013/14 £000
£0 - £20,000	1	22	77	82	78	104	653	708
£20,001 - £40,000	0	0	34	43	34	43	1,010	1,288
£40,001 - £60,000	1	0	15	11	16	11	740	539
£60,001 - £80,000	0	0	4	7	4	7	258	501
£80,001 - £100,000	0	0	1	3	1	3	93	265
£100,001 - £150,000	0	0	2	2	2	2	242	266
£150,001 and over	0	0	0	0	0	0	0	0
	2	**22**	**133**	**148**	**135**	**170**	**2,996**	**3,567**

27. External Audit Fees

The Council incurred the following external audit and inspection fees, which are included in the cost of Corporate and Democratic Core.

2012/13 £000		2013/14 £000
205	Fees payable regard to external audit services carried out by the appointed auditor	205
42	Fees payable for the certification of grant claims and returns	27
0	Audit Commission Rebate	(28)
247	**Total External Audit Fees**	**204**

28. Dedicated Schools Grant (DSG)

The funding of schools is provided via Dedicated Schools Grant (DSG). The original DSG award value for 2013/14 was £234.8m (£231.8m in 2012/13). This is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The grant is, therefore, credited against Children’s and Education Services in the Comprehensive Income and Expenditure Statement. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spending on the two elements are required to be accounted for separately. The Council is also able to supplement the Schools Budget from its own resources. Details of the deployment of DSG receivable for 2013/14 are as follows:

Schools' Budget Funded by Dedicated Schools Grant	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2013/14 before Academy recoupment *	45,203	189,852	**235,055**
Academy recoupment for 2013/14	0	(58,470)	**(58,470)**
Total DSG after Academy recoupment for 2014/15	**45,203**	**131,382**	**176,585**
Brought Forward from 2012/13	(2,168)	0	**(2,168)**
Carry forward to 2014/15 agreed in advance	5,958	0	**5,958**
Agreed budgeted distribution in 2013/14	**48,993**	**131,382**	**180,375**
In Year adjustments for Schools Specific Contingencies	0	0	**0**
Final budgeted distribution for 2013/14	**48,993**	**131,382**	**180,375**
Less Actual Central Expenditure	(43,035)	0	**(43,035)**
Less Actual ISB deployed to Schools	0	(131,382)	**(131,382)**
Plus Local Authority contribution for 2013/14	0	0	**0**
Carry Forward 2014/15	**5,958**	**0**	**5,958**

*Note: Recoupment is a method of adjusting Dedicated Schools Grant to take account of schools which have converted to academies. The Education Funding Agency (EFA) calculates the adjustment of DSG allocation in respect of those academies to which recoupment applies, and the DSG paid to the Council is reduced accordingly.

29. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

2012/13 £000	Credited to Taxation and Non-Specific Grant Income (Note 5)	2013/14 £000
	Revenue Grants	
(4,464)	Council Tax Freeze Grant	(1,805)
0	Small Business Rate Relief	(1,879)
(12,931)	Early Intervention Grant	0
(10,545)	Learning Disabilities and Health Reform Grant	0
(3,756)	NHS Funding Grant	0
0	Education Services Grant	(4,975)
(2,799)	New Homes Bonus Grant	(4,066)
(4,994)	Other Revenue Non-Ringfenced Grants	(5,482)
(39,489)	**Total Revenue Grants**	**(18,207)**
	Capital Grants	
(11,316)	Local Transport Plan	(17,674)
(12,386)	Department for Education (Capital Grants)	(16,144)
(27)	Assisted Purchase Housing Scheme	0
0	Department of Communities and Local Government	(518)
0	Department of Culture Media and Sport	(758)
(770)	Department of Health – Mental Health	0
0	Department of Health	(780)
0	Department of Transport – Pinch Point Funds	(4,666)
0	Department of Transport – Severe Weather Recovery Funds	(1,250)
(1,080)	Department for Environment, Food and Rural Affairs	(8)
(93)	Disabled Facilities Grant	(705)
(245)	Department of Energy and Climate Change	(181)
0	European Regional Development Fund	(992)
(1,260)	Other Grants	(1,051)
(915)	Developers Contributions – S.106 and S.278	(771)
(10)	Department for Business Innovation and Skills	0
(1,785)	Department of Transport – Section 31	0
(2,138)	Contribution from Network Rail	(3,765)
0	Contribution from British Telecom	(728)
(1,009)	Other Contributions	(1,321)
(33,034)	**Total Capital Grants**	**(51,312)**
(72,523)	**Total Grants**	**(69,519)**

2012/13 £000	Credited to Services	2013/14 £000
(192,537)	Dedicated Schools Grant	(174,601)
(84,596)	Housing Benefit Subsidy Grant	(85,790)
(21,015)	Council Tax Benefit Subsidy Grant	0
(2,094)	Housing Benefit and Council Tax Administration Grant	(2,000)
0	Public Health Grant	(13,762)
(85)	Standards Fund	0
(2,475)	Private Finance Initiative Grant	(4,125)
(8,579)	Educational Funding Agency Grant	(6,374)
(4,326)	Pupil Premium Grant	(5,987)
(1,212)	Other Service Grants and Contributions	(2,395)
(316,919)	**Total Grants Credited to Services**	**(295,034)**

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

2012/13 £000	Capital Grants Receipts In Advance	2012/13 £000
(21,741)	Conditional Grants	(1,827)
(2,077)	Developer Contributions – Section 106	(4,807)
(23,818)	**Total**	**(6,634)**

30. Cheshire Shared Services

Shared Services Agreement with Cheshire West & Chester Council

The Council operates a number of services in partnership with Cheshire West & Chester Council. The table below sets out the total costs processed by each Council in providing these services and the degree to which those costs fell to each Council after they were re-apportioned in line with each Council's usage of the services.

	2013/14			Share of Total Cost 2013/14	
	Cheshire East £000	Cheshire West & Chester £000	Total Cost £000	Cheshire East £000	Cheshire West & Chester £000
Hosted by Cheshire East					
Farms Estates	(897)	122	(775)	(417)	(358)
Hosted by Cheshire West & Chester Council					
HR and Finance	1,063	1,815	2,878	1,412	1,466
ICT	573	7,361	7,934	3,940	3,994
Civil Protection	153	132	285	143	142
Occupational Health	(8)	199	191	95	96
Archives	207	148	355	177	178
Libraries	384	362	746	384	362
Rural Touring Network	12	13	25	12	13
Archaeology Planning and Advisory	97	131	228	97	131
Total Shared Services Costs	**1,584**	**10,283**	**11,867**	**5,843**	**6,024**

The costs of Cheshire Shared Services relating to Cheshire East are contained in the Comprehensive Income and Expenditure Statement.

The costs shown below are analysed by service in accordance with the Service Reporting Code of Practice (SerCOP):

2012/13 £000		2013/14 £000
1,824	Children's and Education Services	1,332
1,127	Adult Services	1,412
14	Central Services to the Public	279
2,105	Cultural, Environmental and Planning Services	2,029
406	Highways, Roads and Transport Services	352
110	Housing Services	276
184	Other Operating Income and Expenditure	163
5,770	**Total**	**5,843**

The Joint Committee oversees the management of the services that are provided on a Cheshire-wide basis on behalf of Cheshire East and Cheshire West & Chester Councils to ensure effective delivery of such services and to provide strategic direction. The Joint Officer Board supports the

Joint Committee and is responsible for the governance and decision-making of Cheshire Shared Services and is jointly chaired by senior officers from both Councils.

Shared Service Agreements underpin the legal agreement between Cheshire West & Chester Council and Cheshire East Council for sharing arrangements. These set out the basis for services to be provided, identify which Council is hosting the service, the percentage of costs to be borne by each Council and the general reporting and performance management requirements. The roles and responsibilities of staff seconded to the host Authority are contained within these agreements.

Business Plans and Service Delivery Statements have been developed for each Shared Service. These set out the scope, agreed objectives and expected outcomes of the shared service arrangements. Shared Service Business Plans and performance against them is regularly reviewed to ensure that they remain current and that the service delivered continues to meet the needs of the two Councils.

31. Pooled Budgets

Under Section 75 of the National Health Service Act 2006, the Council has registered its partnership arrangement with both South and Eastern Cheshire Clinical Commissioning Groups (CCG's) to commission services to Adults with Learning Difficulties within the footprint of Cheshire East Council. This is known as the Learning Disability Pooled Budget.

As at 31 March 2013 the Primary Care Trust ceased to exist and was replaced by the two CCGs, East Cheshire and South Cheshire for 2013/14.

The Learning Disability Pooled Budget for 2013/14 was a single joint arrangement hosted by and operating within the boundaries of Cheshire East Council. Any additional expenditure over and above the agreed Pooled Budget is met by all partners in the agreed proportions. Each partner to the pool will report its own share of the Pooled Budget transactions within its accounts and report the Memorandum Account and Balance Sheet as a Note.

Cheshire East Council contributes an increased share towards the costs of the Pooled Budget and reports a larger share of the Pool, increasing to 83% in 2013/14. Cheshire East's contribution was 80% in 2012/13 and 62.5% in 2011/12.

This is a result of a couple of factors. In 2011/12 and 2012/13 the balance of funding for the revised Pool shifted significantly as the Department of Health transferred funding formerly directed to the health sector directly to councils with Social Care responsibilities under the 'Valuing People Now' agenda. In 2013/14 the Health Secure Commissioning services were removed from the Pooled Budget.

The Pooled budget ceased to operate on 31 March 2014 and there is no successor agreement in place. Funding of care packages will be agreed on an individual basis, reflecting the complexity of individual needs, with effect from 1 April 2014.

Cheshire East Council – Adults with Learning Difficulties Pooled Budget

	2013/14			
	Cash £000	Overheads £000	Grants £000	Total £000
Funding:				
Cheshire East Council	17,420	572	10,025	**28,017**
East Clinical Commissioning Group (CCG)	3,019	0	0	**3,019**
South Clinical Commissioning Group(CCG)	2,678	0	0	**2,678**
Total Funding	**23,117**	**572**	**10,025**	**33,714**
Expenditure:				
Internal Provision	9,321	0	0	**9,321**
External Social Care	16,157	0	0	**16,157**
Continuing Healthcare Charged to CCG	(1,489)	0	0	**(1,489)**
Direct Payments	3,896	0	0	**3,896**
Health Contracts	4,795	0	0	**4,795**
Partnership Trust	3,760	0	0	**3,760**
New Health Network SLA	1,995	0	0	**1,995**
Social Care Assessors	1,092	0	0	**1,092**
Other	210	0	0	**210**
Nurse Advisor	146	0	0	**146**
Overheads	0	572	0	**572**
Total Expenditure	**39,883**	**572**	**0**	**40,455**
Net Overspend – to be met by additional partner contributions				**6,741**

Balances Attributable to Pool Partners

	Cheshire East Council £000	East CCG £000	South CCG £000	Total £000
Funding	28,017	3,019	2,678	**33,714**
Funding Share	83%	9%	8%	**100%**
Current Assets				
Debtors and Prepayments	29	0	0	**29**
Cash in Hand	2,084	308	273	**2,665**
Current Liabilities				
Creditors	2,113	308	273	**2,694**

32. Pension Schemes Accounted for as Defined Contribution Schemes

In 2013/14 the Council paid £9.7m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay.

A further £0.092m (14% of pensionable pay) was paid to the NHS Pension Scheme in respect of Public Health workers who were transferred into the Council from the National Health Service on 1 April 2013.

Both schemes are defined benefit schemes but, because they are multi-employer schemes which do not allow the identification of the Council's liability, they are treated as defined contribution schemes for the purpose of this Statement of Accounts. Further information about these Schemes is included in Note 48(i).

33. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in three pension schemes - the Teachers' and NHS Pension Schemes (see Note 32 above) and the Local Government Pension Scheme (LGPS). Additionally, the Council has a responsibility for additional discretionary benefits awarded to teachers upon early retirement.

- **Local Government Pension Scheme (LGPS)**

  In 2013/14 Cheshire East Council paid employer contributions of £24.6m into the Cheshire Pension Fund (the Fund), which represented 22.3% of non-teaching employees' pensionable pay. The rate of employer contributions due to the Fund is determined every three years and is based on a valuation by the Fund's Actuary; the valuation effective for the 2013/14 financial year was undertaken as at 31 March 2013.

  A further £3.8m of employer contributions were paid into the Fund in respect of early retirements during the year, bringing the total employer contribution to £28.4m.

  The principal risks to the Council of the Scheme are the longevity assumptions, changes to inflation, bond yields, the performance of the equity investments held, and any significant statutory or structural changes to the Scheme. The risks are, in part, mitigated by the annual process of charging to the General Fund any increase/decrease in the net asset or liability, as identified by the actuarial valuation.

- **Discretionary Teachers Unfunded Benefits**

  In 2013/14, the Council paid £3.1m in discretionary benefits to retired teaching staff. These benefits are unfunded, having no associated assets.

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 made 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.

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:

2012/13 Local Govt Pension Scheme £000	2012/13 Teachers Unfunded Scheme £000		2013/14 Local Govt Pension Scheme £000	2013/14 Teachers Unfunded Scheme £000
		Comprehensive Income and Expenditure Statement		
		Cost of Services		
		Service Cost comprising:		
22,841	0	▪ Current service cost	27,159	0
537	0	▪ Past service costs	923	0
(2,166)	0	▪ Settlements	(8,817)	0
		Financing and Investment Income and Expenditure:		
15,062	1,962	▪ Net interest expense	17,166	1,844
36,274	**1,962**	**Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**36,431**	**1,844**
		Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
		Re-measurement of the net defined benefit liability comprising:		
(74,229)	0	▪ Return on plan assets (excluding the amount included in the net interest expense)	(7,935)	0
		▪ Actuarial (gains) / losses arising on changes in:		
0	0	- demographics assumptions	(26,456)	(1,064)
126,356	1,231	- financial assumptions	(41,028)	287
11,326	0	- other assumptions	26,501	0
63,453	**1,231**	**Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement**	**(48,918)**	**(777)**
		Movement in Reserves Statement		
(36,274)	(1,962)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(36,431)	(1,844)
		Actual amount charged against the General Fund balance for pensions in the year:		
28,758	0	▪ Employer's contributions payable to the Scheme	28,391	0
0	3,080	▪ Retirement benefits payable to pensioners	0	3,080
(7,516)	**1,118**	**Net Movement in Reserves**	**(8,040)**	**1,236**

The re-measurement of the net losses recognised in Other Comprehensive Income and Expenditure was a gain of £49.7m as at 31 March 2014 (£64.7m loss as at 31 March 2013).

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 plans is as follows:

2012/13 Local Govt Pension Scheme £000	2012/13 Teachers Unfunded Scheme £000		2013/14 Local Govt Pension Scheme £000	2013/14 Teachers Unfunded Scheme £000
1,227,316	42,503	Present value of the defined benefit obligation	1,222,942	40,489
(838,495)	0	Fair value of plan assets	(874,999)	0
388,821	**42,503**	**Net liability arising from defined benefit obligation**	**347,943**	**40,489**

Reconciliation of present value of the Defined Benefit Obligation:

2012/13 Local Govt Pension Scheme £000	2012/13 Teachers Unfunded Scheme £000		2013/14 Local Govt Pension Scheme £000	2013/14 Teachers Unfunded Scheme £000
1,053,185	**42,390**	**Present value of Scheme Liabilities at 1 April**	**1,227,316**	**42,503**
22,841	0	Current Service Cost	27,159	0
50,100	1,962	Interest Cost	54,196	1,844
7,336	0	Contributions from Scheme participants	6,971	0
		Re-measurement (gains) / losses arising from:		
0	0	▪ changes in demographic assumptions	(26,456)	(1,064)
126,356	1,231	▪ changes in financial assumptions	(41,028)	286
11,326	0	▪ changes in other assumptions	26,501	0
537	0	Past service cost (including curtailments)	923	0
(37,645)	(3,080)	Benefits paid	(40,335)	(3,080)
(6,720)	0	Liabilities extinguished on settlements	(12,305)	0
1,227,316	**42,503**	**Present value of Scheme Liabilities at 31 March**	**1,222,942**	**40,489**

Reconciliation of fair value of plan assets:

2012/13 Local Govt Pension Scheme £000		2013/14 Local Govt Pension Scheme £000
735,333	**Opening fair value of Scheme assets at 1 April**	**838,495**
(4,554)	Effect of Settlements	(3,488)
35,038	Interest Income	37,030
	Re-measurement (gains) / losses:	
74,229	▪ return on plan assets, excluding the amount in the net interest expense	7,935
	Contributions:	
28,758	▪ employers	28,391
7,336	▪ plan participants	6,971
(37,645)	Benefits paid	(40,335)
838,495	**Closing fair value of scheme assets at 31 March**	**874,999**

At the balance sheet date, the Cheshire East share of the Scheme assets was as follows:

Fair Value at 31 March 2013 £000		Fair Value at 31 March 2014 £000
	Equity securities:	
105,995	▪ Consumer	115,151
42,982	▪ Manufacturing	39,970
18,907	▪ Energy and Utilities	23,974
32,947	▪ Financial Institutions	43,822
11,013	▪ Health and Care	10,657
27,734	▪ Information Technology	34,179
27,809	▪ Other	27,033
267,387		294,786
	Debt Securities:	
48,301	▪ Other (non-Corporate, non-Government) *	52,135
53,156	**Private Equity ***	47,574
	Property:	
48,858	▪ UK Property *	55,210
3,376	▪ Overseas Property *	3,016
52,234		58,226
	Investment Funds and Unit Trusts:	
177,398	▪ Equities	143,245
116,686	▪ Bonds	152,761
119,553	▪ Hedge Funds *	122,813
413,637		418,819
3,780	**Cash and cash equivalents ***	3,459
838,495	**Total value of Scheme assets**	**874,999**
	Comprising:	
561,471	Assets in Active Markets	590,792
277,024	Assets not in Active Markets (marked * above)	284,207
838,495	**Total value of Scheme assets**	**874,999**

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. Both the Local Government Pension Scheme and the Teachers Unfunded Scheme have been assessed by Hymans Robertson LLP, an independent firm of actuaries. The estimates used have been based on the last formal valuation of the Fund, carried out as at 31 March 2013 and projected forward to 31 March 2014.

The table below shows the principal assumptions used by the Actuary:

31 March 2013 Local Govt Pension Scheme	31 March 2013 Teachers Unfunded Scheme		31 March 2014 Local Govt Pension Scheme	31 March 2014 Teachers Unfunded Scheme
		Mortality Assumptions:		
		Average life expectancy at 65 for current pensioners:		
22.9 years	22.9 years	▪ Men	22.3 years	22.3 years
25.7 years	25.7 years	▪ Women	24.4 years	24.4 years
		Average life expectancy at 65 for future pensioners:		
24.9 years	n/a	▪ Men	24.1 years	n/a
27.7 years	n/a	▪ Women	26.7 years	n/a
		Financial Assumptions:		
5.1%	n/a	Rate of increase in salaries	3.6%	n/a
2.8%	2.8%	Rate of increase in pensions	2.8%	2.6%
2.8%	2.8%	Rate of inflation (CPI, indicative rate as at 31 Dec 2013)	2.8%	2.8%
4.5%	4.5%	Rate of discounting scheme liabilities	4.3%	4.1%
Commutation				
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2009 service.				

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and, for each change, assumes 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 both 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 analysis have followed the accounting policies for the Scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period. The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are:

	Approximate % increase to Employer Liability		Approximate monetary amount	
	Local Govt Pension Scheme	Teachers Unfunded Scheme	Local Govt Pension Scheme £000	Teachers Unfunded Scheme £000
0.5% decrease in Real Discount Rate	9%	2%	112,537	1,463
1 year increase in Member Life Expectancy	3%	3%	36,688	2,238
0.5% increase in the Salary Increase Rate	2%	0%	30,422	0`
0.5% increase in the Pension Increase Rate	7%	2%	81,167	1,478

Impact on the Council's Cash Flows

An objective of the Scheme is to keep the employer's contributions at as constant a rate as possible. The Council has agreed a strategy with the Scheme's actuary to achieve a funding level of 100% over the next 20 years and funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The actuary's 2014 assessment takes account of national changes introduced by the Public Pensions Services Act 2013. For service dating from 1 April 2014, the Act replaces a retiring employee's entitlement to pension based on final salary with a scheme based on career average earnings. This effect of this change in entitlement will be reflected in the net pension liability from 2014/15 onwards.

The Council anticipates making employer contributions of £25.605m to the Local Government Pension Scheme in 2014/15.

The weighted average duration of the defined benefit obligation for Scheme members is 17.5 years:

	Liability Split	Weighted Average Duration (years)
Active Members	33.8%	24.6
Deferred Members	16.7%	23.3
Pensioner Members	49.5%	11.9
	100.0%	17.5

34. Capital Expenditure and Capital Financing

The following reconciles capital financing requirements with capital expenditure incurred and financed in year:

2012/13 £000		2013/14 £000
208,958	**Opening Capital Financing Requirement**	**192,055**
45,908	Property Plant and Equipment	55,046
0	Assets Held for Sale	65
0	Long Term Investments	2,640
0	Investment Properties	1,415
432	Intangible Assets	790
370	Housing – Private Sector Assistance & Assisted Purchase Loans	192
6,716	Revenue Expenditure Funded from Capital under Statute	9,280
0	Aborted Capital Expenditure Reversed in Year	(730)
	Sources of Finance	
(12,250)	Capital Receipts	(5,512)
(31,222)	Government Grants and Other Contributions	(38,517)
(73)	Direct Revenue Contributions	(3,496)
(15,578)	Capital Receipts used to finance Capital Expenditure which has taken place in previous years which has been met by borrowing	0
0	Government Grants and Other Contributions repaid in year due to aborted expenditure	138
0	Capital receipts repaid in year due to aborted Capital Expenditure	592
(6,124)	Amount provided at 4% of the capital financing requirement in respect of supported and unsupported borrowing incurred prior to 31 March 2008	(5,874)
(3,117)	Amount provided in respect of unsupported borrowing	(938)
(1,191)	Amount provided in respect of assets acquired under Finance leases	(1,498)
(582)	Amount provided in respect of PFI arrangements	(620)
(192)	Prior year adjustments	(48)
192,055	**Closing Capital Financing Requirement**	**204,980**
	Explanation of movements in year	
(6,124)	Decrease in underlying need to borrow (supported by government financial assistance)	(5,874)
(10,351)	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	20,789
154	Assets acquired under finance leases	(1,370)
(582)	Assets acquired under PFI / PPP Contracts	(620)
(16,903)	**Increase / (Decrease) in Capital Financing Requirement**	**12,925**

35. Leases

Finance Leases – Council as Lessee

The Council has acquired equipment and vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment on the Balance Sheet, with balances of £2.2m at 31 March 2014, and £3.1m at 31 March 2013. The Council is committed to making minimum lease payments under these leases comprising settlement of the long term liability for the interest in the equipment and vehicles acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

Balance 2012/13 £000		Balance 2013/14 £000
	Finance Lease Liability:	
1,006	Current	944
4,842	Non-current	3,788
1,208	Finance Costs payable in future years	715
7,056	**Closing Balance at 31 March**	**5,447**

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

2012/13 £000		2013/14 £000
1,392	Not Later Than 1 Year	1,233
3,472	Between 1 and 5 Years	2,636
2,192	Later Than 5 Years	1,578
7,056	**Total Minimum Lease Payments**	**5,447**

Minimum principal lease payments will be payable over the following period:

2012/13 £000		2013/14 £000
1,006	Not Later Than 1 Year	944
4,394	Between 1 and 5 Years	2,255
448	Later Than 5 Years	1,533
5,848	**Total Finance Lease Liabilities**	**4,732**

Finance Leases – Council as Lessor

The Council has leased out properties at Malkins Bank Golf Course, Knutsford Cinema and Civic Centre and the Crewe Lyceum Theatre.

Balance 2012/13 £000		Balance 2013/14 £000
	Finance Lease Liability (Net present value of minimum lease payments):	
265	Current	271
3,491	Non-Current	3,227
1,602	Unearned finance income	1,539
(76)	Unguaranteed residual value of property	(68)
5,282	**Gross Investment in the Leases as at 31 March**	**4,969**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

31 March 2013			31 March 2014	
Gross Investment in the Lease £000	Minimum Lease Payments £000		Gross Investment in the Lease £000	Minimum Lease Payments £000
265	265	Not later than 1 year	271	271
1,188	942	Later than 1 year and not later than 5 years	1,159	900
3,829	2,549	Later than 5 Years	3,539	2,327
5,282	**3,756**		**4,969**	**3,498**

Operating Leases – Council as Lessee

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

2012/13				2013/14		
Land and Buildings £000	Other £000	**Total £000**		Land and Buildings £000	Other £000	**Total £000**
			Lease:			
20	782	**802**	Not Later Than 1 Year	382	672	**1,054**
422	225	**647**	Between 1 and 5 Years	54	245	**299**
0	53	**53**	Later Than 5 Years	0	8	**8**
442	**1,060**	**1,502**	**Total**	**436**	**925**	**1,361**

Operating Leases – Council as Lessor

The Council leases out property for community services and for economic development. The Council is also lessor for farms estates. The future minimum lease payments receivable under non-cancellable leases in future years are:

2012/13 £000	Minimum Lease Payments	2013/14 £000
182	Not Later Than 1 Year	422
462	Between 1 and 5 Years	334
751	Later Than 5 Years	478
1,395	**Total Minimum Lease Payments**	**1,234**

36. Changes to Accounting Policy and Prior Period Adjustments

This note details revisions to previous years reported figures as a result of a change to accounting policy.

A revised version of IAS19 *Employee Benefits* was introduced in June 2011 and is applicable to financial years starting on or after 1 January 2013. This revised standard has been applied to the Council's 2013/14 accounts and, for the purposes of comparison, the equivalent 2012/13 figures have been restated to also take account of the changes.

The key change is the interest costs on the net defined pensions liability / asset are now combined and presented as a net figure in the Comprehensive Income and Expenditure Statement. The impact of this change is to reclassify £5.142m previously included within Financing and Investment Income and Expenditure as remeasurement losses. The reclassification adjustment has no impact on the Council's balance sheet or cashflow statement.

The Revised IAS19 also requires fuller disclosure notes, including a more detailed breakdown of pension fund assets. These are included at Note 33 (Defined Benefit Pension Schemes).

In addition to the above adjustment there is a re-statement of cost of services and taxation and non- specific grant income arising from the transfer of Council Tax & Housing Benefits Grants subsidy £107.705m .

Comprehensive Income and Expenditure Statement (CIES) Impact

The impact on the 2012/13 CIES is an adjustment of £5.142m between the Surplus/Deficit on the Provision of Services and Other Comprehensive Income and Expenditure:

	Original Figures				Restated Figures		
Comprehensive Income and Expenditure Statement	Gross Expenditure **£000**	Gross Income **£000**	Net Expenditure **£000**	Adjustment **£000**	Gross Expenditure **£000**	Gross Income **£000**	**Net Expenditure** **£000**
Cost of Services	726,976	(291,314)	435,662	(107,705)	726,976	(399,019)	327,957
Other Operating Expenditure	45,898	(1,455)	44,443	0	45,898	(1,455)	44,443
Financing and Investment Income and Expenditure	20,213	(2,000)	18,213	5,142	25,355	(2,000)	23,355
Taxation and Non-Specific Grant Income	0	(430,524)	(430,524)	0	0	(322,819)	(322,819)
(Surplus) or Deficit on Provision of Services	793,087	(725,293)	67,794	**5,142**	798,229	(725,293)	72,936
(Surplus) or deficit on revaluation of non current assets			6,813	**0**			6,813
(Surplus) or deficit on revaluation of available for sale financial assets			(202)	**0**			(202)
Re-measurement of the net defined pensions benefit liability			69,826	(5,142)			64,684
Other Comprehensive Income and Expenditure			76,437	(5,142)			71,295
Total Comprehensive Income and Expenditure			**144,231**	**0**			**144,231**

Notes 4 (Financing and Investment Income and Expenditure) and 17d (Pensions Reserve) include corresponding adjustments to reflect the change in accounting for gains and losses on pension assets and liabilities.

Movement in Reserves Statement Impact

The above adjustments to the Comprehensive Income and Expenditure Account have a corresponding impact on the Movement in Reserves Statement:

Movement in Reserves Statement (showing only those figures impacted by the change)	Original Figures: General Fund Balance £000	Original Figures: Unusable Reserves £000	Adjustment £000	Restated Figures: General Fund Balance £000	Restated Figures: Unusable Reserves £000
Opening balance at 1 April 2012	11,381	317,122	0	11,381	317,122
Movement in Reserves 2012/13					
Surplus / (deficit) on provision of services	(67,794)	0	(5,142)	(72,936)	0
Other Comprehensive Income and Expenditure	0	(76,437)	5,142	0	(71,295)
Adjustments between accounting basis and funding basis under regulations	74,783	(60,527)	0	79,925	(65,669)
Transfers to / (from) Earmarked Reserves	566	78	0	566	78
Closing Balance at 31 March 2013	**18,936**	**180,236**	**0**	18,936	180,236

Cash Flow Statement Impact

The IAS19 adjustments to the Comprehensive Income and Expenditure Account also have an impact on the Cash Flow Statement:

	Original Figure 2012/13 £000	IAS19 Restating Adjustment £000	Other Restating Adjustments £000	Restated Figure 2012/13 £000
Net surplus / (deficit) on the provision of services	(67,794)	(5,142)	0	(72,936)
Adjustment to surplus or deficit on the provision of services for non cash movements	190,123	5,142	(68,799)	126,466
Adjust for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(113,375)	0	68,799	(44,576)
Net cash flows from operating activities	**8,954**	**0**	**(1,878)**	**8,594**
Net cash flows from investing activities	(6,037)	0	0	(6,037)
Net cash flows from financing activities	(4,821)	0	0	(4,821)
Net increase / (decrease) in cash and cash equivalents	**(1,904)**	**0**	**0**	**(1,904)**

37. Private Finance Initiative (PFI) and Similar Contracts

The Council has a PFI arrangement jointly with Cheshire West & Chester Council in respect of Extra Care Housing.

Extra Care Housing combines housing and care support for older people who have access to high quality accommodation with their own front door, with the security of a 24-hour Care Provider on site to provide reliable and responsive support as needed. These two elements are combined with a range of both on site support and communal facilities which seek to ensure there are opportunities to participate in a range of activities, promoting well being and enhancing independence for older people.

The Cheshire East sites are based at Crewe, Handforth and Middlewich; there are additional sites at Winsford and Ellesmere Port which are operated by Cheshire West & Chester. These facilities will not revert to the Council at the end of the contract although it will have the option to purchase them at that time.

PFI Assets

Under the requirements of IFRIC 12 the assets which were constructed to deliver this scheme are recorded on the Balance Sheet of the Council along with a liability showing the Council's commitment to make Unitary Payments in future years. Upon initial recognition these two values would offset each other but over time the values will diverge. The Assets are held within property, plant and equipment in the Council's Balance Sheet and charged with annual depreciation.

PFI Liabilities

The liabilities are written down each year as Unitary Payments are made to the contractor. Only part of each Unitary Payment can be applied to writing down the liability as it funds a mix of current services, financing costs and repayment of principal. The annual Unitary Payment has to be broken down into five separate components reflecting what is being funded.

2012/13 £000	Allocation of Unitary Payment	2013/14 £000
(20)	Service Charge	(16)
1,954	Financing Costs	1,903
157	Contingent Rents	180
582	Liability Repayment	620
0	Lifecycle Costs	10
2,673	**Total**	**2,697**

The spread of the Unitary Payment shown above reflect a presumption that the Council's Unitary Payments are the primary means by which the PFI operator is recovering the costs of constructing these assets and that any third party income generated through operating the sites is instead used to subsidise the schemes operational running costs (in effect reducing the service costs recorded above). The Council believes that this approach best reflects the way the schemes are operated as the contractor is solely responsible for collecting any third party income and utilising it to finance the services provided on the site, the contractor therefore bears the risk of any shortfall in those income levels or increases in those costs.

If the Council had instead assumed that the third party income was in part committed to funding the upfront construction costs with only a proportion being available to reduce net running costs then accounting standards would have required these transactions to be recorded differently in the Council's Accounts. As the Unitary Payment would only need to finance part of the construction cost, the Council would hold a lower value PFI liability and make a reduced annual repayment against that value. However, there would be an offsetting increase in the scale of the net operating cost as there is now less available operating income being generated by the sites as it must be top-sliced to fund capital repayments.

Had the third party income been split between capital and revenue useage then the figures presented in the above table would show a £0.2m higher net service cost offset by a similarly reduced liability payment. The levels of gross income and expenditure recognised in the Adult Social care line of the CIES would be marginally higher (£0.2m), net spend would not be impacted. The outstanding PFI liability balance (see below) would decrease by approximately £6.3m, but there would be a need to recognise a new deferred income creditor of the same value to reflect the fact that a proportion of the schemes income streams were committed to repaying capital costs. The overall level of liabilities reported would therefore be unaffected.

	Principal Payments £000	Capital Costs	Interest £000	Service Charge £000	Total £000
Amounts due in 2014/15	289	296	1,906	175	**2,666**
Amounts due 2015/16 – 2018/19	1,435	1,203	7,458	767	**10,863**
Amounts due 2019/20 – 2023/24	3,047	1,457	8,622	940	**14,066**
Amounts due 2024/25 – 2028/29	3,474	2,413	7,094	1,692	**14,673**
Amounts due 2029/30 – 2033/34	4,808	3,340	4,838	2,373	**15,359**
Amounts due 2034/35 – 2038/39	7,975	2,340	3,238	1,759	**15,312**
Total	**21,028**	**11,049**	**33,156**	**7,706**	**72,939**

Other Long Term Liabilities

Includes £12.2m received by the council as agent on behalf of the Local Enterprise Partnership (LEP) referred to in note 39.

38. Related Parties

The Council is required to disclose any material transactions and balances 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. The purpose of the disclosure is to enable consideration of the extent to which there exists the potential for restriction of commercial activity in the dealings of the Council.

The following related parties have been identified for the purpose of this disclosure:

- Central Government
- Other Public Bodies
- Elected Members and Council staff (including close family and any organisations in which they or their close family have a controlling interest).

Central Government

Central Government is responsible for providing the statutory framework within which the Council operates, prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits), and provides the majority of the Council's funding in the form of grants.

Details of material transactions with Central Government are shown throughout these notes and include those listed below:

- Grant funding of £473.5m received from Government Departments is set out in the subjective analysis in Note 21;
- Business Rates Fixed Fee Tariff Payments of £27.8m shown in Collection Fund revenue account note 4.

Other Public Bodies

The Council undertakes significant transactions with the Cheshire Police Authority (£21.0m) and Cheshire Fire and Rescue Service (£9.3m). These relate to the payment of Council Tax income collected on behalf of these bodies, these values are disclosed in the Collection Fund Account and amount to collection of Council Tax and payment over of Precepts.

The Council also undertakes transactions with the Cheshire Pension Fund in the form of contributions to fund future pension payments for Council employees (2013/14 payments were £28.4m). Details of these transactions are disclosed in Note 32. The Cheshire Pension Fund is administered and governed independently of the Council to avoid the potential for undue influence to be exerted.

The Council works closely in partnership with the South and Eastern Cheshire Clinical Commissioning Groups, to commission services to Adults with learning difficulties (see Note 31).

The Council also carries out a significant element of its services in partnership with Cheshire West & Chester Council. In 2013/14 the Council spent £5.8m delivering services jointly with Cheshire West & Chester. These transactions are disclosed in Note 30.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. To safeguard against the misuse of this influence, Members are required to declare the existence and nature of any personal interests in any matter on a Committee / Executive agenda and, if the interest is prejudicial, to remove themselves from the meeting. In accordance with Section 117 of the Local Government and Finance Act 1972, all senior officers of the Council have been asked to declare any interests in other bodies with whom the Council may have dealings; these are detailed below.

In 2013/14 Members and officers held interests (by way of Board membership) in the following active wholly-owned subsidiary companies of Cheshire East Council:

- Councillor Peter Groves - Tatton Park Enterprises Ltd and Engine of the North Limited (resigned 9 June 2014).
- Councillor William Macrae - Tatton Park Enterprises Ltd
- Councillor Peter Raynes - Tatton Park Enterprises Ltd

- Councillor Andrew Thwaite - East Cheshire Engine of the North Limited
- Councillor David Newton- East Cheshire Engine of the North Limited
- Councillor Damien Druce – East Cheshire Engine of the North Limited
- Council Officer Brendan Flanagan - Tatton Park Enterprises Limited
- Council Officer Darren Lawless – East Cheshire Engine of the North Limited
- Council Officer Mike Rowan - Tatton Park Enterprises Limited (resigned 29 May 2013)
- Council Officer Anita Bradley – Tatton Park Enterprises Ltd and East Cheshire Engine of the North Limited
- Council Officer Caroline Simpson – East Cheshire Engine of the North Limited (resigned 11 March 2014)

In addition to the above, Members and officers held interests (by way of Board membership) in the following dormant wholly-owned subsidiary or joint venture companies which commenced trading activity during 2014/15:

- Councillor John Hammond - Ansa Environmental Services Limited
- Councillor Steven Hogben – Ansa Environmental Services Limited
- Councillor Roger West – Ansa Environmental Services Limited
- Councillor Penelope Butterill - Orbitas, Bereavement Services Limited
- Councillor David Marren - Orbitas, Bereavement Services Limited
- Councillor Lesley Smetham - Orbitas Bereavement Services Limited
- Councillor Peter Groves - Transport Service Solutions Limited (resigned 9 June 2014)
- Councillor Roderick Menlove – Transport Service Solutions Limited
- Council Officer John Nicholson - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited, and Transport Service Solutions Limited (resigned 10 May 2013).
- Council Officer Caroline Elwood - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited, and Transport Service Solutions Limited (resigned 10 May 2013).
- Council Officer Caroline Elwood - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited, and Transport Service Solutions Limited (resigned 10 May 2013).
- Council Officer Mike Rowan - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited, and Transport Service Solutions Limited (appointed 10 May 2013; resigned 29 May 2013).
- Council Officer Anita Bradley - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited (appointed 10 February 2014 and 23 January 2014; resigned 31 March 2014), and Transport Service Solutions Limited (appointed 10 February 2014).
- Council Officer Kevin Melling - Ansa Environmental Services Limited; Orbitas, Bereavement Services Limited.
- Council Officer Christine Mann - CoSocius Limited

Certain Council Members and officers were also appointed to the Boards of the external companies listed below:

- Councillor Michael Jones – Alderley Park Holdings Limited and Non Executive Director of Cheshire and Warrington Local Enterprise Partnership Ltd.
- Councillor Andrew Kolker – Everybody Sport & Recreation Limited
- Councillor Martin Hardy – Everybody Sport & Recreation Limited
- Council Officer Peter Hartwell - Everybody Sport & Recreation Limited
- Council Officer Suki Binjal - Everybody Sport & Recreation Limited (appointed 11 September 2013; resigned 10 February 2014).
- Council Officer Anita Bradley - Everybody Sport & Recreation Limited (appointed 10 February 2014).
- Council Officer Caroline Simpson - Cheshire and Warrington Local Enterprise Partnership Ltd (resigned 8 November 2013).

Payments to organisations where Members or their close relatives hold a personal interest are as listed below:

Payments to Organisations where Members or their close relatives hold a personal interest	2013/14 £	No. of Declarations
Tatton Park Enterprises Limited	743,176	6
East Cheshire Engine of the North Limited	222,100	7
Plus Dane Housing (Cheshire)	105,623	1
Cheshire Peaks & Plains Housing Trust	189,304	1
Groundwork Cheshire	15,934	1
Wulvern Housing	566,428	1

Included within current debtors and creditors at 31 March 2014 (Notes 12 and 14) are the following amounts in respect of related parties:

Amounts Due from / (to) Organisations where Members or their close relatives hold a personal interest	31 March 2014 £
Amounts due to Tatton Park Enterprises Ltd	(22,307)
Amounts due to / from East Cheshire Engine of the North Limited	0
Amounts due from Plus Dane Housing (Cheshire)	42,915
Amounts due from Cheshire Peaks & Plains Housing Trust	453
Amount due from Wulvern Housing	4,636
Net Amount due from Related Parties	**25,697**

On 22 August 2013, a newly formed wholly owned subsidiary company East Cheshire Engine of the North Limited commenced trading with the principal objective of accelerating the development of the Council's assets generating capital receipts combined with new housing economic growth and regeneration.

39. Interest in Other Companies and Entities

North West Evergreen (GP) Limited Fund Partnership

Fifteen local authorities in the North West of England became limited partners in the fund known as North West Evergreen (GP) Limited Fund Partnership. This Fund was set up to make loans to commercial property ventures in the North West to aid regeneration in the region. The Council is a limited partner and, in common with all the other limited partners, it owns a share of what is known as the general partner. This general partner is the body which, in turn, owns the Evergreen Partnership.

Cheshire East Council is one of six Authorities forming the County Area partners, which collectively have 50% of the voting rights on the board of the general partner. The remainder of the vote is held by the Councils forming the Association of Greater Manchester Authorities. The County Area Councils have the right to nominate three (of six) directors to the board of the general partner.

As a limited partner, the Council provides a capital contribution of £1 to the Fund but, in order to enjoy limited liability as a limited partner, the Authority cannot participate in the management of the Fund's business.

No interest is due from the Fund to the limited partners on any capital contributions, nor on any net income or capital gain allocated to the partners for distribution. The Fund uses the finance made available to it, under an operational agreement made between it and the European Investment Bank, for eligible projects in the region.

The life of the Fund is twenty years and, in entering into the partnership agreement, the Council has committed to pay an annual contribution for twenty years. Capital liability of the limited partners for any of the Fund's debts, liabilities or obligations is limited to the amount of their respective capital contributions. The general partner has unlimited liability for the debts, liabilities and obligations of the Fund.

In joining the partnership as a County Area limited partner, the Authority is expected to make an annual contribution to the Fund (as a loan), based on an index-linked amount equal to £250,000, divided by the number of County Area limited partners, to meet the ongoing expenses of the Fund.

Cheshire & Warrington Local Enterprise Partnership

Cheshire & Warrington Local Enterprise Partnership Ltd is an associate company of Cheshire East Council. It has changed its name from Cheshire & Warrington Enterprise Commission Ltd. The company is limited by guarantee of which Cheshire East holds a 33.33% share along with the remainder held by Cheshire West & Chester Council and Warrington Borough Council in equal shares. During 2013/14 the turnover of the company was £1,048,603 with a resulting profit before tax of £15,256 and Net Assets of £227,701. Cheshire East's associate share of the profit before tax and net assets would be £5,084 and £75,893 respectively.
The amounts involved are immaterial in the context of Cheshire East Council so have been excluded from the results of Cheshire East Council.

The Local Enterprise Partnership Ltd (LEP) has board of fourteen members which comprising of elected councillors and senior officers from each of the three Councils along with senior business representatives from the three administrative areas. The LEP has been set up to make decisions in regard to the allocation of central government funding, to economically regenerate and stimulate the local areas. Cheshire East is the accountable body and acting agent for the LEP in respect of certain government grant funding streams, including the Growing Places Fund (initial funding of £13m has been included with long term liabilities on the balance sheet. The Cheshire & Warrington Local Enterprise Partnership has taken over the responsibilities previously carried out by the Cheshire & Warrington Local Economic Partnership.

Tatton Park Enterprises Limited

Tatton Park Enterprises Limited is a wholly owned not-for-profit subsidiary of Cheshire East Council. It commenced trading in November 2012 providing catering services to the Stable Restaurant. During 2013/14 the company increased its scope of operation to include catering supplies and with the addition of catering to the Gardeners Cottage. The turnover of the company during the 12 months 2013/14 was £743,176 with a net profit of nil.

East Cheshire Engine of the North Limited

East Cheshire Engine of the North Limited is a wholly-owned not-for-profit subsidiary of Cheshire East Council, which was first registered on 30 May 2013 and commenced trading on 22 August 2013. The Council purchased one ordinary share for £1 in the newly formed company. The turnover of the company in the seven months to 31 March 2014 was £222,100 with a resulting net profit of nil.

Manchester Science Parks Limited

On 28 March 2014 Cheshire East Council purchased 17,267 ordinary shares (a 3% interest) in Manchester Science Parks Limited at a cost of £42.81 per share, giving an equity investment of £739,200.27.

Alderley Park Holdings Limited

On 28 March 2014 Cheshire East Council purchased 1,000,000 ordinary shares (a 10% interest) in a newly formed company Alderley Park Holdings Limited at a cost of £1.07 per share, giving an equity investment of £1,070,000. In addition to this, the Council has advanced a shareholder loan to Alderley Park Holdings Limited to the value of £831,000.

ANSA Environmental Services Limited

On 2 October 2013 Cheshire East Council purchased one ordinary share in (100% interest) in ANSA Environmental Services Ltd for £1. The company commenced trading on 1 April 2014 providing Environmental Services for the Council.

Orbitas, Bereavement Services Limited

On 24 October 2013 Cheshire East Council purchased one ordinary share in (100% interest) in Orbitas Bereavement Services Limited for £1. The company commenced trading on 1 April 2014 providing bereavement services for the Council.

Transport Service Solutions Limited

On 24 January 2014 Cheshire East Council purchased one ordinary share in (100% interest) in Transport Service Solutions Limited for £1. The company is planning to commence trading on 1 January 2015 providing transport services for the Council.

CoSocius Limited

On 17 September 2013 Cheshire East Council purchased one ordinary share in (50% interest) in CoSocius Limited for £1. The joint venture company commenced trading on 1 May 2014 providing financial, human resources and ICT services to Cheshire East Council and Cheshire West & Chester Council (the other shareholder with a 50% equity interest).

40. Contingent Liabilities and Contingent Assets

There were no contingent assets at the balance sheet date.

Contingent Liabilities

Deprivation of Liberty Safeguards

A Supreme Court judgement on 19 March 2014 clarified the definition of Deprivation of Liberty Safeguards (under continuous supervision and control and not free to leave) and opened up a significant number of cases to come within that definition, for which lawful authorisation will be required. A reserve of £0.580m has been created to provide capacity to perform reviews of care customers (see Note 16) however the cost impact could exceed £1m.

Business Rates Retention Scheme Appeals a provision of £3.285m (Cheshire East Share) has been included in Provisions note 15 created to cover the risk of known possible business rates appeals. In addition to this there is a contingent liability for unknown unregistered potential appeals which have yet to formally register an appeal against their business rates assessment.

41. Events after the Reporting Period

These accounts have been authorised for issue by the Chief Operating Officer on 30 June 2014 and reflect all known post-Balance Sheet events affecting the financial statements for the financial year 2013/14 up to this date. Events taking place after this date are not reflected in the financial statements or notes.

Where events took place before this date, providing that information about conditions existed at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Non Adjusting Events

On 24 March 2014 the Cabinet approved a second phase of the transfer of services to separate legal entities, which commenced trading in the first quarter of 2014/15, namely:

- **Ansa Environmental Services Limited (ANSA)**
- **Orbitas, Bereavement Services Limited (Orbitas)**

These two companies are wholly owned subsidiaries of Cheshire East Council.

- **Everybody Sport & Recreation Limited (ESAR)**
  ESAR operates as a charitable trust (limited by way of guarantee) which manages on behalf of the council its Leisure, play and sport development services. The trust has its own board of trustees and management structure which operates independently of the council. The company achieved Charitable Status on 10 March 2014.

- **CoSocius Limited (CoSocius)**
  The new company is a joint venture legal entity and provides back office services previously delivered through the ICT and HR and Finance Shared Services. The company is jointly owned and controlled by Cheshire East and Cheshire West & Chester Councils.

- **Transport Service Solutions Limited (TSS)**

On 29 April 2014 the Cabinet approved the implementation of a wholly-owned company to deliver all the functions of the Council's Integrated Transport Unit. The company registered under the name Transport Service Solutions Ltd and will deliver transport services on behalf of the Council with a budget of approximately £16m. The aim is for the company to commence trading on 1 January 2015.

42. Trust Funds

During 2013/14 the Council acted as sole trustee for five Trust Funds. These Funds, some of which date back many years, were established for specific purposes such as giving grants for education and training or providing community benefits, e.g. library books.

The five Funds listed below do not represent assets of the Council and so have not been included in the Council's Balance Sheet. Assets are stated at market value.

2012/13 Income £	2012/13 Expend-iture £	2012/13 Assets £		2013/14 Income £	2013/14 Expend-iture £	2013/14 Assets £
10,719	12,005	635,948	**Audlem Education Fund** established in 1910 to fund training and education for under 25s in the parish of Audlem	14,856	12,186	633,379
0	6,468	49,784	**Nantwich Library Trust** established in 1908 to fund library books, periodicals and exhibits in the urban district of Nantwich	22,442	0	72,226
130	0	13,376	**Dale Eaton Trust** established in 1955 to provide support to charities within the Congleton and Macclesfield areas	77	0	13,453
1,550	0	49,903	**John McBride Trust** established in 1955, the income to be distributed for charitable purposes in Crewe	1,607	0	52,853
11,341	8,435	5,076	**Mayor of Cheshire East Charity** established in 2009 for charitable purposes within Cheshire East area	4,156	7,816	1,416
23,740	**26,908**	**754,087**	**Trust Funds Total**	**43,138**	**20,002**	**773,327**

43. Assumptions Made About the Future & Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property Valuations	The Council carries out an asset valuation and asset life assessment each year on selected asset categories based on its assessment of risk determined by market conditions and asset use.	A 1% fall in property values would result in a reduction of £8m in the value of property held on the balance sheet. If asset lives were to reduce by 10% there would be an increase in the annual depreciation charge of £3m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council adopts the assumptions proposed by the Cheshire Pension Fund Actuary, Hymans Robertson LLP. These assumptions are prepared on a neutral basis which means that, in the Actuary's opinion, there is an equal chance of actual experience being better or worse than the 'best estimate' assumptions proposed.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of approximately 9%, or £112.5m. A sensitivity analysis is included in Note 35, Defined Benefit Pension Schemes.
Arrears	At 31 March 2014, the Council had a balance of sundry debtors of £58.4m. A review of balances has been carried out and an impairment provision for doubtful debts of 5.52% has been made in accordance with the accounting policy set out in note 48. (2013 6.58%).	Sundry Debt levels have increased during 2014 compared to 2013. If Collection Rates were to deteriorate during 2014-15 so that the % provision for bad and doubtful debts increased by (6.58%-5.52%) 1.06% then a further provision of £0.6m would be required.
Business Rates Appeals	The 2013-14 Accounts include estimates of the potential costs that may arise as a result of appeals lodged against non-domestic rate charges by local organisations. A provision of £6.7m has been set aside based on details of outstanding claims provided by the valuation agency, analysis of historical trends in appeal outcomes and local knowledge.	If the actual outcomes from these appeals result in higher or lower costs then there would be a corresponding increase in the collection fund deficit charged to the taxation and non specific grant income line of the comprehensive income and expenditure statement. This deterioration would be recorded against the collection fund adjustment account for one year before being transferred to the general fund the next. A 10% increase in costs from appeals would reduce net income by the council's proportionate share £0.3m

44. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out in Note 48, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statements of Accounts are:

- Cheshire East Borough Council has two wholly owned trading subsidiaries whose aggregated annual turnover is £1,011k with a resulting net profit of nil and net assets of £2. During 2013-14 the council registered a further three wholly owned dormant subsidiary companies which are expected to commence trading during 2014-15 along with a 50% interest in a jointly controlled company (see note 39). The council considers it reasonable to exclude all companies detailed in note 39 from the requirement to prepare group accounts for their aggregated value of transactions on the basis of immateriality or lack of control or ownership.

- Tatton Park Enterprises Ltd is a 100% subsidiary company providing catering services to Tatton Park. The turnover for 2013/14 including the Stables Restaurant and the Gardeners Cottage (opened in June 2013) was £0.743m with a net profit of nil. The amounts involved are not considered to be significant and have been excluded from the results of Cheshire East Council.

- East Cheshire Engine of the North is a 100% owned subsidiary company, registered on the 30 May 2013. It has been in operation since 22 August 2013. The turnover in 2013/14 was £0.222m with a net profit of nil. The company has been established to speed up the development of the Council's assets to bring about new housing, economic growth, regeneration and capital receipts. In the context of the overall Authority, the amounts involved are immaterial and so have been excluded from the 2013/14 Statement of Accounts.

- The Council is deemed to control the services provided under the agreement for the provision of Extra Care Housing on three sites at Middlewich, Handforth and Crewe. The Council will control the residual value of the homes at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings are recognised as Property, Plant and Equipment on the Balance Sheet. The Council has assumed that the Council's Unitary Payments are the primary means by which the PFI operator is recovering the costs of constructing the assets and that any third party income generated through operating the sites is instead used to subsidise the schemes operational running costs, in effect reducing the service charges.

- Between 1 April 2009 and 31 March 2014 twenty-seven Academies had been created from schools which were formerly funded by Cheshire East Council, this is an increase of fifteen since March 2013. While the Council remains responsible for ensuring that the children attending these schools continue to receive a good quality education, it is no longer responsible for the operation of the Schools and does not provide direct funding.

  All buildings that were formerly held by the Council have been leased over to the new Academies on long term leases for peppercorn rent; as such they have been removed from the Council's Non-Current Assets. The costs of this are shown as a loss on disposal in the Consolidated Income and Expenditure Statement. The transfer of assets to the Academy is recognised on the date that the Academy is formally created, not the date the school receives approval to become an academy. Until the later date the school continues to be run by the Council and could choose to retain its current status.

- In March 2014, the Council acquired an interest in Manchester Science Park (MSP) which successfully acquired the Alderley Park site from AstraZeneca. The Council secured a 10% stake in Alderley Park Holdings Ltd (a newly formed company) and also acquired a 3% share in MSP. The investment of £2.6m is accounted for as capital expenditure funded from revenue resources and is included in Long Term Investments (see Note 10). The carrying value of the 10% stake in Alderley Park Holdings Ltd (£1.07m) and the 3% stake held in MSP Ltd (£0.74m) are valued at cost. The Council considers there is no requirement for any provision for revaluation of these investments on the grounds that Alderley Park Holdings Ltd was first registered shortly prior to 31 March 2014 and the share valuation for MSP Ltd was computed from the latest audited accounts of MSP Ltd dated 30 September 2013.

- The Council has made an estimated provision for registered known business rate appeals (see note 15) however the council is unable to make a reasonable estimate for potential unregistered business rates appeals and this is referred to in note 40 Contingent Liabilities. The Council considers that inclusion of any estimate would be inaccurate and misleading.
- Cheshire East is the accountable body for Cheshire & Warrington local enterprise partnership (LEP). The Council has determined that under the CPIFA code of practice Cheshire East is acting as agent on behalf of the LEP and has accounted for just the receipts and payments in the 2013-14 statement of accounts.

45. Accounting Standards Issued but yet to be Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 has introduced several changes in accounting policies which will be required from 1 April 2014.

- **IAS 32 Financial Instruments: Presentation (December 2011):** This refers to amended application guidance when offsetting a financial asset and a financial liability.
- **IAS1 Presentation of the Financial Statements (May 2011):** This clarified the disclosure requirement in respect of comparative information of the preceding period.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- **IFRS 10 Consolidated Financial Statements** (May 2011): Introduces a new definition of control, which is used to determine which entities are consolidated for the purpose of group accounts. The Council has not produced group accounts for this financial year on the basis of materiality.
- **IFRS 11Joint Arrangements** (May 2011): This standard addressed the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation.
- **IFRS 12 Disclosures of Interests in Other Entities** (May 2011): This requires a range of disclosures about an entity's interests in subsidiaries, joint arrangements and associates.
- **IAS 27 Separate Financial Statements** and **IAS28 Investments in Associates and Joint Ventures** (May 2011): These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12.

46. Acquired and Discontinued Operations

The Council acquired Public Health operations in April 2013. With the transfer brought a number of commissioning responsibilities for the Council, together with overall responsibility for improving health at borough level.

The costs and funding linked to the provision of this new service have been separately disclosed as an acquired operation on the face of the Comprehensive Income and Expenditure Account. Public Health is a commissioning service and as a result did not transfer with any material reserves, assets or outstanding liabilities, as a result there has been no requirement to restate the Council's balance sheet.

Public Health responsibilities cover a wide range of services including sexual health services, NHS Health Check programmes, Drug Misuse and Alcohol Misuse and Obesity.

47. Nature and Extent of Risks Arising from Financial Instruments

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The key risks are liquidity risk, market risk and credit risk, and these are managed by the Council through the Treasury Management Strategy Statement referred to in the Accounting Policies.

Liquidity Risk

This is the risk that the Council will not have sufficient cash resources to meet its obligations to its creditors and employees as they fall due for payment. The Council forecasts and manages its cash flow on a daily basis with liquidity of cash prioritised ahead of yield. Being a Local Authority, the Council is able to raise loans from the Public Works Loan Board (PWLB). Consequently, it is highly unlikely that the Council will be unable to raise new or replacement loans or that it will be unable to raise new loans at a cost that is linked to the cost of central government borrowing.

Market Risk

This is the risk that due to movement in interest rates the Council will not achieve good value from its investments or its raising of long term loans. To mitigate this risk, consideration is given to interest rate forecasts and the likely effects on borrowing and investment rates for the next two to three years. The Council uses this information in addition to its forecast of cash flows as part of its treasury strategy to determine the timing and the maturity period of new investments and borrowings. Market risk is considered in conjunction with credit and liquidity risk resulting in the policy over the last year and into next year being not to refinance any maturing borrowing as there is no immediate need for the cash and the cost of borrowing outweighs any benefits from interest receivable on investments.

In addition to investments/deposits which are based on interest rate returns, the Council also has investments in pooled funds, the price of which can vary dependent on market conditions. The intention is that, over time and despite fluctuations, the price of the funds and, therefore, the value of the investments will increase. These funds use a diverse range of financial instruments, but the overall return to the Council is measured as a percentage increase in value in the same way as fixed rate investments.

The impact of market risk is demonstrated by looking at the effect on the accounts if interest rates were 1% higher at 31 March 2014 and through the whole of 2013/14 assuming all other circumstances were the same.

Effect on Accounts of 1% Increase in Interest Rates	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable	(982)
Net Impact on Comprehensive Income & Expenditure Statement	
Reduction in the Fair Value of fixed rate borrowing	(14,061)
Reduction in the Fair Value of loans and receivables (investments)	(54)

Credit Risk

This is the risk that the Council will not be repaid in full when it invests money in banks and other financial institutions (counterparties). Credit risk is being reduced by using surplus cash balances to avoid the need to raise further long term loans to finance capital expenditure. Remaining cash balances are invested with suitable counterparties in line with the Councils Treasury Management Strategy where security of capital is prioritised over yield with counterparties and the type of investment selected by reference to credit ratings and a number of other market indicators.

Given the cautious approach adopted in selecting suitable counterparties in accordance with the Treasury Management Strategy Statement, the Council does not expect any losses in respect of investments. However, it is expected that a proportion of debtors will never be recovered. The table below shows the credit rating of investments (including those shown in the accounts as cash equivalents) and the likely impact of non-recovery of debtors based on experience over the last 5 years.

	Amount deposited at 31 March 2014 £000	Historical experience of default %	Estimated maximum exposure to default £000
Investments Loans and Receivables:			
Banks – UK			
AAA	0	0.00	0
AA	2,005	0.00	0
A	16,359	0.00	0
Building Societies			
A	2,003	0.00	0
Money Market Funds			
AAA	17,430	0.00	0
Managed Investments			
Pooled Funds – AAA	3,024	0.00	0
Pooled Funds – unrated	20,438	0.00	0
Other (unrated)			
Shareholdings	1,809	0.90	16
Loans to Associated Companies	581	0.90	5
Debtors:			
Trade Debtors	18,996	0.90	171
Other Debtors	11,055	0.90	99
TOTAL	**93,700**		**291**

The Council generally allows its trade debtors credit of 1 month. Of the £19m invoiced income outstanding from trade debtors, £8.5m is past its due date for payment. This is analysed by age below:

Age of Invoiced Debt	£000
Less than 3 months overdue	4,615
3 to 6 months overdue	448
6 months to 1 year overdue	864
More than 1 year overdue	2,569
TOTAL	**8,496**

48. Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its Balance Sheet position as at 31 March 2014. The Council is required by The Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts, and those regulations require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice (SeRCOP) 2013/14, supported by International Financial Reporting Standards (IFRS). Exceptions are made to accepted accounting practice where this is overridden by legislative requirements. The accounting convention adopted is **historical cost**, modified by the revaluation of certain categories of Non-Current Assets and Financial Instruments.

Expenditure and income are reported in accordance with a **total cost basis of accounting**. Gross total cost includes all expenditure attributable to the service or activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

In producing the Statement of Accounts the following accounting concepts are applied:

- **Consistency**
  Cheshire East Council will review its accounting polices each year and the impact of any significant change in policies will be declared in the accounting statements so that fair comparisons can be made on a consistent basis.

- **Materiality**
  The concept that any omission from, or inaccuracy in, the statement of accounts should not be so large as to affect the understanding of those statements by a reader, either in terms of the nature of the transactions or their value.

- **Going Concern**
  The principle that accounts are always prepared on the basis that the organisation will continue to operate for the foreseeable future.

48(a) Changes in Accounting Policies and Estimates and Errors

Where there is a change in an **accounting policy**, the changes for the current reporting period and, where practical, the change resulting from retrospective application are disclosed in each financial statement. Changes in accounting estimate are accounted for prospectively and do not give rise to a prior period adjustment. Corrections are made for **errors** where failure to do so would materially misrepresent the Council's financial position.

48(b) Accounting for Council Tax

The collection of council tax is, as identified in the Code of Practice for Local Authority Accounting, in substance, an agency arrangement for both billing authorities and major preceptors. The Council is the billing authority in this arrangement, while Police and Fire are the preceptors. Therefore, the council tax income included in each body's Comprehensive Income and Expenditure Statement for the year is their proportion of accrued income for the year. The cash collected belongs proportionately to the Council and the preceptors. There is, therefore, a debtor / creditor position between the billing authority and each major preceptor recognised in the balance sheets. The Council only recognises in its balance sheet the Council's share of any outstanding council tax arrears, receipts in advance and receivables impairment allowance.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included in the Movement in Reserves statement.

48(c) Accounting for National Non-Domestic Rates (NNDR)

The introduction of the Business Rates Retention Scheme in April 2013 changed the way business rates income is collected and distributed. The collection of business rates income is, as identified in the Code of Practice for Local Authority Accounting, in substance, an agency arrangement for both billing authorities and major preceptors. The Council is the billing authority in this arrangement entitled to a 49% share of the rates collected. The remaining share is split 50% to Central Government and 1% to the Fire Authority. Therefore, the business rates income included in each body's CI&ES for the year is their proportion of accrued income for the year. The cash collected belongs proportionately to the Council and the preceptors. There is, therefore, a debtor / creditor position between the billing authority and each major preceptor recognised in the balance sheets. The Council only recognises in its balance sheet the Council's share of any outstanding arrears, receipts in advance and receivables impairment allowance.

The difference between the income included in the CI&ES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included in the Movement in Reserves statement.

48(d) Accruals of Income and Expenditure

Income and expenditure is included in the accounts on an **accruals basis**, apart from housing benefit payments and minor cash income, which are shown in the accounts when the expenditure is incurred or the income is received. In particular:

- Sales, fees, charges and rent due from customers are accounted for as income at the date the Council provides the relevant goods and services;
- 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;
- Works are charged as expenditure when they are completed. Prior to this they are carried as work in progress on the Balance Sheet;
- 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;
- The Council is a billing authority and collects National Non Domestic Rates (NNDR) under what is in substance an agency agreement with central government for the collection of business rates. The same principle applies for Council Tax collected on behalf of the precepting bodies: Cheshire Police, Cheshire Fire Authority and Parish Councils. The income collected on an agency basis is not the income of the billing authority and is not included in the Comprehensive Income and Expenditure Statement;
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council’s policy is to provide in full for the non-payment of all debts over 6 months old unless a payment arrangement is in place or the debt is otherwise secured;
- Where income has been received in the year in relation to activities to be carried out in the following financial year, a receipt in advance is recorded in the Balance Sheet;
- Where payment has been made in relation to activities to be carried out in the following financial year, a payment in advance is recorded in the Balance Sheet;
- Severance costs arising from redundancies agreed on or before balance sheet date are accrued in the accounts;
- Income and expenditure are credited and debited to the relevant Income and Expenditure Account, unless they properly represent capital receipts or capital expenditure.
- Non-exchange transactions are recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.

48(e) Debtors and Creditors

Income and expenditure is accounted for on an **accruals basis**, i.e. they are recorded in the year the activity takes place rather than when cash is paid or received. In accordance with this, creditors are accrued on an actual payment basis for the first 2 weeks of the new financial year, and then on an estimated creditors schedule for outstanding items.

Income is recorded in the year in which it is earned. Therefore, debtors are recorded in the accounts at the time payment is due, with the exception of central government grants which are estimated at the year end. If there is objective evidence that a debt held within the accounts exceeds the recoverable amount, the value of that debt is impaired.

Specific government grants such as Rent Allowances and Council Tax Benefit are accrued based on data produced from the Council's benefits system at 31 March. The total benefits paid out during the financial year is used as the basis of calculating the remaining government grant due to the Council (debtor) or due to be repaid back to central government (creditor). This estimation technique also applies to the grant that the Council receives from the NNDR pool.

48(f) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty. Cash equivalents are highly liquid investments held at the balance sheet date that are readily convertible to known amounts of cash on the balance sheet date with insignificant risk of change in value.

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

48(g) Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

48(h) Contingent Assets and Liabilities

Contingent assets and liabilities are obligations or assets arising from past events where:

- The existence or value of the obligation is dependent on future events which are not wholly within the control of the Council;
- It is probable that a flow of economic benefits will be required to settle the obligation; or
- The obligation/contingent asset cannot be easily quantified.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in Note 40. The disclosures set out both the scale of potential costs and the likelihood of these being realised.

48(i) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees. These are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of leave entitlements which were not taken before the year end and which employees can carry forward to the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognised costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

Details of Termination Benefits are contained in Note 26.

Post-Employment Benefits

Most employees of the Council participate in one of three pension schemes which meet the needs of employees in particular services (further details are provided in Notes 32 and 33 to the financial statements). These Schemes provide defined benefits to members (retirement lump sums and pensions) based on membership earned during the time that the employee was a member of the Scheme.

There are two types of scheme:

1) Defined Benefit Schemes

A defined benefit scheme is one for which post-employment benefits are determined independently of the investments of the plan, with employers having an obligation to make further contributions where assets are insufficient to meet employee benefits. Employer contributions are accounted for as revenue expenditure in the period to which they relate. Additionally, liabilities are recognised as benefits are earned and are, for funded schemes, matched with the organisation's attributable share of scheme assets.

- **Local Government Pension Scheme (LGPS)**

  The LGPS is a funded scheme, meaning that the Scheme's liabilities are backed by investment assets. It is a statutory defined benefit scheme and all employees of Cheshire East Council (excluding teachers and employees in the NHS Pension Scheme) may participate in the Scheme. The Council and its employees pay contributions into the Cheshire Pension Fund, which is administered by Cheshire West & Chester Council. The Council contributes to the Fund at a rate which is intended to fund the growth in pensions over the longer term, as calculated by the Fund's independent Actuary.

  The LGPS Scheme is accounted for as a defined benefit scheme in accordance with International Accounting Standard 19 (IAS19). The liabilities of the Scheme attributable to Cheshire East Council are included in the Balance Sheet on an actuarial basis, using the projected unit method. The assets of the Fund are included at their fair value. Any changes in the present value of the defined benefit obligation resulting from experience adjustments and/or changes in actuarial assumptions are accounted for in the year in which they arise.

- **Teachers Unfunded Scheme (Discretionary Benefit Scheme)**

  The Council is also responsible for any discretionary retirement benefits awarded by the Council to teachers on a discretionary basis. These awards fall outside the scope of the Teachers' Pension Scheme and are referred to in the accounts as the Teachers Unfunded Scheme. This Scheme is accounted for on a defined benefit basis using the same policies that are applied to the Local Government Pension Scheme. The liabilities of the Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method.

2) Defined Contribution Schemes

A defined contribution scheme is one to which the employer pays fixed contribution amounts but has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits. Employer contributions for defined contribution schemes are accounted for as revenue expenditure in the period to which they relate.

The following schemes are technically defined benefit schemes. However, the Council is not able to identify its share of either Scheme's underlying surpluses or deficits with sufficient reliability for accounting purposes. Therefore, for the purposes of this Statement of Accounts, they are accounted for on the same basis as a defined contribution scheme, with the Council's obligation being limited to the contributions payable to the Scheme for the financial year in question. No actuarial assumptions are required to measure the obligation or expense, and there are no remeasurement gains or losses.

- **Teachers' Pensions Scheme (TPS)**

  Teachers employed by the Council are members of the Teachers' Pension Scheme, a multi-employer unfunded scheme which is administered by Teachers Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Council is not liable for any other entities' obligations under the plan.

- **NHS Pension Scheme**

  A small number of Council employees who have transferred compulsorily from the National Health Service are members of the NHS Pension Scheme.

48(j) 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:

- 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;
- 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.

48(k) Financial Instruments

Financial Assets

Financial assets are classified into two types: loans and receivables; and available-for-sale assets.

- **Loans and Receivables** are assets that have fixed or determinable payments but are not quoted in an active market. Examples include fixed term money market deposits, instant access accounts, call accounts and trade debtors. They are shown on the Balance Sheet initially at **fair value**, then subsequently at amortised cost using the Effective Rate of Interest method. 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. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

- **Available for Sale Assets** are financial instruments that have a quoted market price and/or do not have fixed or determinable payments. Examples of available for sale assets used by the Council are UK Government bonds (gilts), certificates of deposit (CDs) and pooled investment funds. They are initially measured and carried at **fair value**. Assets are maintained in the Balance Sheet at **fair value**. Values are based on the following prioritised principles:

  1. instruments with quoted market prices – the bid or market price
  2. instruments without quoted market prices but where some market prices can be observed – market price
  3. other instruments with fixed and determinable payments where no market data exists – 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.

  Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Financial Liabilities

Financial liabilities (i.e. long-term loans raised by the Council) are initially measured at **fair value** and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the Effective Interest Rate (EIR) for the instrument.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund balance to be spread over future years. The Council's policy is that any premiums are charged to the General Fund balance over the shorter of the remaining life of the loan repaid early or over 10 years. Discounts are credited to the General Fund over the shorter of the remaining life of the loan repaid or 10 years. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Risks Arising from Financial Instruments

Market risk, credit risk and liquidity risk are all dealt with through the Council's annual Treasury Management Strategy Statement, which sets appropriate parameters for investment activity consistent with market conditions. Note 47 considers the likely impact of market and credit risk on the accounts. Due to the prudent management of investments and the ability of the Council to borrow at short notice from the Public Works Loan Board, the Council's exposure to liquidity risk is assessed as very low, with no material impact on the accounts.

48(l) <u>Grants and Contributions</u>

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 (CIES) 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 by the recipient as specified, or future economic benefits or service potential must be 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. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where a capital grant or contribution has been received, and conditions remain outstanding at the balance sheet date, the grant or contribution is recognised as part of the Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution is transferred from the Capital Grants Receipts in Advance and recognised as income in the CIES.

Where a capital grant or contribution has been recognised as income in the CIES, and the expenditure to be financed from that grant or contribution has been incurred at the balance sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the CIES but the expenditure to be financed from that grant or contribution has not been incurred at the balance sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account, reported in the Movement in Reserves Statement. When the expenditure is incurred, the grant or contribution is transferred to the Capital Adjustment Account.

48(m) <u>Heritage Assets</u>

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets.

48(n) Insurance Fund

Cheshire East Council has large excess levels on its external insurance policies and is therefore required to meet the cost below the excess arising from claims in respect of fire and consequential loss, public and employers' liability, and vehicles. An Insurance Fund has been established to meet these potential costs, with annual contributions being charged to the revenue account.

In accordance with accounting practice, the Fund has been analysed into a provision (amounts required for reported claims) and a reserve (estimates for future claims not yet reported). The amounts set aside are based on estimates from the Actuary, with an independent actuarial review to be carried out every three years to review the level of the amounts set aside in both the provision and reserve.

48(o) Intangible Assets

Expenditure on intangible assets is capitalised in situations where the software costs are more than £10,000 and will bring benefits to the Council for more than one financial year. Expenditure costing less than £10,000 is charged in full to the Comprehensive Income and Expenditure Statement in the year that it is incurred. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. Intangible Assets capitalised since the formation of Cheshire East Council are amortised over 5 years.

Amortisation

Expenditure on intangible assets is written down (amortised) to the Comprehensive Income and Expenditure Statement on a straight line basis over the estimated economic life of the asset. The estimated economic life of a licence is assumed to be the shorter of 5 years or the period for which the licence has been granted.

The values of intangible assets are reviewed at the end of each financial year for evidence of reductions in value. Impairment of intangible assets is treated in the same way as impairment of tangible assets. When an asset is disposed of or derecognised, the value of the asset is recognised in the surplus or deficit on the Provision of Services.

48(p) Interest in Companies and Other Entities

The Council has interests in a number of external companies either as a direct owner or in partnership with other organisations. The nature of these relationships has been assessed under IAS 27 and 28 (Accounting for Subsidiaries and Associates). Further details are in Note 39.

48(q) Inventories

Inventories are valued at the lower of cost or net realisable value. Stocks of stationery (apart from those held by Central Stores) are not included in the Balance Sheet since such stocks are incidental and deemed not to be material to the accounts.

48(r) Investment Property

Investment properties are measured initially at cost and subsequently at fair value. 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. 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.

48(s) Jointly Controlled Operations and Jointly Controlled Assets

Cheshire Shared Services Agreement with Cheshire West & Chester Council

The Council has an agreement with Cheshire West & Chester Council to deliver nine services via a shared services agreement.

The structure of the Shared Services Arrangement is that of a jointly controlled operation in accordance with International Financial Reporting Standard (IFRS) 11. Each authority accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held within or arising from the structure. Where expenditure has been recharged to the non host authority the analysis of net charge has been reflected in the accounts on the same subjective analysis as costs incurred directly. Further details are in Note 30.

48(t) 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, plant or equipment 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

Finance Leases

Property, plant and equipment held under finance leases are 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 periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

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 under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

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 lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease 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 is 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.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

48(u) 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 costing principles of the CIPFA Service Reporting Code of Practice 2013/14(SeRCOP).

The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

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

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

48(v) 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 and Measurement

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.

The Council applies capital expenditure de minimis levels of £10,000.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other Property, Plant and Equipment assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value). If there is no market-based evidence of fair value, an estimated fair value is made using a depreciated replacement cost approach or depreciated historical cost for non-property assets that have short useful lives, low values, or both. For vehicles, plant, furniture and equipment the Council considers depreciated historical cost to be an adequate substitute for fair value.

The values of properties used in the accounts are based on certificates issued by the Assets Manager, Daniel and Hulme Property Consultants (RICS), District Valuation Service, Deloitte Real Estate and the Farms Estate Shared Service manager.

Revaluations

Where assets are revalued (i.e., the carrying amount is based on fair value), revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations shall be carried out at intervals of no more than five years.

The significant assumptions applied in estimating the fair values are:

- As defined in IAS16, Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing partners in an arms length transaction.
- For Operational Assets, Fair Value relates to its existing use. Existing Use Value (EUV) is the basis used in valuing non-specialised assets.
- Specialised assets for which there is no market-based evidence to support the use of EUV are valued using the Depreciated Replacement Cost (DRC) basis. This applies in particular to schools.
- For property assets that are not used operationally and do not meet the criteria of an Asset Held for Sale or an Investment Property, they fall to be valued at Existing Use Value. As some of these assets will not have an existing use, it therefore requires a fair value of the surplus assets based on the existing use value of the asset, applying the same assumptions to the level of usage, etc as those in the most recent valuation as an operational asset.

Any increases in the valuation of properties since April 2007 arising from general price level movements are matched by corresponding credits to the Revaluation Reserve. Any revaluation increases/decreases that took place prior to 1 April 2007 are recorded in the Capital Adjustment Account.

Gains recognised on revaluation of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise an unrealised gain, unless the asset has previously been subject to an impairment loss or revaluation decrease charged to the Surplus or Deficit on the

Provision of Services. In this case the gain is credited to the Comprehensive Income and Expenditure Statement.

Where a revaluation loss occurs as a result of revaluation to account for downward changes in market value, the decrease is recognised in the Revaluation Reserve to the extent the asset had previously been revalued upwards and thereafter in the surplus or deficit on the Provision of Services.

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 as below:

- 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 or an insufficient balance, 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 is recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The following strict 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 and is being marketed for sale at a price reasonable in relation to its fair value;
- 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 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment 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.

Capital Receipts

Capital receipts are the amounts derived from the sale of capital assets. The Capital Receipts policy is to ensure that capital receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council. This will mean that all receipts will be pooled centrally. The policy is intended to separate the use of resources from the means of acquiring resources therefore supporting the strategic approach to capital investment. The Council has implemented a Disposals Policy as part of the Asset Management Plan; where property assets are not meeting the Council’s objectives, their retention will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted.

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 and certain Community Assets), assets that are not yet available for use (i.e. assets under construction), investment properties carried at fair value and land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites). It is not charged in the year of acquisition, or on revaluations in the year of revaluation. In the year of disposal, depreciation is calculated for the whole year.

Depreciation is calculated on the following bases:

- dwellings and other buildings (including surplus assets) – straight-line allocation over the useful life of the property, (ranging up to 50 years) as estimated by the valuer;
- vehicles, plant, furniture and equipment – a straight line allocation over the useful life of the asset, (ranging up to 15 years) from as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 40 years.

No depreciation charges are made for land, assets under construction, investment properties and community assets.

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.

Componentisation

IAS16 requires all components of an asset with a significant cost in relation to the total cost of the asset to be depreciated separately. The principal distinction is between Land (no depreciation) and Buildings (depreciable).

Where an item of Property, Plant and Equipment has major components with costs significant in relation to the total cost of the item, the components are depreciated separately. The main components of buildings are identified as 'main structure', 'temporary buildings and external works', and 'services and specialist equipment'. The requirement for componentisation for depreciation purposes only applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2011.

The Council has determined a de-minimis asset value of £1.9 million as a basis for componentising depreciation charges.

48(w) <u>Private Finance Initiative (PFI) and Similar Contracts</u>

PFI and Similar Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide services passes to the PFI contractor. The Council is deemed to control the services that are provided under its PFI scheme and, as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the Property, Plant and Equipment used under the contracts on the Balance Sheet.

The Council is party to one PFI contract in respect of Extra Care Housing. The contract also involves Cheshire West & Chester Council and will terminate in 2039.

The recognition of these assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The Property, Plant and Equipment 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 operator 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 Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator;
- operator lifecycle replacement costs – recognised as Property, Plant and Equipment on the Balance Sheet.

48(x) Pooled Budgets

Under International Accounting Standard 31, each partner needs to report its share of the Pool's year end assets and liabilities. Note 31 sets out the balances as at 31 March 2014 attributable to the Pool's partners; only the Council's share of these balances has been reported within the Balance Sheet.

48(y) Provisions

Provisions are made when the Council recognises that it has an obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year when the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, if no longer required, are reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled. Details relating to the Council's provisions are provided in Note 15.

48(z) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies and are split between usable and non-usable. Usable Reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use. Unusable reserves cannot be used to provide services; this category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve).

Resources set aside for specific purposes or to meet predicted liabilities are held as 'earmarked reserves'. The Council also sets aside sums as a more general reserve, called the General Fund, to cover the impact of unexpected events or emergencies or provide a working balance to help manage the effect of uneven cash flows. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves Strategy. This assessment is updated annually as part of the Council's Medium Term Financial Planning.

Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting process for tangible Property, Plant and Equipment (Revaluation Reserve and Capital Adjustment Account) and retirement benefits (Pension Reserve). These are in effect accounting reserves rather than cash reserves.

48(aa) Revenue Expenditure funded from Capital Resources under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so that there is no impact on the level of Council Tax.

48(bb) Schools Accounting

Expenditure and income in relation to maintained schools in Cheshire East are reported in accordance with a total cost basis of accounting. Assets and liabilities have been treated in a manner consistent with other Cheshire East Council services.

Year end balances for schools' delegated budgets are held as unusable reserves on the Balance Sheet. These are removed from the Balance Sheet in the new financial year and applied directly to schools' revenue budgets.

Expenditure and income in relation to academies in Cheshire East are not reported.

48(cc) VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by a debtor or creditor on the Balance Sheet.

Collection Fund and Notes 2013/14

Collection Fund Revenue Account (Replace with new statement)

2012/13 Council Tax £000	2012/13 Business Rates £000	2012/13 Total £000		2013/14 Council Tax £000	2013/14 Business Rates £000	2013/14 Total £000
			INCOME			
	127,455	132,406	Business Ratepayers		134,934	134,934
215,479		215,479	Council Tax	185,609		185,609
(20,766)		(20,766)	Less: Council Tax Support	17,409		17,409
194,713	127,455	327,119		203,018	134,934	337,952
20,766		20,766	Council Tax Benefit			
215,479	127,455	347,885		203,018	134,934	337,952
			EXPENDITURE			
			Apportionment of Previous Year's Surplus/(Deficit)			
			Central Government			
			Police and Crime Commissioner	(47)		
			Fire Authority	(21)		
			Cheshire East Council	(388)		
0	0	0		(456)	0	0
			Charges to the Collection Fund			
487	1,418	1,905	Write Offs	593	868	1,461
647		647	Provision for Uncollectable Amounts	674	(2,448)	(1,774)
			Provision for Appeals		6,703	6,703
	562	562	Costs of Collection		562	562
1,134	1,980	3,114		1,267	5,685	6,952
214,345	**125,475**	**344,771**	**Balance due for Allocation**	**201,751**	**129,249**	**331,000**
			Precepts, Demands and Shares			
	125,475	130,426	Central Government		69,509	69,509
22,053		22,053	Police and Crime Commissioner	21,008		21,008
9,752		9,752	Fire Authority	9,290	1,390	10,680
182,996		182,996	Cheshire East Council	171,311	68,118	239,429
214,801	125,475	345,227		201,609	139,017	340,626
(456)	**0**	**(456)**	**SURPLUS / (DEFICIT) FOR YEAR**	**142**	**(9,768)**	**(9,626)**
			Allocation of Surplus/(Deficit) in year			
			Central Government		(4,884)	(4,884)
(47)			Police and Crime Commissioner	14		14
(21)			Fire Authority	7	(98)	(91)
(388)			Cheshire East Council	121	(4,786)	(4,665)
(456)	0	0		142	(9,768)	(9,626)
			COLLECTION FUND BALANCE			
388		388	Balance at the Beginning of the Year	(68)		(68)

(456)		(456)	Surplus/(Deficit) for the Year (as above)	142	(9,768)	(9,626)
(68)	**0**	**(68)**	**BALANCE AT END OF THE YEAR**	**74**	**(9,768)**	**(9,694)**

2012/13				**2013/14**		
Council Tax	**Business Rates**	**Total**		**Council Tax**	**Business Rates**	**Total**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Allocation of collection fund balance to:			
			Central Government		(4,884)	(4,884)
(47)		(47)	Police and Crime Commissioner	(33)		(33)
(21)		(21)	Fire Authority	(14)	(98)	(112)
			Cheshire East Council	(121)	(4,786)	(4,665)
(68)	**0**	**(68)**		**74**	**(9,768)**	**(9,694)**

Notes to the Collection Fund

1. National Non-Domestic Rates (Business Rates)

2012/13		2013/14
£340.723m	a) Total Rateable Value at 31 March	£339.409m
45.8p	b) Rate in the Pound for Year	47.1p
45.0p	c) Small Business Rate Relief	46.2p

2. Precepts and Demands

2012/13 £000		2013/14 £000
182,996	a) Cheshire East Council (including Parish precepts)	171,311
22,053	b) Cheshire Police Authority	21,008
9,752	c) Cheshire Fire Authority	9,290
214,801		**201,609**

In England, billing authorities act as agents, collecting council tax on behalf of the major preceptors and itself. Council Tax transactions and balances therefore need to be allocated between the billing authority and major preceptors. This means that Cheshire East Council has to remove from its Comprehensive Income and Expenditure Statement the share of the demand on the Collection Fund and any surplus or deficit in respect of the other major preceptors. Similarly, on the Balance Sheet the Council has to remove the share of assets and liabilities that relate to the other major preceptors, to leave only the assets and liabilities that relate to the Council.

Consequently, the other major preceptors will show their share of the demand on collection, surplus or deficit on the Fund, assets and liabilities within their own Comprehensive Income and Expenditure Statements and Balance Sheets.

3. General

These Accounts represent the transactions of the Collection Fund that are required by Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

4. National Non-Domestic Rates

From 1ST April 2013 NNDR is being collected by Cheshire East as part of the Business Rates Retention Scheme. Cheshire East is the billing authority and is entitled to retain 49% of the NNDR collected with 50% being paid over to Central Government and 1% to the Fire Authority. In 2013-14 Cheshire East's share amounted to £68.118m (see Collection Fund Revenue Account) less share of the year-end deficit £4.786m less fixed fee tariff payable to Central Government (amounting to £27.767m along with Business Rates Support Levy £0.127m) resulting in net income to the general fund of £35.438m (see note 5 Non Domestic Rates). Prior to 1st April 2013, the total amount collected, less certain reliefs and deductions, were paid into the National NDR pool. In 2012-13 this amounted to £132.406m (see Collection Fund Revenue Account). Cheshire

East then received a share of the pool based on the size of the local resident population amounting to £66.390m (see note 5 Non Domestic Rates).

5. Council Tax

Council Tax is a property based tax which was introduced by the Local Government Finance Act 1992. Each relevant property is allocated a Council Tax Band (A to H) upon valuation. The Billing Authority levies a Council Tax amount for each band within each area of the Borough, based upon its own council tax requirement, the demands made by its precepting authorities and the Council Tax Base. The Council Tax Base is the number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings.

Band	Valuation of Property at 1 April 1991	Cheshire East	Fire	Police	Council Tax Payable
		£	£	£	£
A	Up to £40,000	810.89	45.17	102.14	**958.20**
B	£40,001 to £52,000	946.04	52.69	119.16	**1,117.89**
C	£52,001 to £68,000	1,081.19	60.22	136.19	**1,277.60**
D	£68,001 to £88,000	1,216.34	67.75	153.21	**1,437.30**
E	£88,001 to £120,000	1,486.64	82.81	187.26	**1,756.71**
F	£120,001 to £160,000	1,756.94	97.86	221.30	**2,076.10**
G	£160,001 to £320,000	2,027.23	112.92	255.35	**2,395.50**
H	Over £320,000	2,432.68	135.50	306.42	**2,874.60**

6. Council Tax Base Calculation

The Council Tax base is the total number of properties in each band multiplied by a factor to convert the number to a Band D equivalent adjusted for discounts – for 2013/14, this was 149,907.18.

BAND	Number of Properties after Discount	Ratio to Band D	Band D Equivalent	Adjustment for 99% Collection Rate
Dis	72.50	5/9th	40.28	39.88
A	25,155.25	6/9th	16,770.17	16,602.47
B	30,647.25	7/9th	23,836.75	23,598.38
C	29,800.50	8/9th	26,489.33	26,224.44
D	22,600.75	1	22,600.75	22,374.74
E	17,724.50	11/9th	21,663.28	21,446.65
F	12,321.75	13/9th	17,798.08	17,620.10
G	11,372.25	15/9th	18,953.75	18,764.21
H	1,634.50	18/9th	3,269.00	3,236.31
TOTAL	**151,329.25**		**151,421.39**	**149,907.18**
Less:				
Local Council Tax Support Scheme			12,914.13	12,784.99
Council Tax Base for 2013/14			**138,507.26**	**137,122.19**

Statement of Responsibilities for the Statement of Accounts

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 Operating Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

The Chief Operating Officer's Responsibilities

The Chief Operating Officer is responsible for the administration of the financial affairs of the Council and for the preparation of the Council's Statement of Accounts which, 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'), is required to present a true and fair position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2014.

In preparing this Statement of Accounts, the Chief Operating Officer 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.

The Chief Operating Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- ensured that accurate representations have been made to the Council's Auditor, all relevant records made available and any matters that could have a material effect on the financial statements have been disclosed.

Chief Operating Officer Certificate

I certify that the Statement of Accounts presents a true and fair financial position of Cheshire East Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014 and authorise the financial statements for issue on 30 June 2014.

Peter Bates CPFA CIPD MBA
Chief Operating Officer (Section 151 Officer) for Cheshire East Council

Dated:

Approval of Accounts

The approval of the audited accounts and the Annual Governance Statement took place at the Audit and Governance Committee on 25 September 2014.

Signed on behalf of Cheshire East Council

Councillor John Wray
Chairman

Dated: 25 September 2014

Independent Auditor's Report to the Members of Cheshire East Council

Glossary of Terms

Accounting Period

The period of time covered by the accounts which, for local authorities, is the twelve months commencing 1 April. 31 March is the end of the accounting period and the balance sheet date.

Accruals

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

Agency Services

These are services provided by the Council to a third party on behalf of another organisation.

Appropriations

Amounts transferred between the Comprehensive Income and Expenditure Statement and revenue or capital reserves.

Asset Valuation

The Council's non-current assets are valued in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets, assets under construction – depreciated historical cost
- Dwellings – fair value, determined using the basis of existing use value (EUV)
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value or EUV).

Assets Held for Sale

An asset is deemed as 'held for sale' if it meets the following criteria:

- 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; and
- the asset must be actively marketed for a sale at a price that is reasonable in relation to the current value.

Balance Sheet

This statement shows the true and fair value of the assets and liabilities recognised by the Council at the balance sheet date (31 March). The net assets of the Council are matched by the reserves held. The following terms are used within the Balance Sheet:

- **Assets**: Items of worth that are measurable in terms of value. Long term (non-current) assets yield benefit to the Council for a period of more than one year, whereas current assets are cash and items which can be readily converted into cash.
- **Liabilities**: Amounts due to individuals or organisations. Current liabilities are usually payable within one year of the balance sheet date, whereas long term (non-current) liabilities will not become payable for over one year.
- **Net Assets**: The total value of the Council's assets less total liabilities.
- **Reserves**: These are either usable or unusable, see entry for Reserves.

Budget

A statement of the Council's planned service provision, income and expenditure in respect of the financial year.

Capital Transactions (excluding reserves):

- **Capital Assets**: See Property, Plant and Equipment.
- **Capital Expenditure**: Expenditure on the acquisition of an item of Property, Plant or Equipment, or expenditure that extends the useful life or operational capability of an existing asset.
- **Capital Financing**: The means by which capital expenditure incurred by the Council is funded. Usually such funding comprises grants, contributions from third parties, receipts from the sale of assets, contributions from Council reserves and borrowing.
- **Capital Programme**: The planned capital schemes the Council intends to carry out over a specified period of time.
- **Capital Receipts**: Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital Reserve in order to repay the Council's borrowings or to finance new capital expenditure.
- **Capitalisation**: The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the Council for a period of more than one year.
- **Revenue Expenditure Funded from Capital Resources under Statute (REFCUS)**: Expenditure incurred that may be capitalised although it does not create a non-current asset.

Cash and Cash Equivalents

This comprises cash in hand, cash overdrawn and short term investments that are readily convertible into known amounts of cash.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash out flows 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 cashflows by providers of capital (ie borrowing) to the Council.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection Fund

This is a statutory fund kept separate from the main accounts of the Council and provides details of Council Tax transactions of precepting authorities. As a billing authority the Council will share the risks and rewards that the amount of Council Tax collected could be greater or less than that anticipated.

Collection Fund terms include the following:

- **Billing Authority**: Cheshire East Council is classed as a billing authority as it has responsibility for collecting Council Tax and National Non-Domestic Rates. It collects Council Tax on behalf of Cheshire Police and Crime Commissioners, Cheshire Fire Authority and Parish Councils (also known as precepting authorities) and collects National Non-Domestic Rates on behalf of central government.
- **Council Tax**: The means of raising money locally to fund local Council services. This is a property-based tax where the amount levied depends on the valuation of each dwelling.
- **National Non-Domestic Rates (NNDR)**: Also known as business rates, NNDR is collected from businesses in the Council's geographic area. The rates are set nationally by the Government and are redistributed to local authorities on the basis of population.
- **Precept**: The amount the Council is required to raise in Council Tax on behalf of other local authorities, for example Cheshire Police and Crime Commissioners.

Comprehensive Income and Expenditure Statement (CIES)

The CIES sets out the income and expenditure for the all the Council's functions for the financial year, according to the CIPFA Service Reporting Code of Practice (SeRCOP).

The CIES has two sections:

- **Surplus or Deficit on the provision of Services** – the increase or decrease in the net assets of the Authority as a result of incurring expenses and generating income.
- **Other Comprehensive Income and Expenditure** – shows any changes in net assets which have not been reflected in the Surplus or Deficit on the provision of Services. Examples include the increase or decrease in net assets of the Authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Consistency

The principle that the same accounting treatments are used from year to year so that useful comparisons can be made. Any significant change in policies must be declared in the accounting statements.

Constitution

The fundamental principles by which the Council operates and is governed.

Contingencies

Sums set aside to meet either the potential costs of activities expected to occur during the year, over and above those costs included in the services budgets, or items which are difficult to predict in terms of financial impact or timing.

Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Contingent Liabilities

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly with the Council's control; or
- a present obligation arising from past events where it is probable that a transfer of economic benefits will be required, but the amount cannot be measured with sufficient reliability.

Corporate and Democratic Core

Costs associated with democratic representation and management and corporate management. Democratic representation and management includes all aspects of Members' activities. Corporate management concerns the cost of the infrastructure that allows services to be provided and the cost of providing information that is required for public accountability. Such costs form part of total service expenditure, but are excluded from the costs of any particular service.

Creditors

These are financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

Debtors

Debtors (or income due from third parties) are recognised in the Balance Sheet as an asset. The income is recognised at the point at which a service or good is provided; a debtor is raised for the cash or cash equivalent amount i.e. contract value.

Where there is a risk that a debtor cannot be recovered at its initial contract value, the asset will be reduced to the amount at which it can be recovered in the Balance Sheet. This is accounted for in a provision for impairment (bad debt) and included in the Comprehensive Income and Expenditure Account in the Surplus or Deficit on the Provision of Services.

Deficit

Arises when expenditure exceeds income or when expenditure exceeds available budget.

Delegated Budgets

Budgets for which schools and other services have complete autonomy in spending decisions.

Depreciation

Depreciation is a measurement of consumption of the service potential inherent in an item of property, plant or equipment and is recognised in the cost of services.

Exceptional Items

Items that derive from the ordinary activities of the Council and are material in terms of the Council's overall expenditure and not expected to recur frequently or regularly.

Financial Instruments

A financial instrument is any contract which gives rise to a financial asset for one party and a financial liability or equity instrument for the other. Terms relating to Financial Instruments include:

- **Amortised cost**: the amount at which the asset or liability is measured at initial recognition (usually 'cost'), minus any repayments of principal, minus any reduction for impairment or uncollectibility, plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount.

- **Effective rate of interest**: the rate of interest that is used to calculate the value today of any future investment.
- **Equity instrument**: A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (such as equity share in a company) – this will only apply to investments in other entities held by the Council.
- **Fair value**: the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In most cases this will be the transaction price, e.g. the amount of a loan made or the price paid for a bond.
- **Financial asset and derivatives**: A right to future economic benefits controlled by the Council that is represented by:
  - cash;
  - an equity instrument of another entity;
  - a contractual right to receive cash (or another financial asset) from another entity; or
  - a contractual right to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the Council.
- **Financial liability**: An obligation to transfer economic benefits controlled by the Council that is represented by; a contractual obligation to deliver cash (or another financial asset) to another entity / a contractual obligation to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the Council.
- **Market value**: The monetary value of an asset as determined by current market conditions at the balance sheet date.
- **Soft loans**: The Council may sometimes make loans that are interest free or at less than market rates, where a service objective would justify the Council making a concession. Examples include:
  - Loans to lower tier authorities and voluntary organisations to aid service provision;
  - Local businesses to encourage economic development;
  - Employees as part of a relocation package.

Government Grants

These are amounts received from central government towards funding the Council's activities. These represent a significant amount of Council income.

Grants and Contributions

Grants and contributions are defined as assistance in the form of transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operation of activities. Most grants have stipulations as to how they are spent and consequences if resources are not applied in the manner authorised. There are a number of terms used to explain these:

- **Conditions**: specify what future economic benefits or service delivery/potential need to be achieved to avoid having to return funding or assets.
- **Restrictions**: limit what the funding / assets can be used for.
- **Stipulations**: where laws or other binding arrangements form part of the agreement between the grantor and the grantee.

Heritage Assets

Assets which are preserved in trust for future generations, or which are held for their contribution to knowledge and culture.

Impairment

Relates to a reduction in book value of either a physical or financial asset, for example:

- A reduction in the book value of an item of property, plant or equipment arising from physical damage to the asset, dilapidation or obsolescence; or
- A reduction in the book value of a financial asset for which the carrying value exceeds the estimated recoverable amount. Bad and doubtful debt falls into this category.

Income

Amounts which the Council receives, or expects to receive, from any source. Income includes Council Tax, National Non-Domestic Rates, Revenue Support Grant and other Government grants, fees, charges, sales and capital receipts.

Intangible Assets

Expenditure incurred on those assets that do not have physical substance but which are separately identifiable and provide the Council with a right of use for a period in excess of one year.

Inventories

These assets are valued at the lower of cost and net realisable value. Inventories include:

- Materials or supplies to be consumed in the provision of services (e.g. road salt, transport fuel);
- Stocks held for sale or distribution (e.g. publications, leaflets).

Valuation Definitions:

- **Average Cost**: Where goods such as stocks may be purchased at different times and at different prices, an average cost is calculated to give a value to goods held at the balance sheet date.
- **Cost**: Purchase price, costs of conversion and other costs in bringing the inventories to their present location and condition.
- **Net Realisable Value**: the estimated selling price of an asset after all the costs attributed to bringing an asset to a point at which it can be sold, have been deducted.
- **Work in Progress**: The value of rechargeable work which has not been recharged at the end of the financial year.

Investment Properties

Assets which are held with a view to providing income, capital appreciation or both. Examples of investment properties are:

- Land held for long term capital appreciation;
- A building held under a finance lease and rented out;
- A property under construction or development / redevelopment for future use as an investment property.

Investments

Short-term investments comprise deposits of temporary surplus funds with banks or similar institutions. Long term investments comprise similar funds held for a period of more than one year.

Leasing

A method of acquiring the use of a non-current asset by paying a rental for a specified period of time, rather than purchasing it outright. There are two categories for leasing:

- **Finance Lease**: An arrangement whereby the owner of an asset (the lessor) accepts a rental in return for allowing another party (the lessee) use of an asset for a specified period, such that substantially all of the risks and rewards associated with ownership are transferred to the lessee.
- **Operating Lease**: An arrangement similar to a finance lease but where the risks and rewards associated with ownership remain with the lessor.

Loans and Receivables

These are defined as financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in an active market, other than those that the Council intends to sell immediately or in the near term and are classified as held for trading.

Long Term Borrowing

The main element of long term borrowing comprises loans that have been raised to finance capital expenditure projects.

Materiality

Materiality relates to the significance of transactions, balances and errors contained in the financial statements. Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about the Council.

Minimum Revenue Provision (MRP)

The minimum amount (as laid down in statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

Movement in Reserves Statement (MiRS)

The MiRS shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable’ reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ’unusable’ reserves.

Non Distributed Costs

Costs which cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Pensions

There are a number of terms used when accounting for pension costs:

- **Actuarial Assumptions**: Assumptions made by the Pension Fund Actuary in valuing the Fund’s assets and liabilities.
- **Actuarial Gains and Losses**: A combination of the effects of changes in actuarial assumptions and experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred, including reflection of any funding valuation which has taken place since the last report).
- **Actuarial Valuation**: The valuation of the Pension Fund’s assets and liabilities. The Actuary then calculates how much needs to be paid into the Fund by both the employer and contributing members to ensure there will be adequate funds to pay pensions when they become due.

- **Actuary**: An independent qualified professional who is engaged in the valuation of pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the Pension Fund every three years.
- **Current Service Cost**: The increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- **Defined Benefits Pension Scheme**: A pension scheme which is constructed to provide pre-determined pension benefits for retired members, with employers' and employees' contribution rates being calculated based on actuarial assumptions.
- **Deferred Benefits**: A future benefit which is being paid for in the current accounting period.
- **Expected Return on Assets**: The expected increase during a period in the value of assets, based on values and long term expected returns as at the start of the period.
- **Interest Cost**: The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to payment.
- **Past Service Cost**: The increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).
- **Projected Unit Method**: An accrued benefits valuation method in which the Fund liabilities make allowance for projected earnings.
- **Settlements and Curtailments**: Settlements are liabilities settled at a cost materially different to the IAS 19 reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

Prepayments

Amounts paid by the Council in year that related to goods and services not received until the following year.

Prior Period Adjustments

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

Private Finance Initiative (PFI)

A means of securing new assets and associated services in partnership with the private sector.

Property, Plant and Equipment (PPE):

This covers all assets held by the Council with physical substance (tangible assets) that are held for use in the provision of services, for rental to others or for administrative purposes.

Key Definitions used for PPE:

- **Accumulated Depreciation**: The cumulative accounting estimate (excluding the current year) relating to the consumption of a non-current asset.
- **Amortisation**: The process of writing down capitalised expenditure (usually on intangible assets) to the Cost of Services over the estimated useful life of the asset.
- **Community Assets**: Assets that the Council intends to hold in perpetuity, that have no determinable finite useful life and in addition may have restrictions on their disposal (e.g. parks and historic buildings).

- **Depreciated Historic Cost**: The value of an asset shown in the Balance Sheet calculated from the original cost less depreciation to date.
- **Depreciation**: The process of writing down capitalised expenditure (usually on Plant and Equipment) to the Cost of Services over the estimated useful life of the asset.
- **Disposals**: the value of assets which have been disposed of or decommissioned.
- **Existing Use Value (EUV)**: The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing. The fair value of land and buildings is to be interpreted as the amount that would be paid for an asset in its existing use.
- **Gross Book Value**: The historical cost or the revalued amount of the asset before depreciation.
- **Infrastructure Assets**: Cheshire East Council's network of roads, pavements, and bridges included within Property, Plant and Equipment.
- **Net Book Value**: The amount at which assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
- **Net Current Replacement Cost**: The estimated cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.
- **Net Realisable Value**: The expected proceeds from the sale of an asset when sold on the open market between a willing buyer and a willing seller less all the expenses incurred in selling the asset.
- **Rateable Value**: The annual assumed rental value of a property that is used for business purposes.

Provisions

Amounts set aside to meet costs that are likely or certain to be incurred but where the amount of cost or timing of payment is uncertain.

Receipts in Advance

Amounts received by the Council during the year relating to goods or services to be delivered in the following year.

Related Party

A person or organisation who or which has influence and control over another person or organisation.

Reserves

Specific amounts set aside for future policy purposes or to cover contingencies. There are two types of reserve:

- **Usable Reserves**: These include the revenue and capital resources at the Council's disposal which can be used to fund expenditure or reduce local taxation. Usable reserves include:
  - Capital Receipts Reserve
  - Capital Grants Unapplied
  - Reserves and Balances Held by Schools
  - General Fund Earmarked Reserves (various)
  - General Fund Reserve.

- **Unusable Reserves:** These include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment where the value of the asset would only become available to fund the provision of services if the asset was sold. Also included are adjustment accounts used to absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure. Unusable Reserves include:
  - Revaluation Reserve
  - Available for Sale Financial Instruments Reserve
  - Capital Adjustment Account
  - Capital Receipts Deferred
  - Financial Instrument Adjustment Account
  - Pensions Reserve
  - Collection Fund Adjustment Account
  - Accumulated Absences Account.

Revenue Expenditure

Revenue expenditure is spending on the day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies and services.

Section 151 Officer

An Officer appointed under Section 151 of the Local Government Act 1972 which requires every local authority to appoint a suitably qualified officer to assume overall responsibility for the administration of the financial affairs of the Council and preparation of the Statement of Accounts.

Shared Services

This is a process of merging functions such as payroll, procurement and IT Support with other organisations to streamline mainstream services, standardise functions and deliver more efficient and effective services. This also enables the Council to have greater leverage and buying power within Government.

Slippage

This is when delays occur in capital works and therefore payments are not made in the financial year originally anticipated.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Assets

Property, plant and equipment held by the Council which are not currently used in the provision of Council services.

'The Code'

The Code is a code of practice on Local Authority accounting that has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on International Financial Reporting Standards (IFRS), on which local authority accounts are now required to be based.

Transfer Payments

Relates to payments for which no goods or services are received by the Council e.g. rent allowances.

Trust Funds

Accounts for which the Council acts as trustee but for which it is not financially responsible and does not own. These amounts are not included within the Council's Balance Sheet.

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 25 September 2014
Report of: Corporate Governance Group
Title: Annual Governance Statement (AGS) 2013-14
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.1 The purpose of the report is for the Committee to approve the Annual Governance Statement 2013/14 for signature by the Leader of the Council and the Chief Executive. Once approved, the AGS will accompany the Statement of Accounts and be published on the Council's website.

2.0 Recommendation

2.1 That the Committee approves the Annual Governance Statement.

3.0 Reasons for Recommendation

3.1 In accordance with the Accounts and Audit Regulations, the Annual Governance Statement should be approved by the Audit and Governance Committee at the same time as the Statement of Accounts is approved and no later than 30 September.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

7.1 There are no specific financial implications. The production of the AGS aligns with the production of the Annual Accounts and is published alongside the audited accounts (approved by end of September 2014).

8.0 Legal Implications (Authorised by the Head of Legal Services)

8.1 The production of the AGS is required by the Accounts and Audit Regulations 2011.

9.0 Risk Assessment

9.1 The Authority is required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations. Failure to do so could result in non-compliance with the requirements of the Regulations.

10.0 Background and Options

10.1 As previously reported to the Audit and Governance Committee, the Council is required to prepare and publish an Annual Governance Statement (AGS). This requirement was introduced by the revised CIPFA/SOLACE Good Governance Framework (Delivering Good Governance in Local Government) and is necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations.

10.2 At the last meeting in June, the Committee considered the draft Annual Governance Statement. The AGS has been amended to take account of Members feedback from that meeting, and also any feedback received in the interim period from Members, Officers and the External Auditors; in particular additional wording on the Better Care Fund and Oftsed.

10.3 Once finalised, the AGS will be published on the Council's website, along with the Statement of Accounts, for members of the public, Members, Officers and other stakeholders to view.

10.4 The Council's assessment of its governance arrangements for 2013/14 has not identified any significant issues i.e. those issues which may prevent the Council from achieving its vision. A number of issues not considered significant but which do require further attention during 2014/15 have been highlighted in the AGS. Regular updates on progress against these issues will be brought to this Committee during 2014/15.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Judith Tench
Designation: Head of Corporate Resources and Stewardship
Tel No: 01270 685859
Email: judith.tench@cheshireeast.gov.uk

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Cheshire East Council

Annual Governance Statement
2013/14

1. Introduction

1.1. Each year, Cheshire East Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes values and high standards of conduct and behaviour.

1.2. The Council is committed to embedding and achieving a robust set of corporate governance arrangements. The Council is managed within a framework as set out in its Constitution, which clearly outlines how the Council operates, how decisions are made and what procedures need to be followed to ensure the Council is efficient, transparent and accountable to its residents and stakeholders.

1.3. The Annual Governance Statement reports on:

- How the Council complies with its own governance arrangements
- How the Council monitors the effectiveness of the governance arrangements
- What improvements or changes in governance arrangements are proposed during the forthcoming year

2. Background

2.1. In February 2013 the Council set out its three year plan to becoming a strategic commissioning council. An ambitious but measured approach has been taken to achieving the Council's aims whilst effectively dealing with the challenges of austerity. This approach has provided a platform to redefine and reinvent the Council in a systematic way. The focus has been to deliver sustainable quality cost effective services that are needed by Cheshire East residents and businesses.

2.2. This philosophy is about more than simply reducing costs through arranging cheaper provision or about traditional outsourcing. New approaches to service delivery are being developed to get the best from in-house services. These include joint ventures between the Council and other providers, and new delivery vehicles including Council owned and controlled companies, social enterprises and Trusts.

2.3. During 2013/14 the Council has accelerated this programme of significant change and innovation. The Council's review of its management structure, roles and responsibilities, completed in early 2014 is a significant step forward. The Council can reflect on many financial and operational successes throughout 2013/14 and it is now in a much stronger position than when it started the year:

- The senior leadership team is now in place with permanent appointments to all senior executive posts.
- Strong financial performance has ensured that reserves are now in line with the Council's assessment of its financial risks and also to provide opportunities for future investment in its identified priorities.
- Strong service performance in key areas including:
  - successful completion of a £35m capital programme;
  - success in attracting new businesses places it as only one of three hot spots outside London for new business creation;
  - now the best performing council in the North West, (and one of the best overall), in decreasing the number of young people classed as not in education, employment or training (NEET);
  - highest ever number of good and outstanding schools - 87.3%;
  - adoption timeliness and outcomes have improved;
  - Adult Social Care (ASC) project launched to redesign assessment and care management responsibilities;
  - developed a compelling business case for Crewe as a HS2 Hub station , providing high-speed connectivity to London but, more critically, the potential to drive major growth and regeneration benefits for Crewe and the wider region; and

- rolling out superfast broadband across the sub-region through the £28.5 million 'Connecting Cheshire' project.

2.4. Like all local authorities, this Council continues to be affected by Central Government's austerity measures. While the Council has discretion, to increase local taxes it has not done so now for four consecutive years as it continues to strive to 'put residents first' and support the local economy.

2.5. Compared to most other English councils, Cheshire East is less reliant on government revenue grant as local businesses and residents provide a higher proportion of the Council's overall funding. In this context it is also important to note that total spending per head of population is below average compared to nearest neighbours. This is an important indicator in demonstrating the effective targeted use of resources and value for money (VFM) provided by Cheshire East.

2.6. Cheshire East's strong tax base and greater independence provides financial stability and offers some 'local protection' from the impact of national economic fluctuations. The importance of the local economy both to the Council and UK cannot be underestimated with more than 17,000 businesses located in the Borough – greater than any neighbouring council.

2.7. The published medium term financial strategy illustrates the scale of the challenge the Council faces over the next few years. But its strong financial performance in 2013/14 provides a good platform for the future. Alongside its ambitious major change programme the Council expects to continue to balance its budget despite increased demands and high public expectations. This will be achieved by innovation, creativity and a hard commercial focus on costs, productivity and income generation. It remains clear that the overall cost base of the Authority will have to continue to reduce.

2.8. Through the reviews done to produce this Annual Governance Statement we have again been able to demonstrate that work within the Council is generally carried out to the high standards local people expect and need.

2.9. While there may be isolated exceptions, we can be increasingly confident that our culture, values, and ways of working will continue to reduce the opportunity for poor or inappropriate practice to occur, and increase the likelihood of detection and rectification if they do.

3. Governance Framework

Scope of Responsibility

3.1. Cheshire East Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Local Government Act 1999 also places a duty on all councils to secure continuous improvement and to demonstrate economy, efficiency and effectiveness.

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

3.3. The Council has approved and adopted a Code of Corporate Governance that is consistent with the six principles and requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A summary of those six principles is shown in **Figure 1**.

3.4. This Annual Governance Statement (AGS) explains how the Council:

- has complied with the Code; and
- meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 (which requires all relevant bodes to prepare an Annual Governance Statement).

Figure 1: Summary of the CIPFA/SOLACE Framework Principles

3.5. This AGS is reported to the Council's Audit & Governance Committee and is also published alongside its Statement of Accounts. It provides assurance that:

- governance arrangements are adequate and operating effectively in practice; or
- where reviews of the governance arrangements have revealed gaps, action is planned to ensure effective governance in future.

The Purpose of the Governance Framework

3.6. The Governance Framework comprises the systems, processes, cultures and values by which the Authority is directed and controlled. It also includes the activities through which it is accountable to, engages with and leads the community. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

3.7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an on-going process designed to:

- identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- to evaluate the likelihood of those risks being realised; the impact should they be realised;
- and to manage them efficiently, effectively and economically.

The 2013/14 Governance Framework and future developments

3.8. The Governance Framework shown in **Appendix 1 (**Page 10) operated for the majority of 2013/14 and was in place at 31st March 2014. Changes to the 2013/14 Framework are described below.

3.9. The Council had six Policy Development Groups (PDGs) covering: Finance, Communities, Environment & Prosperity, Health & Adult Social Care, Corporate & Performance, and Children & Family Services. An independent review of the PDGs was commissioned towards the end of the financial year. As a result the Council has now replaced these PDGs with five new 'Overview and Scrutiny Committees' linked to its five strategic priorities. This provides better alignment and clarity of purpose.

3.10. As part of the Council's move to be a strategic commissioner, the way services are delivered has been reviewed and a number of 'Alternative Service Delivery Vehicles' (ASDVs) have been created. Considerable work was done during 2013/14 to identify and develop the most appropriate models for each service area. ASDV steering groups were introduced to support and challenge as necessary.

3.11. Four of the Council's new ASDVs went 'live' in April and May 2014 – with more planned during this year. The governance and stewardship arrangements for these ASDVs were reported to Corporate Scrutiny Committee on 31st March 2014.

4. Review of Effectiveness

4.1. The Council undertakes an annual review of its governance arrangements co-ordinated by the Corporate Governance Group. This process is informed by a range of sources. It includes senior managers:

- **assurance statements** by individual service areas.
- **partnership governance reviews** of significant arrangements.
- **core support function reviews** focussed on monitoring compliance with policies and procedures including how this information is used to drive improvement, and how it is escalated or cascaded through the organisation.

4.2. The Council's internal and external auditors are also important sources of assurance:

- The **Internal Audit** opinion on the Council's control environment is set out in the **Annual Report 2013/14**:

  The Council's framework of risk management, control and governance is assessed as adequate for 2013/14.

  The report goes on to acknowledge that the framework is continuing to develop as the Council goes through a period of rapid and unprecedented change. Evidence throughout 2013/14 shows that appropriate strategies and policies are in place and have been communicated. Understanding, application and compliance is not yet consistent across the organisation. Given the scale and pace of change, this is not unreasonable or unexpected. Action has already been taken, or is planned, to address all of the issues raised by Internal Audit.

- **Internal Audit's self-assessment** against the Public Sector Internal Audit Standards (PSIAS) shows that the service is being delivered to the required standard. Some areas for improvement are being addressed. These include the need to have an external assessment against the Standards carried out; due once every 5 years. The self-assessment and resulting action plan will be shared with the Audit and Governance Committee in September 2014 as part of the AGS review process.

- **External Reviews –** The Council received a qualified VFM conclusion for 2012/13 from its External Auditors. In preparing the AGS we have examined reports, feedback and action plans from the Council's other review agencies and inspectorates, which demonstrate the ongoing improvement in the Council's governance arrangements. No matters arising from these reviews have resulted in the inclusion of significant governance issues in the AGS.

4.3. The Council's arrangements for the protection of children were inspected by Ofsted during March 2013. Although the inspectors acknowledged that there were examples of good practice throughout services, there were a number of areas for improvement identified and therefore the effectiveness of arrangements was judged to be "inadequate" overall. A Children's Improvement Plan to address the required actions was developed and is monitored and scrutinised by an Improvement Board with an independent Chair and representation from the Department for Education.

4.4. Improvements made in safeguarding children have been subject to a number of external and internal scrutiny and review arrangements. During 2013/14 Internal Audit reviewed the effectiveness of the governance arrangements in place within Children's Services with regard to implementing recommendations from external inspectorates and was able to deliver a "good assurance" opinion. There has also been a significant independent audit programme, a Local Government Association (LGA) Safeguarding Peer Review and a number of peer challenges. In addition, the local authority accepted an invitation to become a pilot of Ofsted's new improvement framework. Monthly visits from Ofsted have confirmed that there have been positive improvements in the quality of practice around safeguarding children and the focus for 2014-15 is to ensure that this is consistent and sustained across frontline workers.

4.5. The **Audit and Governance Committee** plays a key role in the Council's review of the effectiveness of its governance framework. It seeks assurance on the adequacy of the Council's risk management, control and governance arrangements and it monitors the implementation of the AGS action plan.

4.6. The Audit & Governance Committee's positive self- assessment against recently updated CIPFA guidance was reported in March 2014. The Committee assessed as compliant or partially compliant against all areas. Actions to ensure the Committee becomes fully compliant are in place, with some already implemented e.g. the revised terms of reference were approved by Council in May 2014.

4.7. The outcome of the Council's assessment of its governance arrangements in 2013/14 is summarised below. A more detailed assessment against the six CIPFA/SOLACE principles is set out in Appendix 2.

4.8. The table below sets out the progress made against the governance issues identified in the 2012/13 Annual Governance Statement.

Issue	Proposed Action	Owner	Progress update
Weaknesses in the Council's Organisational culture, which were a product of separate professional "silos" in the Council's management structure. These have sometimes caused confusion, poor decision making, and inefficiency, because it was not always clear who had authority to act and who was accountable ultimately for the success or failure of particular initiatives.	Move to new strategic commissioning operating model. Implement new management structure.	Chief Executive/ Chief Operating Officer	All three phases of the Management Review are now complete and the Council's organisational structure has been realigned. The new Head of Corporate Resources and Stewardship post gives a clear focus and leadership to the important stewardship and governance requirements of the organisation as it goes through major transition. The Council will continue to review and update its internal client arrangements, ensuring these provide robust governance and assurance as the Council's commissioning structure develops.
The Council has a significant number of corporate policies and procedures which have been mapped by the Corporate Governance Group. There is insufficient evidence from the various assurance sources that all council policies and procedures are currently embedded amongst Officers. With minimal resources, monitoring to ensure compliance with policies and procedures is currently limited.	Map Council's Assurance framework and review to ensure adequate coverage in ensuring compliance.	Chief Executive/ Chief Operating Officer	The Council's Assurance Framework has been mapped and continues to develop in line with the Council's transition to a commissioning structure e.g. the introduction of 'Core Support Function' reviews as part of the AGS process. The framework will be subject to continual monitoring and revision to ensure it remains appropriate.

4.9. The Council's assessment of its governance arrangements for 2013/14 has not identified any significant issues. Significant governance issues are those issues that may prevent the Council achieving its vision. The following areas are not considered significant but do require further attention during 2014/15.

Issue	Actions required	Responsibility	Target Date
Information Asset Registers - the organisation does not have current and complete Information Asset Registers.	To establish information asset registers and agree arrangements for their ongoing maintenance.	Chief Operating Officer	31 March 2015
Business Continuity Plans - current and tested business continuity plans are not in place across all service areas.	Internal Audit will review Business Continuity plans and identify specific areas for improvement.	Head of Corporate Resources and Stewardship	30 September 2014
Local Economic Partnership (LEP) governance arrangements - governance arrangements outlining the relationship between the Council and the LEP are out of date.	Governance arrangements need to be developed that are sufficiently 'future proofed' to accommodate further anticipated changes to the role of the LEP and its sub groups, and the Council's relationship with it.	Director of Economic Growth and Prosperity	31 December 2014
Compliance with corporate policies and procedures – further work is needed across the Council to ensure policies and procedures are properly embedded. The Constitution Working Group, led by the Monitoring Officer has reviewed and updated the Constitution – as the Council's formal decision making framework. The updated Constitution and Officer Scheme of Delegation were considered and agreed at Council in May 2014.	The Corporate Governance Group, now chaired by the Head of Corporate Resources and Stewardship will revise its terms of reference to provide a specific focus of ensuring that the operational arrangements for governance, stewardship and decision making are appropriate and meet the Council's needs.	Head of Corporate Resources and Stewardship	31 July 2014 **Completed**

4.10. There are also a limited number of emerging issues which are highlighted below that will be effectively managed to ensure they do not become significant governance issues. They will all be monitored by the Corporate Governance Group during 2014/15. They will be escalated to the Corporate Leadership Board, Audit and Governance Committee and Cabinet where necessary.

Issue	**Proposed management action to reduce risk**
On-going and future changes to the financial framework - including several changes to national funding regimes - will increase the Council's reliance on self-financing. Many of these changes arise from changes to benefit administration, reductions in government grant and more schools becoming academies. While the Council is in a strong position it needs to accelerate its transition to a full commissioning model to ensure that the quality and cost base of services are appropriate and meet the needs of local residents and businesses within the future level of available resources.	The Chief Operating Officer considers the risk as part of the closure of accounts including his assessment of the need to make appropriate provisions in both the Collection Fund and General Fund. In addition, significant work has been undertaken with the Cabinet on ideas for the future. Proposals for a balanced budget for 2015/16 were presented to Corporate Overview and Scrutiny Committee on 21st July 2014 – significantly earlier than ever before. This will provide residents and businesses with greater certainty and allow the Council more time to focus on the even greater financial challenges of 2016/17 and beyond.
The Council has a significant number of key projects currently in implementation and planned for the future. These include ambitious economic regeneration plans as well as the Council's ongoing commissioning reviews leading to new improved service delivery arrangements. Should one of these high profile projects not be delivered as planned it could result in aspects of service failure, reputational damage to the Council or increase the financial pressure on the Council for the future.	The Chief Operating Officer considers the risks as part of the closure of accounts including the need to make appropriate provision to mitigate the financial impact. The Council's revised robust project and programme management approach is now an established part of its governance framework. Through its member led Executive Monitoring Board all major change programmes and projects are subject to scrutiny and challenge at both development and delivery stage. The Council's new scrutiny committees will also have an overview and will help to highlight any issues and mitigate this risk.
The Council successfully launched four new service delivery vehicles in April and May 2014. Service areas transferred to these new companies were done from a governance perspective on essentially a 'lift' and 'shift' basis. Further work is now being done to ensure that the Council maximises the benefit of these new arrangements.	Senior officers continue to work with the directors of the new companies and the Leisure Trust to clarify roles and responsibilities and to ensure that the requirements of the new contracts - and the benefit to residents - are fully achieved. The next step will be for Cabinet to approve the shareholder agreements and directors mandates with Cheshire East Residents First and all of

Issue	Proposed management action to reduce risk
	its subsidiaries.
The Council is a key partner in the delivery of integrated health and social care and is a signatory of the Better Care Fund (BCF) submission to NHS England. This is a high profile programme of change which the Council is working with the two Clinical Commissioning Groups, (CCGs), and the three acute providers in the Borough. BCF is part of a staged process to focus and increase joint working with the NHS seeking to improve the health and wellbeing outcomes for Cheshire East residents, with one of the initial aims of the work programme being to reduce non elective-admissions to hospitals locally. The initial Plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators.	The Council is continuing to develop the BCF arrangements with its CCG and acute provider partners, to ensure that a deliverable programme of work is in place by April 2015. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance throughout 2014/15, which help to support further assessments of progress being undertaken by the Department of Health. More detailed plans will be submitted to the Department in September 2014. Specific actions being developed as part of the September submission, and continuing through the remainder of 2014/15 include: - developing the risk log and assessment process with partners. - establishing appropriate governance arrangements for the BCF – with an overall budget of £23.8m - determined by Government, that are outlined in the submission alongside arrangements for risk sharing and contingency planning with partner commissioners and providers. - assessing the financial risk between the partners, whilst understanding that significant risk falls to the CCG's as commissioners, in that if a reduction in emergency admissions is not achieved, they would bear the cost of these admissions as well as the cost of investment in BCF initiatives. - ensuring that the performance framework provides sufficient intelligence and information to allow the overall performance of the BCF scheme to be monitored including the performance payment mechanisms being implemented by the Department of Health.

5. Conclusion

5.1. The Chief Operating Officer, as the Council's Section 151 Officer, has reviewed this statement together with the more detailed assessments that support its conclusions. He endorses the Internal Auditor's opinion on the Council's control environment:

> The Council's framework of risk management, control and governance is assessed as adequate for 2013/14.

5.2. The Chief Operating Officer also recognises that further work is needed to ensure that the Councils framework of risk management, control and governance is fully, and consistently, embedded across the organisation. He will continue to work with the Council's Corporate Leadership Board (CLB) and Corporate Governance Group to ensure that this framework is regularly reviewed and refreshed so that it is fit for purpose for an ambitious commissioning council that puts residents and businesses first.

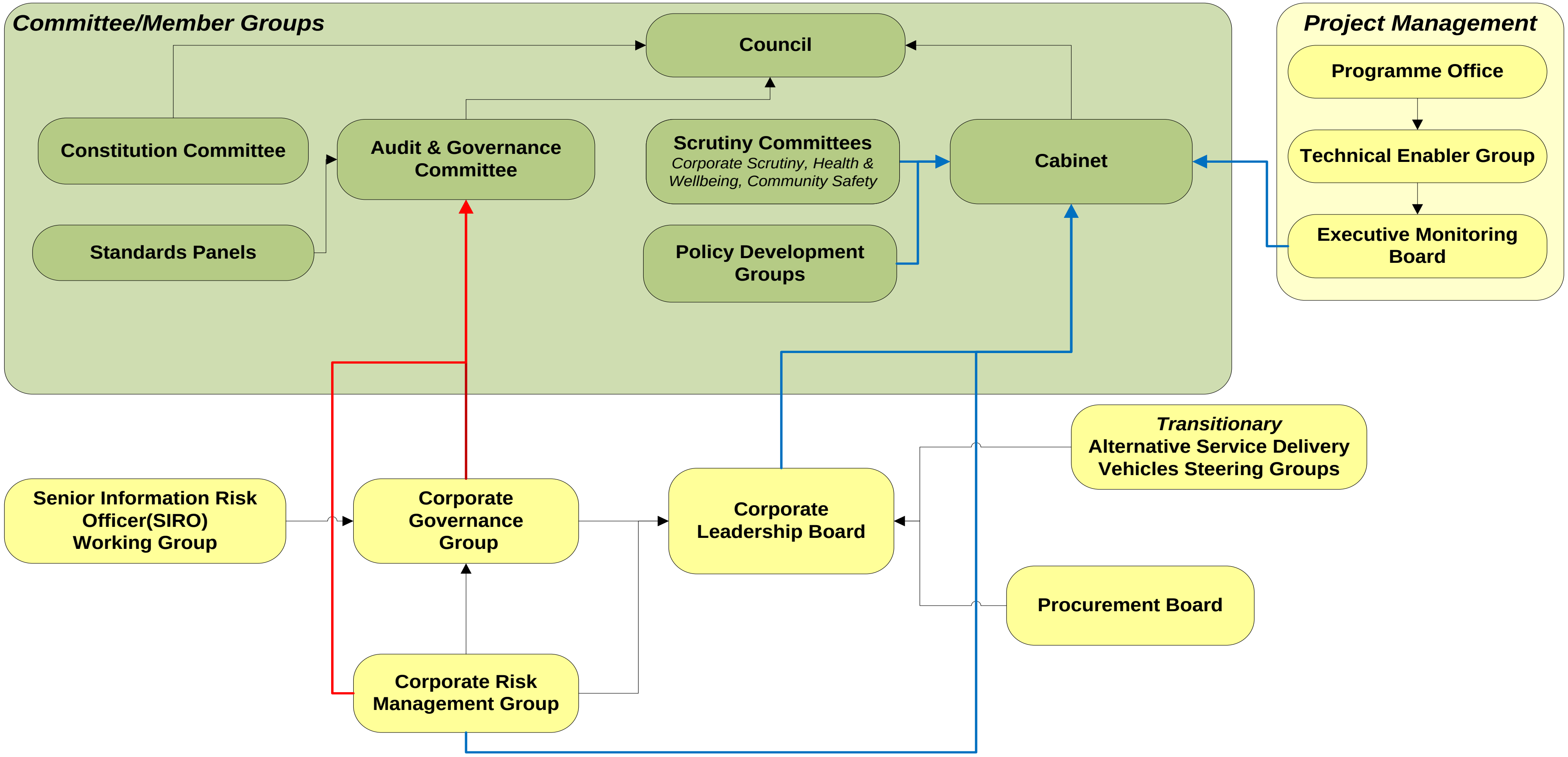
6. Approval

6.1. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

6.2. We propose over the coming year to take all appropriate action to address the above matters and any other issues to further enhance our overall governance and stewardship arrangements. We are satisfied that our plans will address the improvement areas identified in our review of effectiveness. We will monitor their implementation and operation as part of our next annual review.

Councillor Michael Jones, Leader of the Council	**Mike Suarez, Chief Executive**
Date:	**Date:**

Appendix 1: **The Governance Framework in operation during 2013/14**



NB: Blue lines denote reporting to Cabinet/Red lines denote reporting to Audit and Governance Committee

Appendix 2 – The Council's more detailed assessment against the six CIPFA/SOLACE principles of good governance

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
Continuing to develop and promote the Council's purpose and long term vision, set out in the Sustainable Communities Strategy "Ambition for All" 2012/25 through the updated Medium Term Financial Strategy (MTFS) and the Leader's Report in February 2014.	Medium Term Financial Strategy, Leader's Report and Budget 2014/17 (Council, 27th February 2014)
We have reviewed and restated the authority's priorities for the local area and have reviewed, and continue to develop, the authority's governance arrangements as we make the transition to operating as a strategic commissioning Council and delivering services in different ways.	Approval of Cheshire East Residents First Ltd (Cabinet, 24th March 2014) Alternative Service Delivery Vehicle Governance and Stewardship (Audit and Governance Committee, 27th March 2014)
Rural Proofing was adopted by the Council during 2013/14 to ensure the rural areas of Cheshire East get the best and fairest deal from the Council's policies and decisions .This supports the "Rural Communities are thriving" element of the Council's vision. A Rural Statement is under development which will provide direction on Cheshire East's rural priorities and a Rural Proofing Checklist has been approved, for use in "rural proofing" key decisions.	Approval of the recommendations in the Rural Proofing and Creating Resilient Rural Communities (Cabinet, 12th November 2013).
In transforming commissioning arrangements, the Authority is continuing to deliver services through working with a range of external organisations. The importance of clear contractual arrangements to deliver a common vision through strong governance arrangements is fully recognised.	CoSocius, jointly owned with Cheshire West and Chester Council began trading (1st May 2014).
The authority communicates primarily through its website regarding the Council's vision, achievements, financial position and performance. Cheshire East Direct is sent to around 100,000 email recipients, of whom around 45,000 regularly choose to read the newsletter. This has been used in a variety of ways over 2013/14, from providing weekly bulletins to thematic "specials". Various parts of the organisation also use other forms of social media, including Twitter, Facebook, YouTube and Flickr to engage and inform communities and stakeholders. The Communications team also provide related media releases, where appropriate.	Cheshire East Direct The Council's main Twitter account, @CheshireEast has approx. 7,500 followers. "Auditors give Cheshire East Council the seal of approval over its financial management" October 2013
Performance reports are discussed on a monthly basis at Corporate Leadership Board (CLB) and taken to Cabinet each quarter. The content of the reports demonstrate the Council's progress in achieving against each of the five outcomes from the Council's Three Year Plan and are used to highlight examples of	First Quarter August 2013 Mid-Year Review of Performance November 2013

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
excellence in service delivery, as well as monitoring areas requiring improvement.	Third Quarter Review of Performance 2013/14 February 2014 Final Outturn Review of Performance 2013/14 July 14
The authority has strengthened its arrangements to identify and deal with failures in service delivery by bringing together the teams dealing with corporate and social care complaints. This has realised improvements in business processes and management of complaints. Quarterly reports are taken to CLB, raising any specific areas of concern. An annual report, including Council's cases considered by the Local Government Ombudsman, is presented to Audit and Governance Committee. There are no matters arising from the annual report which have led to the inclusion of a significant governance issue in the 2013/14 AGS.	Audit and Governance Committee - Complaints Annual Report November 2013
In October 2013, the Council published its first "Value for Money Overview", demonstrating the financial resilience of the Council. The key aim of the Overview is to support Member decision making for the medium to long term in order to maintain a sustainable financial environment for the Council.	Value for Money, Guidance and Data on the Financial Resilience of the Council October 2013
The authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary. Quarterly financial updates ensure that budget variances are identified, reported and addressed through remedial action in order to minimise any unplanned call on balances. Delivery of significant budget changes is risk assessed and tracked on a monthly basis. The level of balances is reviewed annually and a detailed risk assessment is undertaken to ensure the adequacy of reserves relative to potential commitments. The 2012/13 outturn substantially improved upon previous years, and the pre-audited accounts for 2013/14 show an underspend of £0.897m. Various balance sheet strengthening measures are considered as part of the account closure process to improve financial resilience.	Quarterly Performance reporting to Cabinet. 2012/13 Final Outturn Review of Performance Cabinet, June 2013 2013/14 Final Outturn Review of Performance Cabinet, July 2014
CIPFA's Prudential Code for Capital Finance in Local Authorities and their Treasury Management Code of Practice have been adopted in full. The Council receives specialist support from Arlingclose on all aspects of borrowing, lending and investments. Member awareness and engagement on Treasury Management	Treasury Management Strategy and MRP 2014/15: Audit & Governance Committee January 2014

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
issues is progressed through development events and weekly updates. An annual report on the Treasury Management Strategy for 2014/15, incorporating the Minimum Revenue Provision Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2014/17, required under Part 1 of the Local Government Act 2003 was approved by Council in February 2014.	Cabinet February 2014 Council February 2014

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
The Leader outlined his intention to restructure the Cabinet and introduce Deputy Cabinet Members to reflect the demands of operating as a commissioning authority to the Council on 27th February 2014.	Council approved appointments to, and the functions delegated, to Cabinet on May 2014.
Following the completion of the senior level management restructure required to support the transition to commissioning Council status, a revised officer delegation scheme has been developed and the expectations of Members with regard to ASDV accountability have been outlined. Further work continues in updating Local Schemes of Delegation (financial and non-financial).	Revised Scheme of Delegation to Officers (Council, 14th May 2014). ASDV Scrutiny, Governance and Stewardship arrangements were reported to Corporate Scrutiny Committee on 31st March 2014.
The Chief Executive is responsible and accountable to the authority for all aspects of operational management. Mike Suarez was appointed as Chief Executive by Council on 7th May 2013, and took the post with effect from 12th August 2013.	Scheme of Delegation to Officers
The Chief Operating Officer (COO) (Section 151 Officer), reports directly to the Chief Executive and is a member of the Corporate Leadership Board. The COO is responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records, and for maintaining an effective system of internal financial control. The COO's core responsibilities include those set out in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) . The introduction of the Head of Corporate Resources and Stewardship role further enables the promotion and delivery of good financial management throughout the organisation, so that public money is safeguarded at all times and used appropriately,	Corporate Leadership Board Scheme of Delegation to Officers

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
economically, efficiently and effectively.	
The Head of Legal Services and Monitoring Officer is responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.	Scheme of Delegation to Officers
The Business Planning Process is summarised in the 2014/17 Budget report, which clearly sets out how resources will be matched against the delivery of priorities established in the Council's Three Year Plan and major change programmes. Section 2 sets out the approach to delivering financial stability and a balanced budget over the medium term. Annex 7 includes a comprehensive guide to the Council's Reserve Strategy.	Budget Report 2014/17
The Constitution includes a Member /Officer Relations Protocol, which was established to encourage effective communication between members and officers. This will be reviewed during 2014/15.	Member/Officer Relations Protocol in Cheshire East Constitution
The Council publishes a Pay Policy Statement by 31st March on an annual basis. This provides transparency with regard to the Council's approach to setting the pay of its employees and is in accordance with Section 38 of the Localism Act 2011. The Pay Policy in effect for 2013/14 was agreed by Council on 28th February 2013 and the Policy for 2014/15 agreed by Council on 27th February 2014.	Pay Policy Statement for 2014/15 approved by Council 27th February 2014.
Cheshire East Council has established a medium term business planning process to support the delivery of its strategic objectives. This includes a medium term financial strategy, a robust and balanced annual budget and a monitoring process enabling scrutiny of delivery and challenge to the continuing relevance of assumptions used. Quarterly performance reports to Cabinet during 2013/14 covering financial and non-financial performance indicators, supporting the achievement of corporate priorities and objectives.	Medium Term Financial Strategy, Leader's Report and Budget 2014/17 Third Quarter Review of Performance 2013/14
During 2013/14, Cheshire East Council has worked closely with other delivery partners such as the Cheshire and Warrington Enterprise Partnership, delivering the Growing Places Fund.	Partnership Governance Reviews Cheshire and Warrington Enterprise Partnership

Principle 3 – Promoting the values of the authority and demonstrating the values of good governance, through upholding high standards of conduct and behaviour.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
The standards of conduct and personal behaviour expected of and between members, staff, associated partners and the community are defined and communicated through codes of conduct	Members Code of Conduct and Staff Code of Conduct are included in the Council's Constitution.

Principle 3 – Promoting the values of the authority and demonstrating the values of good governance, through upholding high standards of conduct and behaviour.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
and protocols.	
The Council uses the Code of Conduct, the Anti-Fraud and Corruption Policy and Whistleblowing Policy to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. Audit and Governance Committee received an update report, "Anti-Fraud and Corruption Arrangements" outlining progress in implementing key anti-fraud actions to protect the Council's interests.	Anti-Fraud and Corruption Arrangements November 2013
Internal Audit completed a review of 'Core Support Functions' to support this AGS. This review is an important element in ensuring the Council's organisational values are put into practice. It includes a high level assessment of the extent to which agreed policies are implemented. It will also help share best practice, ensure compliance and provide assurance and oversight to the Corporate Leadership Board. A key challenge for the Council is to ensure it has clearly defined oversight structures with roles, responsibilities and accountability. Formal and informal quality assurance processes across the organisation enable proposed policies to be reviewed and revised prior to approval by the appropriate Officer or Member group, as illustrated on the Governance Framework in Appendix 1 before being communicated out to the wider organisation.	The Internal Audit review has identified that there is variety in practice across the organisation. A summary of the findings will be presented to the Corporate Governance Group and Corporate Leadership Board as part of the further development of the Assurance Framework.
The Audit and Governance Committee promotes high standards of ethical behaviour by developing, maintaining and monitoring a Code of Conduct for Members of the Council. The Committee received the Standards Panels and Sub Committee Annual Report on 27th March 2014. This covered all complaints received under the Code from April 2013 to March 2014.	Members' Code of Conduct: Standards Panel and Sub-Committee Annual Report March 2014 Of the complaints which had completed the initial assessment stage, the Initial Assessment Panel did not refer any of the complaints to formal investigation, regulatory agency or the Police.
Reviews of Council services have been carried out throughout the year by external inspectorates such as Ofsted and the Care Quality Commission. Whilst some improvement measures have been identified, the majority of service provision was reported as being delivered to the required standards, and in some instances, delivering over and above. Action plans have been agreed to	Care Quality Commission Ofsted

Principle 3 – Promoting the values of the authority and demonstrating the values of good governance, through upholding high standards of conduct and behaviour.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
monitor the implementation of actions where required. There are no matters arising from these reviews which have led to the inclusion of a significant governance issue in the 2013/14 AGS.	

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
The Council's revised project and programme management approach was officially launched this year and is now an established part of the Governance Framework and incorporated within the Constitution. This process allows all major change project objectives to be subject to scrutiny and challenge at both development and delivery stage. The next phase of review will focus on ways of more effectively sharing the learning outcomes from individual projects or programmes with the wider Programme Management Office (PMO).	A comprehensive PMO Action Plan was endorsed by the Executive Monitoring Board in July 2014. Progress is already underway and is being regularly reviewed by the Portfolio Holder for Performance.
The agendas, papers and minutes of Committee meetings form the main mechanism for documenting evidence for decisions and recording the criteria, rationale and considerations on which key decisions are based. These are published on the Council's website. Declarations of interests made by Officers and Members are routinely recorded in the minutes of Committee meetings. Decision makers are provided with information which is fit for purpose – clear, timely, relevant, accurate and complete, and gives clear explanations of issues and implications on both a financial and non-financial basis. Financial implications of all key decisions are signed off by Senior Finance Staff.	Cheshire East Council – Agendas, Minutes and Reports
The Council assessed the effectiveness of its Internal Audit function by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS). The review completed by Audit Managers has concluded that, although there are areas for improvement, which will be included in a separate action plan, the internal audit service is being delivered to the required standard.	Internal Audit Annual Report Audit and Governance Committee, June 2014
The organisation has processes in place to enable Officers and Members to record and register pecuniary and non-pecuniary interests. Following a recent Internal Audit review of this area, some improvements have been identified, which if implemented, should further improve and enhance the robustness of the declarations process.	Individual Member Register of Interests are published on the Council's website

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
A self-assessment of the Audit and Governance Committee was carried out by the Chair and Vice Chair in conjunction with the Audit Managers and reported to the Committee in March 2014. As the assessment was made against recently updated CIPFA guidance, there were a number of areas which were assessed as partially complaint. Actions to ensure full compliance have been identified, and in some cases already actioned i.e. Terms of Reference for the Committee have been revised and approved.	Audit & Governance Committee Self Assessment March 2014 Audit and Governance Committee Terms of Reference - Council May 2014
The COO attends all CLB, Cabinet and Council meetings, clears all Committee decision papers with material financial implications and has direct access to the Audit and Governance Committee and External Audit. The COO meets regularly with the Resources Portfolio holder.	Cheshire East Council – Agendas, Minutes and Reports
Information on the financial performance of the organisation provided to budget managers and senior officers is well presented, timely, complete and accurate. The Financial Reporting Centre provides self-serve access for managers to a consistent set of reports. Month-end processing timetable has been reviewed and accelerated to allow for published reports by the first Monday following calendar month end. Further enhancement work is planned to include interactive forecasting capability.	Financial Reporting Centre
Reserves strategy and forecasts are clearly set out in the budget report and are monitored through the quarterly Finance updates. Opportunities for strengthening the reserves position are routinely considered as part of the account closure exercise.	Budget Report 2014/17
The Corporate Risk Management Group continues to meet and be chaired by the Deputy Leader. Regular updates from the Group are provided to Corporate Governance Group, Corporate Leadership Board and the Audit and Governance Committee. This includes progress in managing key risks from the Corporate Risk Register. The Council's Risk Management Policy was reviewed during 2013/14, and found to be broadly fit for purpose, with a number of minor amendments to further enhance the Policy.	Cabinet approved the revised Risk Management Policy on 22nd July 2013.
The Council's Whistleblowing Policy has been in place during 2013/14. The Policy is available on the Council's website and intranet site and an email address is made available. A review against best practice has been carried out and reported to the June 2014 Audit and Governance Committee.	Audit and Governance Committee June 2014
We annually report on our compliance with the Regulation of Investigatory Powers (RIPA) Act 2000 to the Audit & Governance Committee. The report explains the use of the legislation and the arrangements in place to ensure the Council is compliant. An external inspection report on the Council's use of RIPA in May 2013 was very positive and all recommendations have been implemented.	Report to Audit and Governance Committee, March 2014
The organisation does not have current and complete Information Asset Registers. These are required to	A Transparency Project has been established

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
update and subsequently maintain a Publication Scheme, in order to ensure the organisation is compliant with the additional requirements of the Freedom of Information Act 2000 added under the Protection of Freedoms Act 2012, and in support of the organisation's commitment to transparency and openness. Other Open Data sources are available from the Council's websites, including expenditure over £500, Member's Register of Interests, Member attendance and Senior staff salaries.	which will co-ordinate the completion and collection of Information Asset Registers and arrangements for their ongoing maintenance. Council spend over £500 in 2014 Member attendance Member's Register of Interests Senior Staff Salaries

Principle 5 – Developing the capacity and capability of Members and Officers to be effective	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
In 2013/14, the Council completed a three phase management restructure to achieve a redesigned structure to support strategic commissioning. As part of this restructure a number of senior appointments were made to ensure the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood.	New management structure.
The last year has seen an unprecedented number of staff joining the organisation at the senior management level. Whilst the authority has induction processes in place, these could have been tailored to provide more targeted support, which would have addressed the operational/staff management aspects of their roles, and supported a smoother transition for both the individuals joining the organisation, and the staff reporting to them. As the organisation wide management restructure phases have completed, it is unlikely (and undesirable) that there will be such significant change at that level, but the opportunity to learn from these experiences can be benefitted from.	HR have reviewed the induction support provided corporately and learning points have been fed back, acknowledging that such support will not necessarily be provided by HR, but by other Corporate Support Services.
The COO is a qualified CCAB accountant, with extensive local government experience. The COO is supported by a Finance team which includes a high number of qualified/part qualified accountants and qualified/part qualified accounting technicians. Cheshire East is accredited as training employer by CIPFA, AAT and ACCA.	
All staff with access used the Oracle Performance Development module to carry out the performance	Performance Development Plans

Principle 5 – Developing the capacity and capability of Members and Officers to be effective	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
review process. This provides an assessment against the achievement of objectives, corporate behaviours, and an overall performance rating for the year. It also informs skill development requirements. The 'Towards Excellence' Training Programme is a collection of training courses and development programmes offered to all staff in the organisation. Members have Personal Development Plans which can be established and reviewed with the support of the Council's Democratic Services team, or their political parties.	
The roles and responsibilities of Councillors in monitoring financial performance are outlined in the Constitution, the Scheme of Delegation and in Committee Terms of Reference. Members have access to appropriate financial training on an ongoing basis to help them discharge their responsibilities, for example from Arlingclose for Treasury Management. Members of the Audit and Governance Committee, and the Finance Portfolio Holder have experience, skills and qualifications in the Finance area.	Constitution Schemes of Delegation Committee Terms of Reference.
Members have completed a "Skills Audit" process which provides information to the Party Whips on the skills and qualifications of their Members. This can then be used in considering appointments to Committees.	

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
A series of staff road shows have been held with both the Leader and Chief Executive using the opportunity to outline the Council's vision and strategy to staff across all areas of the organisation. These have promoted the "Cheshire East – Best in the North West" and "Resident Led" aspects of the Council's vision. The "Media Hub" part of the Council's website draws together communications about the Council and there is a dedicated webpage for "Public Consultations".	Staff Survey results (May 2014): 89% understood how their work supports the residents and businesses of Cheshire East. 82% understood the aims and objectives of their service.
Three scrutiny functions have been in operation during the year, following revision in 2013/14; Corporate Scrutiny, Community Safety and the Health and Wellbeing Scrutiny Committee. An annual scrutiny report will be re-introduced at the end of 2014/15.	Corporate Scrutiny Committee
The Council is committed to openness and transparency. Meeting items are only "Part 2" if they absolutely cannot be discussed in any other way. This year Cabinet Meetings began to be broadcast live on the internet, and are available online to be watched after the event.	Webcast Cabinet Meetings.

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability.	
How we can demonstrate that Cheshire East Council meets this principle	**Assurance Received and Issues Identified**
Engaging with our communities is essential to ensure that we are a resident led authority. Consultation exercises are carried out as required; for example, consultation on the Local Plan has continued into 2013/14. The Influence Cheshire East (ICE) citizen's panel carried out a survey amongst participants in Summer 2013, and has since carried out the annual refresh of panel participants. A survey amongst these participants will be commissioned in due course. The surveys provide valuable and constructive feedback which informs future service delivery.	Local Plan Consultations April 2014 ICE Newsletter
Staff receive a weekly 'Team Talk' corporate newsletter in addition to service specific communication and briefings. Information is cascaded from CLB through Department Management Team meetings to Team/Unit meetings as necessary. 'Team Talkback' and an online 'Staff Suggestion' forum have been introduced during 2013/14 to encourage greater feedback and discussion amongst staff, and between staff and CLB.	CEntranet – 'Team Talk'

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting:	25 September 2014
Report of:	Chair of the Audit and Governance Committee
Title:	Audit and Governance Committee Annual Report 2013/14
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

1.1 The purpose of the report is for the Committee to consider the draft 2013/14 Annual Report of the Audit and Governance Committee and agree the final version of the report that will go to Council in October 2014.

2.0 Recommendation

2.1 That the Committee considers the draft Annual Report 2013/14, as attached (Appendix A) and agree the final version that will go to Council in October 2014.

3.0 Reasons for Recommendation

3.1 To report in accordance with the Council's Constitution. The Audit and Governance Committee's Terms of Reference include:

- § To report to full Council on a regular basis on the committee's performance in relation to the terms of reference.
- § To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external functions.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

7.1 None.

8.0 Legal Implications (Authorised by the Head of Legal Services)

8.1 None.

9.0 Risk Assessment

9.1 There is a requirement within the Council's Constitution for the Audit and Governance Committee to submit an annual report to Council. Failure to submit the record would be a breach of the Constitution.

10.0 Background and Options

10.1 Current CIPFA guidance, *Audit Committees*, *Practical Guidance for Local Authorities and Police* (2013) states that audit committees should report regularly on their work and at least annually report an assessment of their performance. Aspects to consider include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

10.2 The requirement to submit an annual report is included within Cheshire East Council's Constitution and the 2013/14 report is the third annual report of this Committee.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Councillor John Wray
Designation: Chair of the Audit and Governance Committee
Tel No: 01477 500609
Email: john.wray@cheshireeast.gov.uk

Appendix A

Cheshire East Council

Audit and Governance Committee

Annual Report 2013/14

Introduction by the Chair of the Audit and Governance Committee

I am pleased to present the third Annual Report of the Audit and Governance Committee, which describes the Committee's activity over the municipal year to May 2014.

I hope that this Annual Report helps to demonstrate both to the Council and the wider community in general, the important role that is performed by the Audit and Governance Committee and the particular contribution that it makes to the Council's overall governance and control arrangements.

This year has seen a strengthening of governance arrangements within the Council; with positive and improved levels of assurance reported recently to the Committee by External Audit, through the Annual Governance Statement and the Internal Audit Annual Opinion.

As the Council's new Alternative Service Delivery Vehicles (ASDVs) develop, the Committee has and continues to play an important role in ensuring appropriate governance arrangements have been introduced and continue to operate.

It has been pleasing to see the Council's senior leadership team is now in place and established with permanent appointments, including the Chief Operating Officer, the Head of Legal Services and Monitoring and the Head of Corporate Resources and Stewardship.

During the year, the new CIPFA guidance on Audit Committees was introduced and we have carried out a self-assessment on our Committee with positive initial results. Some areas for improvement have been identified and an action plan developed. A training session for Members of the Committee was held recently, and an assessment against the core knowledge and skills framework is planned. This will be developed further during 2014/15 to help inform the training programme for the Committee.

During the year a major review (by a working group of the Committee) was undertaken to assess the arrangements for considering Member Code of Conduct Complaints procedures. It's very pleasing to note that revised and improved arrangements have now been introduced. These will be reviewed annually to ensure they continue to be fit for purpose and I would like to thank all those who contributed to the new procedures.

Finally, we have recently reviewed and updated the Committee's Terms of Reference. The updated Terms based on recent CIPFA guidance were approved by Council in May 2014 and I'm confident these will assist the Committee in continuing its key governance role as we move through 2014/15 and beyond.

Councillor John Wray

Chair of the Audit and Governance Committee
September 2014

Role and Statement of Purpose of the Audit and Governance Committee

Role of the Audit and Governance Committee

Audit Committees are an essential element of good governance. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an authority.

Statement of Purpose of the Audit and Governance Committee

1 The Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2 It provides an independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.

3 It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.

4 It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

5 It promotes high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).

Review of 2013/14

Governance, Risk and Control within Cheshire East Council

The review of the effectiveness of the governance framework concluded that arrangements continue to be regarded as fit for purpose. (Annual Governance Statement 2013/14)

The Audit and Governance Committee has had a positive impact on improving the governance, risk and control framework and arrangements of the Council during the year, including the following:

- Approving the Council's Statement of Accounts.
- Approving the Council's Annual Governance Statement.
- Approving the Council's updated Code of Corporate Governance.
- Endorsing the governance arrangements for the Council's new Alternative Service Delivery Vehicles.
- Reporting to Council on the Committee's performance for the year.
- Undertaking a self-assessment of the Committee against new CIPFA guidance.
- Reviewing standards training and the process for dealing with complaints under the Code of Conduct for Members.

In addition, the Committee has also received assurances during the year from a variety of sources, including:

- **Financial Statements Opinion (External Audit):** *"It is pleasing to report that we anticipate that we will provide the Council with an unqualified opinion, in line with the reporting timescale required under the Accounts and Audit (England) Regulations 2011." (September 2014)*
- **Value for Money Conclusion (External Audit):** *"Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified vfm conclusion. This is an improvement from the previous year's qualified vfm conclusion and the Council is to be commended for the improvements made to its arrangements during the year." (September 2014)*
- **Internal Audit: "***The Council's framework of risk management, control and governance is assessed as adequate for 2013/14" (June 2014)*
- **Risk Management:** *"The work of the Corporate Risk Management Group over the year has assisted and demonstrated improvements to the Council's risk management framework, such that it has moved further towards a risk maturity of risk defined, but there are further developments to be made to progress the level of risk maturity of the Council" (June 2014)*

Effectiveness of the Committee

The Committee regularly undertakes a formal review of its own effectiveness. The [2013/14 self-assessment] was carried out with the Chair and Vice Chair against the new CIPFA guidance, *Audit Committees – Practical Guidance for Local Authorities and Police 2013* and the results reported to the Committee in March 2014. The Committee assessed as compliant or partially compliant against all areas. Actions to ensure the Committee becomes fully compliant are in place, with some already implemented.

Review of 2013/14

The Committee's revised Terms of Reference, based on the new CIPFA guidance were approved by Council in May 2014. The Committee's 2014/15 Work Plan has been updated and amended in line with the new Terms of Reference to ensure that the Committee continues to work effectively and fulfil its purpose.

The External Auditors Value for Money report findings include: "The Audit and Governance Committee provide adequate challenge but there is scope to improve the focus of its discussions to provide more effective oversight, support and challenge for the Council's financial management and system of internal control". The Chief Operating Officer will continue to work with the Chair/Vice Chair and established Member/Officer Groups to: develop the role of the Committee; further develop the approach to agenda planning; provide and appropriate focus for debate; and implement the improvement actions agreed in response to the effectiveness self-assessment.

Outline of the Work of the Committee

This annual report sets out the work of the Committee during 2013/14, including:
- How the Terms of Reference* have been met (see pages 6 to 8)
- How the Committee has added value/outcomes (see pages 9 to 10)

* Terms of Reference in place for majority of 2013/14. New Terms of Reference were approved by Council in May 2014.

Members of the Committee

Members of the Committee during 2013/14 are set out on pages 11 to 12.

Statutory Requirements, New Guidance and Recommended Practice

During the year, the Committee has carried out a number of statutory requirements such as approving the Financial Statements and approving the AGS. It has also ensured that it is up to date in adopting new guidance and/or recommended practice, including:
- Adopting new Terms of Reference, based on new CIPFA guidance.
- Approving the Internal Audit Charter, based on new Public Sector Internal Audit Standards.
- Undertaking a self-assessment of the Committee, based on new CIPFA guidance.

Training and Development

The following training was carried out during the year:
- Induction for new Members of the Committee
- Statement of Accounts
- Annual Governance Statement

Members of the Committee have also attended external briefings/courses. During 2013/14, the Vice Chair attended the CIPFA *Developing the Audit Committee* event in February 2014.

The Member/Officer Groups continued to meet through 2013/14. The groups enable individual Members to become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise, and cover the following areas:

- Audit
- Financial Statements
- Fraud Management
- Governance
- Risk Management

In addition, Members continued to receive copies of the CIPFA Better Governance Forum *Audit Committee Update* featuring a round-up of legislation, reports and developments of interest to Audit & Governance Committee Members.

As part of the Committee's self-assessment (reported to the Committee in March 2014), it was recognised that membership of the Committee needed to be assessed against the core knowledge and skills framework included in the new CIPFA guidance on Audit Committees. A training session in early September 2014 has already been held with a further session covering the knowledge and skills framework planned in November 2014. This will be developed further during 2014/15 to help inform the training programme for the Audit and Governance Committee.

Agendas and Minutes

There were five meetings of the Committee during the year:

- 27th June 2013
- 27th September 2013
- 28th November 2013
- 30th January 2014
- 27th March 2014

Looking Forward to 2014/15

The Committee has an agreed work programme for 2014/15, which includes the many annual statutory requirements (e.g. approval of the Statement of Accounts, approval of the AGS etc.) of the Committee and also those regular reports and assurances it receives on External Audit, Internal Audit, Risk Management, Treasury Management, Whistleblowing and other areas. This work programme is regularly reviewed to ensure that the Committee continues to work effectively and fulfil its purpose.

Also included within the work programme for 2014/15:

- Approval of the new arrangements for dealing with the standards allegations under the Localism Act 2011.
- Approval of amendments to the Whistleblowing Policy.
- Update on the progress of the actions arising from the Committee's 2013/14 self-assessment.
- Review of the governance arrangements for ASDVs.
- Training and development

Audit and Governance Committee – How the Terms of Reference have been met in 2013/14

Terms of Reference of Committee	**Relevant activity in 2013/14**
Annual Report	
Submitting an Annual Report to the Council.	The Committee approved its second annual report, covering the 2012/13 municipal year, at the November 2013 meeting and this report was submitted to Council in December 2013.
Audit	
Overseeing the Council's role and responsibilities in respect of Audit.	*Internal Audit*: The Committee approved the overall strategy and annual programme of audits (March 2014) and monitored progress against the plan (November 2013 & January 2014). *External Audit*: The Committee received and considered the work of the External Auditor (all meetings, 2013/14).
Supporting the Council's audit function, both internal and external.	See above.
Considering the Head of Internal Audit's Annual Report and opinion and a summary of internal audit activity and the level of assurance over corporate governance arrangements.	The Internal Audit Annual Report, including the annual audit opinion was presented to the Committee in June 2013. ***Note****: The 2013/14 Annual Report was presented to the Committee in June 2014.*
Receiving the Internal Audit Plan and summary reports on performance against the plan.	Internal Audit interim reports against the 2013/14 plan were received in November 2013 and January 2014, with the 2013/14 Internal Audit Plan received in March 2014.
Corporate Governance & Annual Governance Statement	
Overseeing the Council's role and responsibilities in respect of Corporate Governance.	The Committee received and approved the Annual Governance Statement (September 2013), received an update on progress against the 2012/13 AGS Action Plan (November 2013) and endorsed the process for the production of the 2013/14 AGS (November 2013). ***Note****: The draft 2013/14 AGS was brought to Committee in June 2014 with the final version to be approved at the September 2014 meeting.*
Developing a Code of Corporate Governance and to undertake as appropriate an assessment of wider governance issues.	The Committee received and approved an update to the Code of Corporate Governance and also received an update on the Corporate Governance Group's ongoing work on the Governance Framework (both November 2013).

Audit and Governance Committee – How the Terms of Reference have been met in 2013/14

Terms of Reference of Committee	Relevant activity in 2013/14
Reviewing and approving the Annual Governance Statement.	The Annual Governance Statement 2012/13 was approved at Committee in September 2013.
Financial Statements	
Supporting the Chief Financial Officer in relation to the performance of their duties.	Reports on the Statement of Accounts, including progress and audit thereof were presented at June 2013, September 2013 and November 2013 Committee meetings.
Approving any Council Statement of Accounts as may be required by the relevant Account and Audit Regulations.	The Statement of Accounts 2012/13 was approved at Committee in September 2013.
Considering External Audit and other external agencies reports to those charged with governance as a source of assurance.	The 2012/13 Audit Findings Report and Review of the Council's Arrangements for Securing Financial Resilience was presented to Committee in September 2013 by the External Auditor. The 2012/13 Annual Audit Letter was reported to the Committee in November 2013. The management response to the 2012/13 Audit Findings Report was considered at the November 2013 meeting.
Fraud Management	
Ensuring the Council has in place appropriate policies and mechanisms to safeguard the Council's resources.	The Committee considered the outcome of a review of Anti-Fraud and Corruption arrangements in September 2013. A report on Compliance with International Standards on Auditing was received by the Committee in March 2014.
Reviewing and making recommendations upon the Whistleblowing arrangements process.	The Committee considered the outcome of a review of Anti-Fraud and Corruption arrangements in September 2013. A report on Compliance with International Standards on Auditing was received by the Committee in March 2014.
Ensuring that the Council maintains a robust counter fraud culture via the implementation of an Anti-Fraud and Corruption Policy and Strategy.	The Committee considered the outcome of a review of Anti-Fraud and Corruption arrangements in September 2013.
Seeking assurance that Customer Complaint arrangements are robust.	Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 2012/13 presented to Committee in November 2013.

Audit and Governance Committee – How the Terms of Reference have been met in 2013/14

Terms of Reference of Committee	Relevant activity in 2013/14
Risk Management	
Ensuring any Council's Risk Management arrangements are operating effectively.	The Committee receives regular update reports on Risk Management (September 2013, January 2014 and March 2014). In June 2013, the Committee noted the 2012/13 Annual Report of the Corporate Risk Management Group and endorsed changes to the Risk Management Policy.
Where necessary, overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.	General updates on insurance are reported to the Corporate Risk Management Group as part of their remit to review and monitor risks in relation to specific area needs as and when required e.g. Climate Change, Health and Safety, Insurance and the National Fraud Initiative (NFI). A summary of the key points from the insurance updates are included in the Risk Management Update reports to the Committee. Any specific issues relating to Members' indemnity are reported where necessary.
Standards	
Promoting high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).	An annual report recording decisions relating to complaints was submitted to the Committee on 27 March 2014. Audit & Governance Committee Members have attended Complaints Hearings through the year. Operation of the complaints procedure was monitored during 2013/2014 in preparation for a report to Committee in June 2014.
Ensuring that Members receive advice and training as appropriate on the Members Code of Conduct.	Members of the Audit & Governance Committee have been advised on the Code of Conduct during the year.
Granting dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority.	There have been no requests for individual dispensations during 2013/14.

Audit and Governance Committee – How the Committee has added value/outcomes in 2013/14

27th June 2013	27th September 2013	28th November 2013	30th January 2014	27th March 2014
Noted the contents of the report on Compliance with International Auditing Standards.	Considered the draft Internal Audit Charter.	Approved the Committee's Annual Report for submission to Council.	Noted the External Audit update.	Noted the report on the numbers and outcomes of complaints under the Code of Conduct for Members.
Considered draft 2012/13 Annual Governance Statement.	Received the External Audit Financial Resilience Report for 2012/13.	Noted the External Auditors' 2012/13 Annual Audit Letter.	Noted the External Audit Certification Report 2012/13.	Noted the External Audit Plan for 2013/14.
Noted the External Audit update.	Approved the 2012/13 Statement of Accounts.	Noted the External Audit update.	Noted the Interim Internal Audit Report.	Noted the External Audit 'emerging issues' report.
Considered key issues within the 2012/13 draft Statement of Accounts.	Approved the 2012/13 Annual Governance Statement.	Considered the management response to the 2012/13 Audit Findings Report.	Recommended for Council to approve the Treasury Management Strategy and the Minimum Reserve Position Statements.	Approved the Internal Audit Plan for 2014/15 and endorsed the approach to internal audit planning.
Noted the 2012/13 Annual Report of the Corporate Risk Management Group and endorsed changes to the Risk Management Policy.	Noted the External Audit Findings Report for 2012/13 and approved the letter of representation to be signed.	Approved update to the Code of Corporate Governance. Noted ongoing work on the Council's Governance Framework and progress in implementing the 2012/13 AGS Action Plan. Endorsed the process for the production of the 2013/14 AGS.	Noted the report on, and the arrangements in place to ensure compliance with, the Data Protection Act, Freedom of Information Act and Environmental Information Regulations.	Noted the report on Compliance with RIPA and Protection of Freedoms Act and agreed that the current arrangements in place ensure that the Council complies with the legislation.
Noted the introduction of	Noted the 2012/13	Noted the Interim Internal	Noted the new CIPFA	Confirmed the

Audit and Governance Committee – How the Committee has added value/outcomes in 2013/14

27th June 2013	27th September 2013	28th November 2013	30th January 2014	27th March 2014
the new Public Sector Internal Audit Standards and further actions necessary e.g. development of Audit Charter.	Treasury Management Annual Report and update for the period April – July 2013.	Audit Report and endorsed the approach to achieving adequate audit coverage in the remainder of 2013/14.	guidance on Audit Committees and that the Constitution Working Group was reviewing the Audit & Governance Committee's Terms of Reference.	management response to External Audit's 'Informing the Risk Assessment for Cheshire East', in compliance with International Standards on Auditing.
Noted the Internal Audit Annual Report for 2012/13.	Noted the Risk Management update.	Approved the Internal Audit Charter.	Noted the Risk Management update.	Noted the Risk Management update.
Noted the findings on the Council's use of the Regulation of Investigatory Powers Act (RIPA).	Noted the update on Delegated Decisions and Non Compliances including the revision to procedures.	Noted the update on Anti-Fraud and Corruption arrangements.	Noted the proposed governance, stewardship and control principles for Alternative Service Delivery Vehicles (ASDVs).	Noted the update on waivers of Contract Procedure Rules and revised procedures in this area.
		Noted the 2012/13 Annual Report of Corporate Complaints and the Local Government Ombudsman's 2012/13 Annual Review.		Endorsed the governance arrangements for ASDVs and confirmed that the Committee will review the assurance framework to ensure it remains satisfied with the arrangements.
				Noted the results of the Audit & Governance Committee Self-Assessment and endorsed the actions arising.

Audit and Governance Committee Members 2013/14

Councillor John Wray (Chair)

Councillor Wray has been an elected member of Cheshire East Council since its beginning in April 2009. He joined the Audit and Governance Committee as Chair following the Council meeting on 18th July 2013.

Councillor Louise Brown (Vice-Chair)

Councillor Brown became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee as the Vice-Chair from the 2012/13 municipal year onwards.

Councillor Sam Corcoran

Councillor Corcoran became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then.

Councillor Rod Fletcher

Councillor Fletcher has been an elected member of Cheshire East Council since its beginning in April 2009 and has served on the Audit and Governance Committee since May 2011.

Councillor Martin Hardy

Councillor Hardy has been an elected member of Cheshire East Council since its beginning in April 2009. He has served on the Audit and Governance Committee since its inception in June 2010 and was Vice-Chair from May 2011 to January 2012.

Councillor Steven Hogben

Councillor Hogben became an elected member of Cheshire East Council in June 2011 and after attending as a substitute in June 2011, he served on the Audit and Governance Committee from September 2011 until May 2014.

Audit and Governance Committee Members 2013/14

Councillor Andrew Kolker

Councillor Kolker has been an elected member of Cheshire East Council since its beginning in April 2009. He served as Vice-Chair of the Governance and Constitution Committee for a time and has been on the Audit and Governance Committee from June 2010 to date.

Councillor David Marren

Councillor Marren became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then, being Vice-Chair from January 2012 until the end of the 2011/12 municipal year.

Councillor Lloyd Roberts

Councillor Roberts became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee from the start of the 2012/13 municipal year.

Councillor Margaret Simon

Councillor Simon has been an elected member of Cheshire East Council since its beginning in April 2009. She has served on the Audit and Governance Committee since its inception in June 2010 and was Chair for the 2010/11 year.

Councillor John Hammond

Councillor Hammond served on the Audit and Governance Committee since its inception in June 2010 and became the Chair in May 2011. Councillor Hammond stepped down from the Committee following the Council meeting on 18th July 2013 and was replaced as Chair by Councillor John Wray.

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