

STATEMENT OF ACCOUNTS

2015-2016

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NARRATIVE STATEMENT

1. Background

Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative statement with the Statement of Accounts.

As a part of the requirement to provide a narrative statement, regulation 8(2) of the Accounts and Audit Regulations 2015 stipulates that a local authority must provide information on its “financial performance and economy, efficiency and effectiveness in its use of resources over the financial year”.

This Narrative Report provides information about Exeter, including the key issues affecting the Council and its accounts. It also provides a summary of the financial position at 31 March 2016 and is structured as follows:

- An introduction to Exeter
- Key information about Exeter City Council
- The Corporate Plan
- Financial Performance 2015/16
- Non-Financial Performance 2015/16
- Future Financial Plans
- Statement from Assistant Director Finance

2. Introduction to Exeter

Exeter’s history goes back to Roman times with 2/3rds of the Roman Wall still visible. Exeter Cathedral is prominent in the centre of this bustling city. This and other historic buildings help to make Exeter a popular tourist attraction.

Below are some key facts about Exeter:

Population: Exeter, the capital city of Devon, has an estimated population of 125,000 and is at the heart of a travel to work area of over 455,000 inhabitants.

Employment: The city’s wider area includes much of the district council areas of East Devon, Teignbridge and Mid Devon, 280,000 of these residents are of working age and 238,000 are employed. Well over half the workforce is well qualified, substantially above the national average.

Commuters: Approximately 35,000 people commute into Exeter on a daily basis.

Geography: Exeter is one of two large urban centres within the rural county of Devon.

Total companies: 4,744 registered for business rates.

Average City Centre footfall: 800,000 people per month.

Exeter specialisms: The largest number of meteorologists, climate change specialists and volcanologists in the UK are based in Exeter.

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The Times Higher Education World University Rankings lists University of Exeter as 93rd in the world and it was ranked as 7th in the latest Times and Sunday Times Good University Guide.

Culture: The Council's Royal Albert Memorial Museum was named Museum of the Year in 2012, the city has four theatres, its own currency – the Exeter Pound and Exeter was chosen to be a Host City for the Rugby World Cup 2015 and Radio 1's Big Weekend.

Retail: Exeter is home to the Princesshay shopping centre which has over 70 of the best high street names together with a mix of specialist and independent shops with a range of restaurants and cafes.

Sport: Exeter Chiefs play in the English Premiership, the top level of domestic rugby union in England. They also compete in the Anglo-Welsh Cup and European Rugby Cup competitions. Founded in 1871, the club play their home games at Sandy Park, which is located on the outskirts of the city. Exeter City Football Club is a professional association football club. The team play in League Two, the fourth tier of the English football league system.

3. Key Information about Exeter City Council

The City Council provides a range of services within the city including housing, refuse collections and recycling, planning,

economic development, tourism, leisure and arts facilities. The Council also provides housing and council tax benefits as well as collecting the council tax on behalf of the county council, police and fire services. Its policies are directed by the Political Leadership and implemented by the Strategic Management Team and Officers of the Council.

Exeter City Council's Mission Statement

'We will enhance Exeter as the regional capital working with our partners to improve the quality of life for all people living, working in and visiting the city'.

Political Structure in the 2015/16 Municipal Year

Exeter had 18 wards and the Council consisted of 40 Councillors. The political make-up of the Council was:

Labour	28
Conservative	11
Liberal Democrat	1

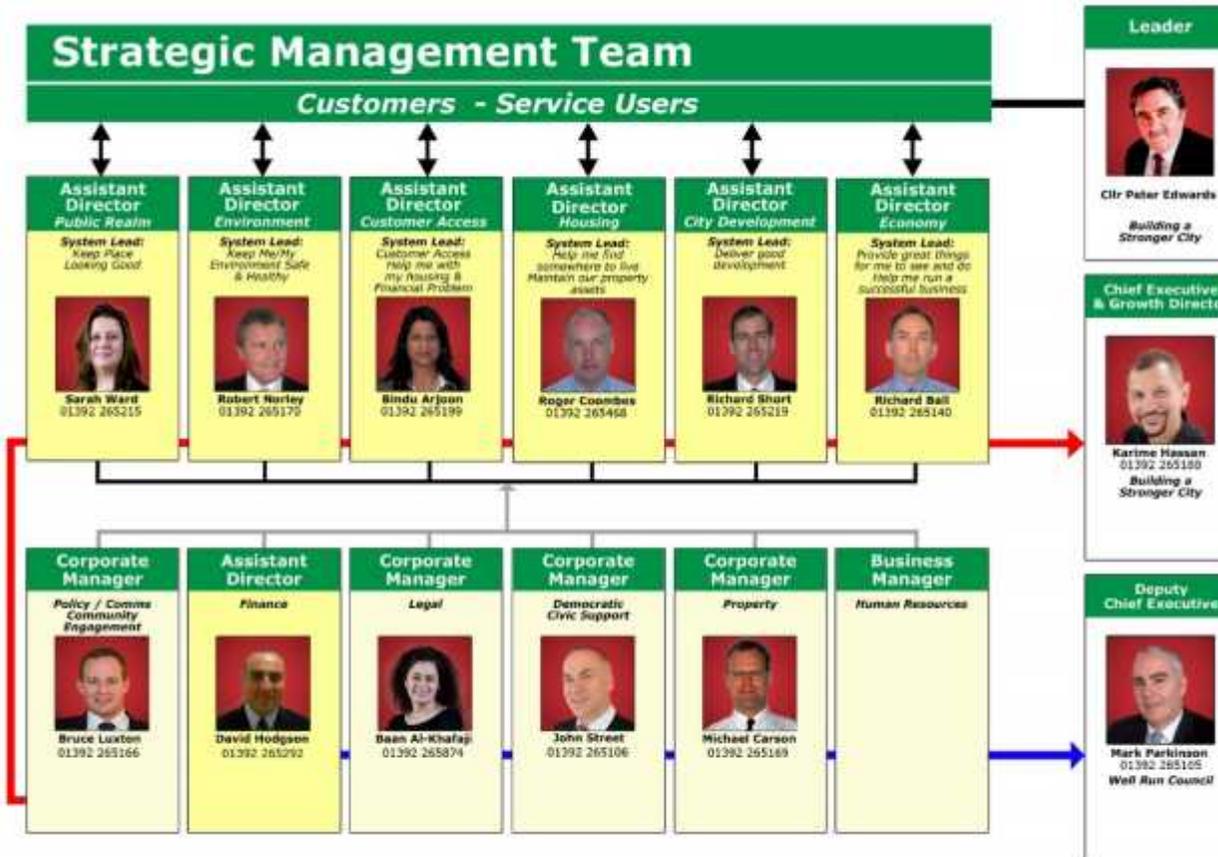
In September 2015 the Local Government Boundary Commission for England recommended changes to the wards in Exeter. With effect from the May 2016 elections, the number of wards has reduced to 13; each electing three councillors for a total of 39.

The Council holds elections by thirds over a four-year cycle; one third of seats being contested in each of the three years and elections to Devon County Council taking place in the fourth.

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Management Structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Strategic Management Team, led by the Chief Executive and Growth Director, Karime Hassan.



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Council Employees

The Council employs 669 people in full time and part time contracts (March 2016). In the context of managing scarce public resources, remuneration at all levels within the Council needs to be adequate to secure and retain high-quality employees dedicated to the service of the public, but at the same time providing value for money to the residents of Exeter.

The Council works within a pay and reward framework that takes account of regional and national variations, local market factors, is open and transparent and complies with equal pay legislation.

The Council ensures that all staff are paid at least a living wage or more.

4. The Council's Corporate Plan

One of the key strategic documents that frames the actions of the Council is the Council's Corporate Plan. This is a working document that exists to help Councillors, staff and partners work together to deliver the vision for Exeter. The Corporate Plan was approved by Full Council on 6 October 2015. There are five key strands to the strategy:

- Provide services to meet customer's needs
- Reduce operating costs
- Invest in the City
- Grow the economy
- Support Exeter's communities

How we performed

Services to Meet Customers Needs

- 38,000 customers seen in our Customer Service Centre & 150 people helped back to financial independence
- New Business Improvement District in 2015
- The Housing Customer Relations team are among eight finalists in the Best Council Services Team Award; part of the MJ Achievement Awards, which are widely recognised as one of the most high profile awards in local government.
- The Safe Sleep project saw additional bed spaces available in the city between 1 December and 29 February to provide shelter for the homeless from the cold and severe weather
- Environment Award at the Local Government Chronicle Awards 2016 in recognition of work to reduce the Council's carbon footprint and bringing in environmentally friendly initiatives

Reduce Operating Costs

- 4th lowest council tax (excluding parish councils) in the country
- Formation of Strata Service Solutions Ltd in conjunction with East Devon District Council and Teignbridge District Council in October 2014 which has delivered savings of £230,000 in 2015/16
- £1.3million Council savings achieved in 2015/16

Invest in the City

- £26million approved investment in a new leisure complex, St Sidwell's Point. Regenerating a city centre with a state of the art new leisure facility
- £10.85million approved investment in a new Extra Care facility in St Loyes
- Construction of 20 new social housing dwellings in Reed Walk, Barberry Close and Silverberry Close
- £6.25million approved investment towards a new bus station

Grow the Economy

- Bus and Coach station re-development by the Crown Estates for a mixed development of restaurants, retail, leisure, a new bus station and relocation of Stagecoach
- Exeter Science Park has moved forward with the main Science Park Centre opening and steadily increasing occupancy. The Met Office building will open later this year and further buildings are being designed including an environmental future campus.

Support Exeter's Communities

- £670k cash and rent support grants given to voluntary organisation and support to inter-agency and partnership groups in 2015/16
- Recruitment of a new Housing Community Partnership Officer to build capacity among residents of older persons accommodation and develop partnerships with the voluntary and community sector to reduce dependency on state provision
- Approval of the Exeter Community Strategy and allocation of CIL and New Home Bonus funding to support capacity building work with community groups city wide.

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What's next?

Services to Meet Customers Needs

- Procure and implement a digital customer platform and maximise opportunities for customers to self-serve via digital services
- Ensure the efficiency and effectiveness of the housing function matches or aims to match that of best-in-class providers
- Undertake a comprehensive survey of our social housing stock in order to inform investment requirements and budget planning
- In conjunction with East Devon District Council, the Homelessness Strategy contains a 5 year plan (2016-2021) to prevent homelessness and improve the experience of those who become homeless locally
- Improve cleansing of the city centre

Reduce Operating Costs

- The City Council is striving to become an energy neutral council by 2050, achieving environmental and financial benefits
- Continue to practice good budget discipline
- Introduce new procurement arrangements and maximise value
- Investigate and deliver more cost effective and responsive temporary accommodation to meet housing need

Invest in the City

- Continue to progress the delivery of the leisure complex, St Sidwell's Point, which will be a major attraction for the city and bring health and wellbeing benefits
- We want developers to build 600 new homes in the city including affordable units
- Set up a new vehicle for delivering new housing and commercial schemes within the city

Grow the Economy

- Secure significant government investment in the city. Under the umbrella of Innovation Exeter, we seek to establish Exeter as a city that pioneers technology and innovative use of data

Support Exeter's Communities

- The Exeter Community Strategy will underpin community led development in the city for ten years from 2016, to; improve health and well-being of residents, community empowerment and social cohesion

5. Financial Performance 2015/16

The 2015/16 revenue budget process was influenced and framed by the continued need to make significant reductions in expenditure whilst progressing Council priorities, due to reductions in funding from central government. This process is ongoing and will be continuously reviewed as the Council develops a stronger understanding of the financial challenges it faces, which include:

Government Announcements:

- By the end of the Parliament local government will retain 100% of business rate revenues to fund local services, in addition the Uniform Business rate will be abolished and any local area will be able to cut business rates at their discretion.
- The requirement to pay a 'high value levy' to the Government in respect of high value vacant housing owned by the authority.

2015/16 Outturn

In preparing the Medium Term Financial Plan for 2013/14 to 2018/19, saving targets of £1.377m were factored in for 2015/16.

The outturn for the Council is a contribution to the General Fund Balance of £1.5 million.

The Council's current policy is such that the minimum level of the General Fund Balance will remain above £2 million. This is

NARRATIVE STATEMENT

considered prudent taking into account the potential level of financial risk facing the Council in the medium term.

Service Revenue Outturn

	Revised Annual Budget	Year End Forecast	Variance to Budget
	£	£	£
SCRUTINY - PEOPLE	3,441,410	3,212,182	(229,228)
SCRUTINY - PLACE	10,647,110	7,896,080	(2,751,030)
SCRUTINY - CORPORATE	2,188,480	1,999,064	(189,416)
Less Notional Capital Charges	(2,759,780)	(2,614,162)	145,618
Service Committee Net Expenditure	13,517,220	10,493,164	(3,024,056)
Net Interest	150,000	72,377	(77,623)
Investment Gain (Glitnir)	0	(62,893)	(62,893)
MMI Provision	0	57,238	57,238
New Homes Bonus	(3,528,980)	(3,528,983)	(3)
Revenue Contribution to Capital	0	1,578,642	1,578,642
Minimum Revenue Provision	1,570,730	818,115	(752,615)
Voluntary Revenue Provision	0	1,477,182	1,477,182
General Fund Expenditure	11,708,970	10,904,842	(804,128)
Transfer To/(From) Working Balance	(1,360,180)	1,542,204	2,902,384
Transfer To/(From) Earmarked Reserves	1,607,980	(198,695)	(1,806,675)
General Fund Net Expenditure	11,956,770	12,248,351	291,581
Met By:			
Formula Grant	(6,635,000)	(6,635,000)	0
Business Rates Growth / Pooling Gain	(561,000)	(831,435)	(270,435)
CIL Income	0	(21,146)	(21,146)
Council Tax	(4,760,770)	(4,760,770)	0
	0	(0)	(0)
	March 2015	March 2016	
Working Balance	£ 3,974,518	£ 5,516,722	

Capital Outturn

The Council spent £15.086 million on its Capital Programme in 2015/16 compared to the revised forecast spend of £23.754m. The capital expenditure, by strategic theme, and financing of this expenditure is set out below.

The variance between the outturn forecast and actual outturn for the year was £8.7m. This will require the re-profiling of planned expenditure into future years, therefore does not present any financial issues for the Council. It most notably includes £6.1m in respect of the bus station construction.

	2015/16 Forecast	2015/16 Outturn	Variance
	£	£	£
Capital Expenditure			
Help me find somewhere to live	3,211,910	2,740,540	(471,370)
Keep place looking good	732,490	252,560	(479,930)
Keep the environment safe & healthy	627,940	617,838	(10,102)
Provide great things for me to see & do	1,963,530	1,498,540	(464,990)
Deliver good development	8,046,540	1,747,632	(6,298,908)
Well run Council	2,838,610	2,319,211	(519,399)
Maintain our property assets	6,333,080	5,909,630	(423,450)
Total	23,754,100	15,085,951	(8,668,149)
Resources			
Major Repairs Reserve	1,428,752	1,433,125	4,373
Capital Receipts	3,870,906	683,268	(3,187,638)
Grants	2,071,453	622,295	(1,449,158)
Contributions	1,044,691	1,817,014	772,323
Community Infrastructure Levy (CIL)	4,000,000	0	(4,000,000)
Revenue Contributions	5,876,308	7,350,572	1,474,264
Prudential Borrowing	5,461,990	3,179,677	(2,282,313)
	23,754,100	15,085,951	(8,668,149)

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Key achievements in 2015/16 Capital Programme:

- **£1.2m Livestock Centre Roof Replacement**

The failing roof covering has been replaced enabling the installation of photo voltaic panels. The 1.5MW solar panel array is thought to be the largest roof top array in the South West.

- **£2m Energy Saving Projects**

The Renewables and Energy Efficiency Programme for 2015/16 have been successfully delivered, including canopy solar panels at Mary Arches and John Lewis car parks. These are the first carport systems of its type in the UK. Overall, the programme has already received much accolade, winning the LGC Environment Award, Public Sector Sustainability Innovation Award and highly commended Regen South West Green Energy Award.

- **£5.9m Improvements to Council Housing**

An extensive range of improvement works were undertaken to the Council's social housing stock including; kitchen and bathroom replacements, Faraday House roof replacement, electrical re-wiring, external rendering and major structural repairs at Wilford Road.

- **£947k Council Own Build – Wave 2**

Three out of four new social housing developments completed in 2015/16, as part of a £7.9m investment.

A total of 20 new dwellings were constructed for use as social housing; 6 at Reed Walk, 6 at Barberry Close and 8 at Silverberry Close, all to high passiv-haus environmental standards.



Solar panel array on the Livestock Centre



Properties at Silverberry Close

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Housing Revenue Account

The Housing Revenue Account (HRA) is a ring-fenced landlord's account for the running of the Council's housing stock.

During 2015/16 the HRA reported an operating deficit of £667,862, this was after making a £5.8m revenue contribution to capital expenditure. The deficit was met by a transfer out of the HRA working balance.

This leaves the HRA working balance at £7.237m.

The Council's current policy is such that the minimum level of the HRA working balance will remain above £4 million. This is considered prudent taking into account the potential level of financial risk facing the HRA in the medium term.

The key risk relates to the High Value Assets Levy, which may require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it was considered prudent to increase the contingency from £3 million to £4 million.

Key achievements

In addition to the achievements in the Capital Programme, highlighted above. The HRA completed extensive remedial works to approximately 330 properties during 2015/16 in respect of resolving damp ingress.

The Housing Customer Relations Team are among eight finalists for the Best Council Services Award, which covers all aspects of frontline service delivery, as part of the national MJ Achievement Awards.

HRA Satisfaction Survey

The STAR survey (survey of tenants and residents) in 2015 revealed the following:

- 88% tenants are satisfied with the service provided by the Council's Housing Service
- 85% tenants are satisfied with their neighbourhood they live in
- 85% tenants are satisfied with the quality of their home
- 86% tenants are satisfied with how Housing Services deals with repairs and maintenance

Pension Fund

The Council has net pension liabilities of £89.414 million in the Balance Sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund. A full actuarial valuation was undertaken in 2013 to review the contribution levels of the Council which was set at 14.1% of pensionable pay for future service and a varying cash figure in respect of past service (£1.332m in 2015/16).

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Borrowing

The Capital Financing Requirement is £92.030million of which £57.882million relates to the HRA. The Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap' and current borrowing is up to the 'debt cap' resulting in no scope for any additional HRA borrowing.

Actual borrowing is £10m in the form of a 2 year loan from another Local Authority. The rest of the requirement is managed via internal borrowing.

6. Non-Financial Performance 2015/16

Although times are challenging for Exeter City Council and the Local Government sector as a whole, below are some of the positive outcomes during the last financial year:

- Various initiatives to reduce fuel consumption from our Waste Operation Services has resulted in a 7% reduction in fuel use (14,000 litres of diesel fuel saved)
- As a host city, we achieved successful delivery of the Rugby World Cup 2015. Three matches were held at Sandy Park and a Fanzone was held in Northernhay Gardens. A total of 350 volunteers were recruited to assist with the Fanzone and matches. The total output of hosting in Exeter was £13.5million. This spend

supported 200 jobs. 33,000 tickets were sold for the matches and 30,100 people visited the Fanzone.

- New district heating system at Monkerton through the Council's Town and Country Planning powers.
- Full planning permission has been granted to deliver the Exe Flood Prevention Scheme of which the Council has contributed £3 million
- Corporate Property restructure now in place in order to deliver a robust health and safety compliance regime for corporate property
- Trip Advisor – Certificate of Excellence awarded to the Red Coat Guides, Underground Passages, RAMM and the Guildhall
- Opened a new visitor centre at the Custom House celebrating the history of the Quay and Canal

7. Future Financial Plans

Revenue

The Council's medium term revenue plan has been updated to reflect the provisional four-year Funding Settlement announced in December 2015. This also takes into account inflation, identified spending pressures (such as national insurance changes) and savings identified. Overall, the Council has a balanced budget over the medium term without requiring any further savings in addition to those already identified.

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Medium Term Revenue Plan (2016/17 – 2019/20)

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	2,022	1,320	869	365
Business Rates Income (assumed by Government)	3,780	3,854	3,968	4,095
Business Rates growth	1,208	1,203	1,242	1,254
Business Rates pooling benefit	150	150	150	150
Additional Business Rates			1,220	1,220
New Homes Bonus	4,232	4,438	4,153	4,000
Council Tax	5,030	5,099	5,239	5,383
Likely resources	16,422	16,064	16,841	16,467
Expenditure				
Service expenditure				
Committee expenditure base budget	12,527	12,549	12,333	11,632
Inflation	150	300	300	300
Potential increase in service costs	847	(41)	(481)	(45)
Identified Savings	(975)	(475)	(520)	(64)
	12,549	12,333	11,632	11,823
Net Interest	300	450	500	550
Repayment of debt	875	871	1,136	1,051
Additional repayment of debt	2,000	2,000	2,000	2,000
	15,724	15,654	15,268	15,424
Other funding				
Contribution to/ (from) earmarked reserves	631	657	872	819
Contribution to/ (from) balances - Other	67	(247)	701	224
	698	410	1,573	1,043
Total Net Budget	16,422	16,064	16,841	16,467
Balanced Budget	0	0	0	0
Opening General Fund Balance	4,135	4,202	3,955	4,656
Closing General Fund Balance	4,202	3,955	4,656	4,880

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HRA Medium Term Revenue Plan

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Income				
Rents	19,110	19,110	18,919	18,730
1% Rent reduction		(191)	(189)	(187)
Service Charges	981	1,010	1,041	1,072
Other	805	902	917	933
Likely resources	20,896	20,831	20,688	20,548
Expenditure				
HRA expenditure base budget	11,238	11,216	11,554	11,940
Non-recurring - Resolve Damp Ingress contract costs	-	-	-	-
Inflation	442	350	347	357
Supplementary budgets	50	-	-	-
Depreciation / amortisation	2,657	2,657	2,657	2,657
Revenue Contribution to Capital Outlay	4,689	6,497	4,496	2,500
Net interest	1,914	1,914	1,914	1,914
	20,990	22,634	20,968	19,368
Other Funding				
Contribution to / (from) HRA Working Balance	(94)	(1,803)	(280)	1,179
Total Net Budget	0	0	0	0
Opening HRA Working Balance	5,953	5,859	4,056	3,776
Closing HRA Working Balance	5,859	4,056	3,776	4,955

The HRA Medium Term Revenue Plan reflects the 1% reduction in social rents each year for the next four years, in accordance with the Government's Summer Budget announcement on 8 July 2015.

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Capital

GENERAL FUND - CAPITAL PROGRAMME 2016/17 AND FUTURE YEARS				
SCHEMES LISTED WITHIN COUNCIL PURPOSES	2016/17 £	2017/18 £	2018/19 £	Future Years £
Keep place looking good	982,550	0	0	0
Keep the environment safe & healthy	1,011,530	400,000	400,000	400,000
Help me find somewhere to live	1,142,210	379,000	379,000	379,000
Provide great things for me to see & do	747,810	56,430	56,430	56,430
Maintain our property assets	68,500	0	0	0
Deliver good development	7,996,170	8,000,000	5,000,000	0
Well run Council	2,464,460	217,600	183,900	153,900
TOTAL GENERAL FUND CAPITAL PROGRAMME	14,413,230	9,053,030	6,019,330	989,330
FINANCING:				
Capital Receipts	534,300	2,250,000		
Disabled Facility Grant	379,000	379,000	379,000	379,000
New Homes Bonus	1,889,740	500,000		
Community Infrastructure Levy			500,000	
Other Grants and Contributions	137,330			
Revenue Contributions to Capital Outlay	40,000			
Prudential Borrowing	11,432,860	5,924,030	5,140,330	610,330
TOTAL GENERAL FUND CAPITAL FINANCING	14,413,230	9,053,030	6,019,330	989,330
HOUSING REVENUE ACCOUNT - CAPITAL PROGRAMME 2016/17 AND FUTURE YEARS				
	2016/17 £	2017/18 £	2018/19 £	Future Years £
Investment in existing stock	8,627,826	9,347,528	7,738,081	5,362,221
Information Technology	125,000	125,000		
Provision of new council homes	8,176,993	7,693,694	159,883	
TOTAL HRA CAPITAL PROGRAMME	16,929,819	17,166,222	7,897,964	5,362,221
FINANCING:				
Major Repairs Reserve	7,396,028	4,049,982	2,241,526	2,362,221
Capital Receipts	500,000	3,087,584	1,000,000	500,000
Commutated Sums	3,589,118	2,421,893	159,883	
Other Grants and Contributions	755,598	1,110,121		
Revenue Contributions to Capital	4,689,075	6,496,642	4,496,555	2,500,000
TOTAL GENERAL FUND CAPITAL FINANCING	16,929,819	17,166,222	7,897,964	5,362,221

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The Capital Programme, above, reflects the plans approved in the 2016/17 Budget Book along with budgets slipped from 2015/16 and the associated financing.

The Council is undertaking an ambitious capital programme, most notably the £26million development of a new state of the art leisure centre, St Sidwell's Point, illustrated below.

The leisure complex will boast a 20-metre teaching pool, a confidence pool and an eight lane 25-metre pool with room for up to 250 spectators. The complex will be the first in the UK built to rigorous environmental Passiv-haus standards, meaning a saving of around 70% on energy costs compared to similar sized leisure developments.



Further examples of our major schemes are:

- £6.25million approved investment in the new bus station. The new, modern bus station will replace the tired and dated bus station in Paris Street. Below is how the bus station might look:



- £10.85million Extra care development in St Loyes. This is a purpose built, self-contained, housing for older and disabled people with care and support needs.



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Message from Dave Hodgson, Assistant Director Finance

In spite of the challenges presented by the reduction in government grant, Exeter City Council has delivered its plans within budget and set aside funds to protect itself in the future. The Council remains ambitious and seeks to ensure that Exeter becomes stronger through economic growth, whilst supporting the local residents with excellent services.

The ability to maintain service provision, whilst embarking on an ambitious capital programme is evidence of the sound financial management approach adopted by the Council.

The Council has a balanced medium term financial plan and is well placed to face the challenges of further reductions in grant that are planned to the end of the Parliament.



Dave Hodgson CPFA
Assistant Director Finance

The Councils new IT Company Strata, set up in partnership with East Devon and Teignbridge District Councils has completed its first full year in operation and has successfully delivered a refund equivalent to 88% of the savings planned in the original Business Case.

In delivering the accounts on time, the finance team have once again shown their professionalism and commitment by dealing with ever more complex accounts and accounting frameworks.



Councillor Natalie Vizard
Chair – Audit and Governance Committee

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director Finance
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the statement of accounts

The Assistant Director Finance's Responsibilities

The Assistant Director Finance is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Assistant Director Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code except where stated in the Accounting Policies
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Certification of Accounts

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



Dave Hodgson CPFA
Assistant Director Finance
28 September 2016

EXPLANATION OF THE FINANCIAL STATEMENTS

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. These statements contain a number of different elements which are explained below:

Core Financial Statements

Movement in Reserves Statement 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 reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net increase / decrease before Transfers to or from Earmarked Reserves shows the statutory General Fund and Housing Revenue Account Balances before any discretionary transfers to or from Earmarked Reserves.

Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. 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.

Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves of the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure or repay debt). The second category of reserves is those that are not able to be used to provide services. This includes reserves that hold unrealised gains and losses (the Revaluation Reserve) where amounts would only become available if the asset was sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future services 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 authority.

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
Balance at 31 March 2014 carried forward	(3,365)	(6,440)	(6,067)	(2,306)	(3,794)	(683)	(22,655)	(219,780)	(242,435)
Movement in Reserves 2014-15									
(Surplus) / deficit on the provision of services	2,657	0	(7,819)	0	0	0	(5,162)	0	(5,162)
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	4,462	4,462
Total Comprehensive Income & Expenditure	2,657	0	(7,819)	0	0	0	(5,162)	4,462	(700)
Adjustments between Accounting basis and funding basis under regulations (note 7)	(2,729)	0	6,022	1,125	(1,421)	(267)	2,730	(2,730)	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(72)	0	(1,797)	1,125	(1,421)	(267)	(2,432)	1,732	(700)
Transfers to / (from) Earmarked Reserves	(537)	537	0	0	0	0	0	0	0
(Increase) / Decrease in 2014-15	(609)	537	(1,797)	1,125	(1,421)	(267)	(2,432)	1,732	(700)
Balance at 31 March 2015 carried forward	(3,974)	(5,903)	(7,864)	(1,181)	(5,215)	(950)	(25,087)	(218,048)	(243,135)

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
Balance at 31 March 2015 carried forward	(3,974)	(5,903)	(7,864)	(1,181)	(5,215)	(950)	(25,087)	(218,048)	(243,135)
Movement in Reserves 2015-16									
(Surplus) / deficit on the provision of services	(4,446)	0	(2,718)	0	0	0	(7,164)	0	(7,164)
Other Comprehensive Income & Expenditure	0	0	0	0	0	0	0	(19,794)	(19,794)
Total Comprehensive Income & Expenditure	(4,446)	0	(2,718)	0	0	0	(7,164)	(19,794)	(26,958)
Adjustments between Accounting basis and funding basis under regulations (note 7)	3,150	0	3,345	(2,336)	(1,128)	(734)	2,297	(2,297)	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(1,296)	0	627	(2,336)	(1,128)	(734)	(4,867)	(22,091)	(26,958)
Transfers to / (from) Earmarked Reserves	(248)	248	0	0	0	0	0	0	0
(Increase) / Decrease in 2015-16	(1,544)	248	627	(2,336)	(1,128)	(734)	(4,867)	(22,091)	(26,958)
Balance at 31 March 2016 carried forward	(5,518)	(5,655)	(7,237)	(3,517)	(6,343)	(1,684)	(29,954)	(240,139)	(270,093)

CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

2014-2015				2015-2016			Notes
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
2,627	(922)	1,705	Central Services to the Public	2,872	(1,100)	1,772	
9,699	(3,879)	5,820	Cultural and Related Services	10,335	(4,447)	5,888	
13,000	(3,932)	9,068	Environmental and Regulatory Services	9,842	(3,706)	6,136	
3,323	(1,588)	1,735	Planning Services	2,948	(1,758)	1,190	
49,126	(45,964)	3,162	Housing Services	47,693	(45,109)	2,584	
2,798	(6,286)	(3,488)	Highways and Transport Services	2,722	(6,763)	(4,041)	
2,708	(1,074)	1,634	Corporate and Democratic Core	4,402	(2,082)	2,320	
1,187	(340)	847	Non Distributed Cost	375	(66)	309	
11,686	(20,929)	(9,243)	Housing Revenue Account - Other	17,499	(21,214)	(3,715)	
96,154	(84,914)	11,240	Cost of Services	98,688	(86,245)	12,443	
		(890)	Other operating expenditure			(1,052)	9
		1,819	Financing and investment income and expenditure			453	10
		(17,331)	Taxation and non-specific grant income			(19,008)	11
		(5,162)	(Surplus) or Deficit on Provision of Services			(7,164)	
			Other Comprehensive Income and Expenditure				
		(12,670)	(Surplus) or deficit on revaluation of property, plant and equipment			(8,758)	12
		17,132	Actuarial (gains)/losses on pensions assets / liabilities			(11,036)	37
		4,462	Total Other Comprehensive Income and Expenditure			(19,794)	
		(700)	Total Comprehensive Income and Expenditure			(26,958)	

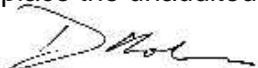
CORE FINANCIAL STATEMENTS

Balance Sheet

2014-15 £'000	2015-16 £'000	Notes
334,450	346,780	12
35,702	37,419	13
22,643	22,643	14
715	705	
50	860	16
12,919	13,326	16
406,479	421,733	
194	180	
8,103	10,617	17
429	429	16
281	482	19
13,448	17,025	18
22,455	28,733	
(10,015)	(10,016)	16
(16,379)	(14,532)	20
(26,394)	(24,548)	
(56,906)	(56,906)	16
(5,884)	(9,386)	30
(77)	(119)	
(96,538)	(89,414)	37
(159,405)	(155,825)	
243,135	270,093	
Financed by:		
25,087	29,954	21
218,048	240,139	22
243,135	270,093	

These financial statements replace the unaudited financial statements certified by the Chief Financial Officer, Dave Hodgson, on 24 June 2016.

Dave Hodgson, CPFA
Assistant Director Finance



CORE FINANCIAL STATEMENTS

Cash Flow Statement

2014-2015 £'000	2015-2016 £'000	Notes
(5,162) Net (surplus) or deficit on the provision of services	(7,164)	
Adjustments to net surplus or deficit on the provision of services for non-cash		
(11,366) movements	(10,251)	
Adjustments for items included in the net surplus or deficit on the provision of		
407 services that are investing and financing activities	888	
(16,121) Net cashflows from Operating Activities	(16,527)	23
16,252 Investing Activities	14,678	24
(1,295) Financing Activities	(1,728)	25
(1,164) Net (Increase) or decrease in cash and cash equivalents	(3,577)	
12,284 Cash and cash equivalents at the beginning of the reporting period	13,448	
13,448 Cash and cash equivalents at the end of the reporting period	17,025	

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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

ACCOUNTING POLICIES

ACCRUALS OF INCOME AND EXPENDITURE

The revenue accounts of the Council are maintained on an accruals basis, that is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

Customer and client receipts

Customer and client receipts in the form of sales, fees, charges and rents are accrued for when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.

Supplies

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date received and consumption, they are carried forward as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees)

Expenses in relation to services received are recorded as expenditure when the services are received rather than the payments made.

VAT

VAT payable is included as an expense only to the extent that it is irrecoverable. VAT receivable is excluded from income.

Interest

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.

Creditors / Debtors

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where 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.

NOTES TO THE FINANCIAL STATEMENTS

CAPITAL RECEIPTS

Capital receipts are sums received by the Authority from the sale of assets. Receipts arising from Housing Right to Buy sales may be retained providing the local authority has signed an agreement to re-invest the receipts in the provision of replacement homes within 3 years. Exeter City Council entered into such an agreement on 27 June 2012.

A de minimis level of £10,000 has been agreed in respect of all capital receipts and any receipts for the sale of an asset which total less are accounted for as income in the income & expenditure account.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash 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 Authority's cash management.

CONTINGENT ASSETS / LIABILITIES

Contingent assets / liabilities arise where an event has taken place, but the potential asset / obligation will only be confirmed by future, uncertain events not wholly within the control of the authority.

They are not recognised in the accounting statements, and are disclosed by way of a note to the Balance Sheet.

EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end, including wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. They are recognised as an expense in the year in which the employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned but not taken before the year-end. The accrual is charged to the relevant service but reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment or for the officer to take voluntary redundancy before the normal retirement date. They are charged to the Comprehensive Income and Expenditure Statement when the Authority is committed to the termination of employment.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Authority in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, the notional debits and credits are replaced with the debits for the cash paid to the Pension Fund and pensioners.

NOTES TO THE FINANCIAL STATEMENTS

Post employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme (retirement lump sums and pensions) earned as employees worked for the Authority.

The Pensions Fund's Actuary has provided updated figures for the year based on the last valuation in 2013.

The liabilities of the pension fund attributable to the Authority have been measured on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond.

The assets attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities - current bid price
- property – market value

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

Service cost

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged to the Comprehensive Income and Expenditure Statement
- Net interest on the defined benefit liability (asset) – the change during the year in the net defined benefit liability (asset) that arises from the passage of time charged to the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both at the beginning of the year, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

Re-measurements

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset)
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions

Contributions paid to the pension fund

- Cash paid as employer's contributions to the pension fund in settlement of liabilities

The treatment of the above has been mirrored in the Housing Revenue Account where full disclosure has been included.

NOTES TO THE FINANCIAL STATEMENTS

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund (or directly to pensioners) in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means the notional debits and credits for retirement benefits are removed and replaced with the debits for cash paid (or due to be paid at year end). These movements are appropriated to the Pension Reserve. The negative balance on the Pension Reserve reflects the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities are accrued in the year of the decision to make the award and accounted for using the same policies applied to the Local Government Pension Scheme.

EVENTS AFTER THE BALANCE SHEET DATE

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 are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but disclosure of the nature and an estimate of the financial impact is disclosed in the notes to the accounts, if material
- 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

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

FAIR VALUE

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

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liabilities

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

Financial Assets

Financial Assets are classified into two types:

Loans and Receivables

Assets that have fixed or determinable payments but are not quoted in an active market. They are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest

NOTES TO THE FINANCIAL STATEMENTS

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 made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

The council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a higher effective rate of interest than the rate receivable. Statutory provisions require that the impact on the General Fund Balance is the interest receivable for the financial year and is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. In respect of sundry debtors, assets are considered to be impaired when they are six months old.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Available-for-sale Assets

Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payment are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the

carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow
- Equity shares with no quoted market prices – independent appraisal of company valuations

Accounting standards provide a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value at year-end:

Hierarchy	Inputs
Level 1 inputs	Quoted prices in active markets for identical assets
Level 2 inputs	Inputs that are observable for the asset, either directly or indirectly
Level 3 inputs	Unobservable inputs

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. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

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

NOTES TO THE FINANCIAL STATEMENTS

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

Where fair value cannot be reliably measured, the instrument is carried at cost.

Resulting gains and losses are recognised in the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential are required to be consumed by the Council as specified or they must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been met are held as creditors on the Balance Sheet. When the conditions have been met, the grant or contribution is either credited to the relevant service line or to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the movement in Reserves Statement. If the grant has yet to be used to finance capital expenditure, it is posted to the Capital

Grants Unapplied Reserve. Where it has been used it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Business Improvement District

A Business Improvement District (BID) scheme applies for Exeter city centre which is administered by Exeter BID Company. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as the agent for the scheme and since it is collecting the BID levy income on behalf of the Exeter BID Company most BID transactions are not recognised in the Comprehensive Income and Expenditure Statement, except the reimbursement of collection costs and any BID levies payable in respect of Council premises, e.g. the Guildhall.

Community Infrastructure Levy (CIL)

The Council has elected to charge a Community Infrastructure Levy. The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions, as set out above.

Council Tax Income

The City Council is a Billing Authority. In this capacity, it acts as an agent for the major precepting authorities. The amount included in the Council's income & expenditure account for the year is the accrued income relating to the Council's share of the Council Tax income for the year. The difference between the income included within the Comprehensive Income and Expenditure Statement and the amount required by legislation to be credited to the General

NOTES TO THE FINANCIAL STATEMENTS

Fund is taken to the Council Tax Adjustment Account and included as a reconciling items in the Statement of Movement in General Fund Balance.

The Balance Sheet includes only those parts of the Council Tax debtor and creditor balances relating to the Council's share of the Council Tax income. The Cash Flow Statement includes on the Council's share of net cash received plus the net cash paid to major preceptors.

HERITAGE ASSETS

The Council has a number of Heritage Assets. Heritage Assets are recognised and measured at cost in line with the policies on property, plant and equipment. However, some of the measurement rules are relaxed, as detailed below.

Property / Infrastructure / Statues – the Council owns a range of assets around the City which are of historic value. The Council does not believe that reliable cost or valuation information can be obtained for these items because of the diverse nature of the assets and lack of comparable market values, therefore they have been entered at nil value into the accounts.

Museum exhibits / Art / Civic Regalia – A non-electronic register of the Assets is held by the Museum and Guildhall and from this an insurance valuation has been produced. The Council will use the insurance valuation, as at 31 March 2016, as a measurement of the valuation of the assets. The assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Impairments and disposals are treated as per the policy on Property, Plant and Equipment.

INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has interests in companies and other entities that have the nature of subsidiaries and associates.

However, these interests are not considered to be material. In accordance with the Code, group accounts do not need to be prepared where an authority's interest is not considered to be material. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

INVESTMENT PROPERTIES

Recognition

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

Measurement

Investment properties are initially measured at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Valuation Process / Disposals

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Unless market or other factors suggest a different use by market participants would maximise value, it is assumed that current use is the best and highest use.

Gains and losses on revaluation are posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

Valuation Technique

Three valuation techniques can be applied:

- Market approach – use of prices and other information generated by market transactions
- Cost approach – assessment of the amount required to replace the service capacity of an asset
- Income approach – conversion of future amounts (cash flows) to a single current amount

Accounting standards provide a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value at year-end:

Hierarchy	Inputs
Level 1 inputs	Quoted prices in active markets for identical assets
Level 2 inputs	Other inputs observable for the asset (e.g. comparable properties, adjusted for relative square metres of floor space)
Level 3 inputs	Unobservable inputs (e.g. projected cash flows)

The application of these valuation techniques for the Authority's investment properties is explained in more detail in Note 13.

Income

Rental income is credited to the Financing and Investment Income line and results in a gain to the General Fund balance. However, revaluation and disposal gains and losses are reversed out in the Movement in Reserves Statement and posted to either the Capital Adjustment Account or Capital Receipts Reserve.

Depreciation

Investment properties are not depreciated.

JOINT OPERATIONS

Joint operations are arrangements where contractual agreements are in place under which two or more parties share control. The parties each have rights to the assets and obligations for the liabilities relating to that arrangement.

Joint operations are recognised in the single entity statements by bringing in the authority's share of the assets, liabilities, revenue and expenses of the arrangement.

Exeter City Council, East Devon District Council and Teignbridge District Council each share control of Strata Service Solutions Ltd (Strata), which was incorporated under the Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity statements for each authority reflect their respective shares of Strata. However, the accompanying notes to the Council's financial statements only include information relating to Strata where this would make a material difference to the usefulness of the notes.

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 land and buildings these are considered separately.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 at inception (or the present value of minimum payments if lower). The asset is matched by a liability for the obligation to pay the lessor.

Initial direct costs are added to the carrying amount and any initial premium paid is applied to write down the lease liability. Contingent rents are charged as expenses in the period incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease liability
- A finance charge debited to the Financing and Investment Income 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. However, depreciation is charged over the term of the lease where this is lower than the useful life.

The Council is not required to raise council tax to fund these charges; 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 Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this 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.

Operating Leases

Rentals are charged to the relevant service in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a rent free period at the commencement of the lease).

The Council as Lessor

Finance leases

Where the Authority grants a finance lease over a property or an item of plant and equipment, the asset is written out of the Balance Sheet as a disposal. The carrying amount of the asset is written off to the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement and offset against the Council's net investment in the lease, with a matching long-term debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease debtor
- Finance income credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement

The Council is not allowed to increase the General Fund balance by this income and is required to treat the income as a capital receipt. Premiums are posted to the Capital Receipts Reserve via the Movement in Reserves Statement. Where the amount due is to be settled by rentals in future financial years, the amount is credited to the Deferred Capital Receipts Reserve and released to the Capital Receipts Reserve when the payments are made, with the actual payment used to write down the long-term debtor.

The written-off values of the assets do not form a charge against council tax and is appropriated to the Capital Adjustment Account

NOTES TO THE FINANCIAL STATEMENTS

from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease, the asset remains on the Council's Balance Sheet and rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a premium paid at the commencement of the lease). Initial costs are charged to the carrying amount of the asset and charged as an expense on the same basis as rental income.

OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to clients on a fixed fee, time or unit rate basis, with their full costs shared between users in proportion to the benefits received.

The costs of Corporate and Democratic Core and Non Distributed costs are shown separately on the Comprehensive Income and Expenditure Statement and not recharged to Services.

POOL OF AUTHORITIES FOR NON DOMESTIC RATES

The Local Government Finance Act 2012 permits the Secretary of State to designate two or more relevant authorities as a pool of authorities. Exeter City Council are party to such a pool and need to recognise their share of the income and expenditure (and debtors and creditors) in accordance with the agreed arrangements for distribution of the pool together with accounting requirements.

PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for the delivery of services, for rental to others or for administration purposes that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts. Expenditure that maintains but does not enhance an asset, such as repairs and maintenance is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost. Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

A de minimis level of £10,000 has been agreed for capital expenditure. Any costs below this are charged to revenue.

The costs of assets acquired other than by purchase is deemed to be its fair value or in the case of an exchange, the carrying amount of the asset given up by the authority.

NOTES TO THE FINANCIAL STATEMENTS

Donated Assets

Donated assets are measured initially at fair value and the difference to the consideration paid is credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement, unless there are conditions. Until the conditions are satisfied, the gain is held in a Donated Assets Account. When credited to the Comprehensive Income and Expenditure Statement, they are reversed out in the Movement in Reserves Statement to the Capital Adjustment Account.

Balance Sheet Valuation

Assets are carried in the Balance Sheet using the following measurements:

Class	Basis of Measurement
Infrastructure	Depreciated historical cost
Community Assets	Depreciated historical cost
Assets Under Construction	Depreciated historical cost
Council Dwellings	Current value based on existing use value – social housing (EUV-SH)
All Other Assets	Current value of the asset in its existing use (EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used
Non-property Assets with Short Useful Lives and/or Low Values	Depreciated historical cost

Revaluations

Asset included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years and the revised amount is included in the balance sheet. A full valuation is performed on a rolling basis to cover 20% of assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed in order to ensure that carrying amounts are not materially different to current values at the year-end.

Increases in valuations are matched by credits to the Revaluation Reserve to recognised unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to services.

A decrease in value is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or there is insufficient balance, the carrying amount of the asset is written down against the relevant service in the Comprehensive Income and Expenditure Statement

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

NOTES TO THE FINANCIAL STATEMENTS

Impairment

Impairment reviews are undertaken each year to assess whether there is evidence of a reduction in an asset's value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as a decrease in value, as set out above.

Where an impairment loss is subsequently reversed, it is credited to the relevant service 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.

Depreciation

The following policies are used for depreciation:

- Freehold land and Community Assets are not depreciated
- Newly acquired assets are depreciated from 1 April following their purchase.
- Full year depreciation is charged in the year an asset is disposed of.
- A reducing balance method of depreciation is used for vehicles and assumes the following life expectancies and residual values:

Acquisition value	Life expectancy	Residual value
£10,000 – £14,999	6 years	12%
£15,000 - £19,999	7 years	11%
£20,000 - £49,000	6 years	12%
Over £50,000	7 years	4%

A straight-line method of depreciation is used for the assets below and assumes the following life expectancies:

Asset	Life expectancy	Residual value
Plant & equipment	5 to 10 years	Nil
Infrastructure	20 years	Nil
Operational Properties	Up to 60 years (unless otherwise specified)	As specified by the Valuers

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

Components

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For example, key components of council dwellings are depreciated on a straight line basis and assume the following life expectancies:

Kitchens and Bathrooms	30 years
Windows	30 years
Roofs	60 years

Disposals

When an asset is disposed of or decommissioned, the carrying value of the asset is written off in the Comprehensive Income and Expenditure Statement along with any proceeds from the disposal as part of the gain or loss on disposal.

The gain or loss is the amount by which the proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. Any

NOTES TO THE FINANCIAL STATEMENTS

revaluation gains in the Revaluation Reserve relating to the disposed assets are transferred to the Capital Adjustment Account.

Statutory regulations require that the gain or loss on the disposal of assets is reversed out in the Movement in Reserves Statement.

Non-current Assets Held for Sale

When it becomes probable that the carrying value will be recovered principally through a sale transaction, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Fair value is the price that would be received in an orderly transaction between market participants at the measurement date, which should be measured at highest and best use.

Fair value for social housing being disposed of under right-to-buy (RTB) legislation is the discounted RTB value.

Losses in fair value are charged to the Comprehensive Income and Expenditure Statement. Gains are recognised only up to the amount of any previous losses. Depreciation is not charged on Assets Held for Sale.

If an asset no longer meets the criteria to be classified as Assets Held for Sale, they are re-classified as non-current assets and valued at the lower of the previous carrying amount adjusted for depreciation or revaluations that would have been recognised during that time and their recoverable amount of the date of the decision not to sell.

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

PROVISIONS

The Council sets aside provisions for future expenses. These are charged to the service in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and held on the Balance Sheet. When payments are eventually made they are charged to the provision carried in the Balance Sheet.

Provisions are required to be recognised in the accounts when:

- The Council has a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

RESERVES

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

NOTES TO THE FINANCIAL STATEMENTS

REVENUE CHARGES FOR NON-CURRENT ASSETS

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

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

The Council is not required to raise council tax to fund these charges; 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 Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this contribution in the General Fund Balance (referred to as MRP; Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

Since the introduction of self-financing for the Housing Revenue Account (HRA) a new statutory framework has been established to allow depreciation to be a real charge. The HRA is required to set aside an amount equal to depreciation into the Major Repairs Reserve.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute (REFCUS) represents payments that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset. REFCUS has been charged to the relevant service account in the Comprehensive Income and Expenditure Statement. Where it is funded by capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is made so that there is no impact on the level of Council Tax.

NOTES TO THE FINANCIAL STATEMENTS

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

Local authorities are required to report the impact of accounting changes that will be required by a new standard that has been issued but not yet adopted. For 2015/16, they comprise:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

The 2016/17 Code of Practice on Local Authority Accounting has adopted these new or amended standards, any accounting changes will therefore be implemented from 1 April 2016.

The impact of the accounting changes is not yet known or reasonably estimable. However, the Code does not anticipate that the amendments will have a material impact on the information provided in the local authority financial statements, i.e. there is unlikely to be a change to the reported net cost of services or the Surplus or Deficit on the Provision of Services. In the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements.

NOTES TO THE FINANCIAL STATEMENTS

3. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding for Local Government

There is a high degree of uncertainty over the future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of impairment as a result of the need to close facilities.

Group Accounts

The Council is the sole shareholder of Exeter Business Centre, has an associate interest in Exeter Canal and Quay Trust and it has a 21.5% shareholding in the Exeter Science Park Limited. It has been determined that group accounts do not need to be prepared as the authority's interest in these entities are not considered to be material. Please refer to Note 31 for more details.

Joint Operation

Strata Service Solutions Ltd is a registered company which has been established to assist the three authorities; Exeter City Council, East Devon District Council and Teignbridge District Council, in the provision and operation of shared ICT services. It is deemed to be a joint operation due to the inherent rights to the assets and obligations for liabilities each authority has relating to the joint arrangement, based upon the following

facts and circumstances:

- The three authorities have joint control of the entity. Each authority has one nominated Director and each Director has one vote. The Directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the company with decisions made collectively and unanimously.
- The Company is required by the Councils to carry out the tasks as set out in the Business Plans and Service Plans and is limited to the business and objectives as set by the Councils
- The Company's revenue derives from the financial allocations set and controlled by each of the Councils
- There are no plans for Strata to do anything other than provide services to the three authorities. The Company has been established as an in-house mutual trading local authority controlled company to assist them in the provision of services.

Joint operations are not consolidated into group accounts, instead each authority has recognised in its financial statement its share of assets, liabilities, revenue and expenses pertaining to Strata Service Solutions Ltd. Please refer to Note 32 for more details.

NOTES TO THE FINANCIAL STATEMENTS

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

The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. However as there is uncertainty, material differences could emerge. The items in the Council's Balance Sheet, for which there is a significant risk of material adjustment are as follows:

Item	Uncertainties	Effect if actual result differs from Assumptions
Pensions Liabilities	Estimates of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate would result in a decrease of £3.349m in the pension liability and £0.082m in the Projected Service Cost. However the assumptions interact in a complex way. During the year the actuaries have amended the liability by £13.929m as a result of assumptions being updated.
Arrears	At the Balance Sheet date, the Council had a balance of £9.835m for sundry debtors. Impairment of doubtful debts totalling £3.428m has been made, but in the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate a doubling of the amount of impairment would lead to an additional £3.428m being set aside.
Valuation of Property, Plant and Equipment and Depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance (R&M) that will be incurred. The economic climate makes it uncertain that the Council can sustain its current spending on R&M bringing into doubt the useful lives assigned	If the useful life is reduced depreciation will increase and the carrying value of asset will fall. It is estimated that the depreciation charge for other land and building will increase by £25,900 for every year that the useful life is reduced by.
Fair Value Measurements – Investment Properties	The Authority uses significant unobservable inputs to measure the fair value of some of its investment properties including assumptions regarding rent growth and yield.	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.
Fair Value Measurements – Financial Instruments	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured based on other observable data or judgement. These judgements typically include considerations such as uncertainty and risk.	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for financial assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

5. EVENTS AFTER THE BALANCE SHEET DATE

The draft 2015/16 Statement of Accounts was authorised for issue by the Assistant Director Finance, D Hodgson CPFA, on 24 June 2016. Events after this date have not been recognised in the 2015/16 Statement of Accounts. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and/or notes have been adjusted in all material respects to reflect the impact of this information.

6. NON- ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2016 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date:

Leaving the European Union

On Thursday 23 June 2016 the EU referendum took place and the people of the United Kingdom voted to leave the European Union. The impact on local authorities may not be clear for some time. Negotiations on exit terms are expected to take two years once the UK formally initiates its exit from the EU. In the meantime, the UK will remain a member of the EU and will be bound by its legal and treaty obligations.

The Council will need to monitor events and consider any accounting and financial reporting implications including the impact of volatility in financial markets on investment strategies.

Reduce Social Housing Rents by 1% a year for 4 years

On 8 July 2015 the Chancellor announced in the Summer Budget that local authorities would be required to reduce rents in social housing in England by 1% a year for 4 years.

This was an unexpected policy change, as local authorities had previously been given assurance that rents would rise by Consumer Price Index inflation (CPI) + 1% for the ten years; 2015-16 to 2024-25. In overall terms, the 1% reduction in rents is expected to reduce rental income by £7.9 million over the next 4 years compared to previous income projections for the Housing Revenue Account.

NOTES TO THE FINANCIAL STATEMENTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments made to the total comprehensive income and expenditure statement (CIES) recognised by the Council in accordance with proper accounting practice to the resources specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. The General Fund Balance summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment. The balance is not available to be applied to fund HRA services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

NOTES TO THE FINANCIAL STATEMENTS

	2014-15						2015-16					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
Adjustments involving the Capital Adjustment Account												
Reversal of items debited or credited to the CIES												
Charges for depreciation and impairment of non-current assets	(3,131)	0	0	0	0	3,131	(2,935)	(3,303)	0	0	0	6,238
Movements in the market value of Investment Properties	1,369	0	0	0	0	(1,369)	1,915	0	0	0	0	(1,915)
Amortisation of intangible Assets	(185)	0	0	0	0	185	(193)	0	0	0	0	193
Capital Grants and contributions applied	193	85	0	0	0	(278)	1,953	26	0	0	0	(1,979)
Movement in the Donated Assets Account	0	0	0	0	0	0	80	0	0	0	0	(80)
Revenue expenditure funded from capital under statute	(3,178)	0	0	0	0	3,178	690	0	0	0	0	(690)
Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal	53	(1,141)	0	0	0	1,088	(259)	(1,536)	0	0	0	1,795
Insertion of items not debited or credited to the CIES												
Statutory provision for the financing of capital investment	1,332	0	0	0	0	(1,332)	818	0	0	0	0	(818)
Voluntary provision for the financing of capital investment	2,150	0	0	0	0	(2,150)	1,477	0	0	0	0	(1,477)
Capital expenditure charged against the General Fund and HRA balances	998	5,339	0	0	0	(6,337)	1,579	5,772	0	0	0	(7,351)
Adjustment to long term debtor repayments	0	0	(188)	0	0	188	0	0	(121)	0	0	121

NOTES TO THE FINANCIAL STATEMENTS

	2014-15						2015-16					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
Adjustments involving the Capital Grants Unapplied												
Capital grants and contributions unapplied credited to the CIES	361	(7)	0	0	(354)	0	412	326	0	0	(739)	1
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	87	(87)	0	0	0	0	5	(5)
Adjustments involving the Capital Receipts Reserve												
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the CIES	485	1,983	(2,468)	0	0	0	861	2,539	(3,400)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	3,368	0	0	(3,368)	0	0	683	0	0	(683)
Contribution from the Capital Receipts Reserve towards admin costs of disposals	0	(34)	34	0	0	0	0	(49)	49	0	0	0
Contribution from the Capital Receipts Reserve towards the payment to the Government capital receipts pool	(400)	0	400	0	0	0	(463)	0	463	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(21)	0	0	21	0	0	(10)	0	0	10
Adjustments involving the Deferred Capital Receipts Reserve												
Transfer of Finance Lease Premium to I&E account	(102)	0	0	0	0	102	146	0	0	0	0	(146)

NOTES TO THE FINANCIAL STATEMENTS

	2014-15						2015-16					
	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)	General Fund Balance (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Unusable Reserves (£'000)
Adjustments involving the Financial Instruments Adjustment Account												
Amount by which finance costs charged to the CIES are different from the finance costs chargeable in year in accordance with statutory requirements	(259)	0	0	0	0	259	29	0	0	0	0	(29)
Adjustments involving the Pension Reserve												
Reversal of retirement benefits debited or credited to CIES	(7,127)	(503)	0	0	0	7,630	(6,817)	(697)	0	0	0	7,514
Employers pension contributions and direct payments to pensioners in the year	3,434	321	0	0	0	(3,755)	3,337	265	0	0	0	(3,602)
Adjustments involving the Collection Fund Adjustment Account												
Amount by which council tax and NNDR income credited to the CIES is different from that calculated for the year in accordance with statutory requirements	1,253	0	0	0	0	(1,253)	513	0	0	0	0	(513)
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 accordance with statutory requirements	25	(21)	0	0	0	(4)	7	2	0	0	0	(9)
Adjustments involving the Major Repairs Reserve												
Amount equal to full depreciation charges set aside in the Major Repairs Reserve	0	0	0	(2,487)	0	2,487	0	0	0	(2,561)	0	2,561
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	1,066	0	(1,066)	0	0	0	1,433	0	(1,433)
Total Adjustments	(2,729)	6,022	1,125	(1,421)	(267)	(2,730)	3,150	3,345	(2,336)	(1,128)	(734)	(2,297)

NOTES TO THE FINANCIAL STATEMENTS

8. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in the year. There are no HRA earmarked reserves.

	Balance 31 March 2014	Transfers in	Transfers out	Balance 31 March 2015	Transfers in	Transfers out	Balance 31 March 2016
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
New Homes Bonus	2,947	2,678	(3,578)	2,047	270	(654)	1,663
Strategic Review	125	0	(74)	51	0	0	51
Capital Fund	0	700	0	700	25	0	725
Other Planning Reserves	218	0	(14)	204	0	(23)	181
Leisure Reserves	215	0	(33)	182	687	0	869
Economic Development	53	20	0	73	0	(33)	40
Housing GF Reserves	112	0	(30)	82	7	0	89
Redundancy Reserve	250	300	(158)	392	131	(223)	300
Museum Reserves	548	0	(8)	540	0	(78)	462
NNDR Deficit	1,331	0	(537)	794	0	(487)	307
Other Earmarked Reserves	641	5	(71)	575	184	(4)	755
Strata Usable Reserves	0	263	0	263	0	(50)	213
Total	6,440	3,966	(4,503)	5,903	1,304	(1,552)	5,655

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER OPERATING EXPENDITURE

	2014-15	2015-16
	£'000	£'000
Pension Fund Administration Expenses	55	42
Payment to the Government's Housing Capital Receipt Pool	400	463
(Gain) / losses on the disposal of non-current assets	(1,151)	(1,557)
(Gain) / losses on transfer of assets to Strata Service Solutions Ltd	(194)	0
	(890)	(1,052)

11. TAXATION AND NON-SPECIFIC GRANT INCOME

	2014-15	2015-16
	£'000	£'000
Council tax income	(4,612)	(4,787)
Non-domestic rates	(5,133)	(5,054)
Non-ringfenced government grants	(6,954)	(6,449)
Capital grants and contributions	(632)	(2,718)
	(17,331)	(19,008)

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014-15	2015-16
	£'000	£'000
Interest payable and similar charges	2,098	2,220
Net interest on the net defined benefit liability	3,245	3,082
Net interest on the net defined benefit liability - Strata Service Solutions Ltd	19	50
Interest receivable	(75)	(266)
Income and expenditure in relation to investment properties and changes in their fair value	(3,604)	(4,339)
Other investment income	137	(290)
Interest receivable - Strata Service Solutions Ltd	(1)	(4)
	1,819	453

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
Cost or valuation								
As at 1 April 2015	208,858	110,866	14,679	4,063	4,666	0	4,204	347,336
Additions	7,158	1,471	2,983	126	86		2,197	14,021
Donations	81							81
Revaluations - Revaluation Reserve	(422)	5,361						4,939
Revaluations - CIES		16						16
Impairments - CIES	(3,330)	(214)						(3,544)
Derecognition - disposals	(1,397)	(221)	(578)					(2,196)
Reclassifications - held for sale	(354)							(354)
Reclassifications - other	3,648	198					(3,648)	198
Other movements - Strata Service Solutions Ltd			(55)					(55)
Gross Book Value At 31 March 2016	214,242	117,477	17,029	4,189	4,752	0	2,753	360,442
Depreciation and impairments								
At 1 April 2015	0	(1,133)	(9,600)	(2,153)	0	0	0	(12,886)
Depreciation Charge	(2,469)	(1,552)	(974)	(181)				(5,176)
Depreciation written out to Revaluation Reserve	2,426	1,391						3,817
Impairment - CIES	26							26
Derecognition - disposals	17	2	538					557
Accumulative Depreciation At 31 March 2016	0	(1,292)	(10,036)	(2,334)	0	0	0	(13,662)
Balance Sheet amount at 31 March 2016	214,242	116,185	6,993	1,855	4,752	0	2,753	346,780
Balance Sheet amount at 1 April 2015	208,858	109,733	5,079	1,910	4,666	0	4,204	334,450

NOTES TO THE FINANCIAL STATEMENTS

	Council Dwellings £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
Cost or valuation								
As at 1 April 2014	201,577	106,483	14,969	4,048	4,560	0	1,482	333,119
Additions	5,776	923	1,230	15	106		2,914	10,964
Revaluations - Revaluation Reserve	2,323	6,306						8,629
Revaluations - CIES		(400)						(400)
Derecognition - disposals	(657)	(257)	(303)					(1,217)
Derecognition - other		(2,189)	(1,729)	0			(192)	(4,110)
Reclassifications - held for sale	(161)							(161)
Other movements - Strata Service Solutions Ltd			512					512
Gross Book Value At 31 March 2015	208,858	110,866	14,679	4,063	4,666	0	4,204	347,336
Depreciation and impairments								
At 1 April 2014	0	(1,320)	(10,397)	(1,947)	0	0	0	(13,664)
Depreciation Charge	(2,437)	(1,436)	(1,028)	(355)				(5,256)
Depreciation written out to Revaluation Reserve	2,429	1,584						4,013
Depreciation written out to CIES		39						39
Derecognition - disposals	8		269	149				426
Derecognition - other			1,556					1,556
Accumulative Depreciation At 31 March 2015	0	(1,133)	(9,600)	(2,153)	0	0	0	(12,886)
Balance Sheet amount at 31 March 2015	208,858	109,733	5,079	1,910	4,666	0	4,204	334,450
Balance Sheet amount at 1 April 2014	201,577	105,163	4,572	2,101	4,560	0	1,482	319,455

NOTES TO THE FINANCIAL STATEMENTS

Capital Commitments

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2016/17 at a cost of £2.870m. Similar commitments at 31 March 2015 were £3.780m.

The major commitments are:

	£'000
Property refurbishment and improvement	96
Property acquisitions	167
New construction	1,822
Vehicles and equipment	778
Community assets	7
Total	2,870

Revaluations

The significant assumptions applied in estimating fair value are set out in the statement of accounting policies. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuations are carried out by the Council's in-house valuers; registered with the Royal Institution of Chartered Surveyors.

	Council Dwellings £'000s	Other Land and Buildings £'000s	Total £'000s
Carried at historical cost	-	-	-
Valued at fair value in:			
2015-16	214,242	45,091	259,333
2014-15	208,858	67,531	276,389
2013-14	198,914	-	198,914
2012-13	-	91,542	91,542
2011-12	191,167	-	191,167
2010-11	-	-	-
2009-10	-	-	-
2008-09	-	71,743	71,743
2007-08	292,846	-	292,846

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment income and expenditure line in the CIES.

	2014-15	2015-16
	£'000	£'000
Rental income from investment property	2,810	2,921
Direct operating expenditure arising from investment property	(575)	(497)
Net gain / (loss)	2,235	2,424

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

Fair Value Hierarchy

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

Class of Asset	Significant unobservable inputs (Level 3) £'000	Fair value as at 31 March 2016 £'000
Industrial	3,307	3,307
Retail	26,731	26,731
Leisure	2,744	2,744
Other Commercial	4,637	4,637
Total	37,419	37,419

The movements in value of investment properties are analysed below.

	2014-15	2015-16
	£000s	£000s
Balance at 1 April	31,965	35,702
Additions :		
Purchases	0	0
Construction	0	0
Subsequent expenditure	0	0
Disposals	0	0
Net gains / losses from fair value adjustments	1,369	1,915
Transfers:		
to/from Property, Plant & Equipment	2,368	(198)
Balance at 31 March	35,702	37,419

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

Significant Observable Inputs – Level 3

The retail, industrial, leisure and other commercial assets in the portfolio are valued using the income approach, where the expected cash flows from the properties are discounted utilising market derived rates. This is used to establish the present value of the net income.

NOTES TO THE FINANCIAL STATEMENTS

This approach has been developed using internal data supplemented where possible with evidence from analysis of relevant recent market transactions and external market reports/reviews. This requires a number of assumptions such as the duration and timing of cash flows, current market rental value, rent growth, occupancy levels, void periods, covenant strength, risk and maintenance costs (where appropriate) etc.

The retail, industrial, leisure and other commercial assets are consequently categorised as level 3 in the fair value hierarchy as the measurement technique utilises significant unobservable inputs to determine fair value. There is no reasonably available information which indicates market participants would use alternative assumptions.

Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

Reconciliation of Fair Value Measurements Categorised within Level 3 of the Fair Value Hierarchy

	Industrial	Retail	Leisure	Other Commercial	Fair value as at 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Level 3 fair value measurements					
Balance at 1 April	2,530	25,963	2,638	4,571	35,702
Gains/(losses) recognised in the CIES resulting from changes in the fair value	725	804	106	280	1,915
Additions	52				52
Disposals		(36)		(214)	(250)
Level 3 balance at 31 March	3,307	26,731	2,744	4,637	37,419

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs

Property type	Lease type	Rent type	Fair value as at 31 March 2016 £'000	Valuation technique used to measure fair value	Unobservable inputs	Range / percentage used	Sensitivity
Industrial	Commercial	Market	1,237	Income approach	Rent & Yield	Rent £3.50 - £8 psf Yield 8 - 10%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Nominal	1,112	Income approach	Rent & Yield	Rent £3.50 - £8 psf Yield 5 - 6%	Significant changes in rental levels or yield will not result in a significant difference to the fair value
	Ground	Geared	959	Income approach	Yield	Yield 5 - 6%	Significant changes in yield will result in a significantly lower or higher fair value
Retail	Commercial	Market	10,430	Income approach	Rent & Yield	Rent £13.50 (neighbourhood) - £52 (city centre secondary)psf ITZA. Yield 10 - 15%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Nominal	2,321	Income approach	Rent & Yield	Rent £30 (out of town)- £150 (High St) psf ITZA. Yield 6 - 10.5%	Significant changes in rental levels or yield will not result in a significant difference to the fair value
	Ground	Geared	13,980	Income approach	Yield	Yield 5 - 7%	Significant changes in yield will result in a significantly lower or higher fair value
Leisure	Commercial	Turnover	2,744	Income approach	Yield	Yield 10 - 17%	Significant changes in yield will result in a significantly lower or higher fair value
Other commercial	Commercial	Market	3,580	Income approach	Rent & Yield	Rent £5 - £10 psf Yield 10 - 15%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Geared	67	Income approach	Yield	Yield 7.5%	Significant changes in yield will result in a significantly lower or higher fair value
	Ground	Nominal	989	Income approach	Yield	Yield 5.5 - 12%	Significant changes in yield will not result in a significant difference to the fair value

NOTES TO THE FINANCIAL STATEMENTS

14. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Museum Exhibits £'000	Civic Regalia and Paintings at the Guildhall £'000	Artefacts at St Nicholas Priory £'000	Total £'000
Cost or Valuation				
1 April 2014	19,817	2,637	161	22,615
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	26	2	28
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
31 March 2015	19,817	2,663	163	22,643
Cost or Valuation				
1 April 2015	19,817	2,663	163	22,643
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services	0	0	0	0
31 March 2016	19,817	2,663	163	22,643

15. FURTHER INFORMATION ON THE COLLECTIONS

St Nicholas Priory

St Nicholas Priory is the 900 year old guest wing of a former Benedictine Priory in Exeter City Centre. Adorned with quality replica furniture and painted in the bright colours of the period, the Priory is presented as the 1602 home of the wealthy Hurst family. The display of Elizabethan items is from the city's collection.

Guildhall

The Guildhall is home to a number of fine art portraits painted between the 17th and 19th Century. They include a portrait of Princess Henrietta Anne, daughter of King Charles I, who was born in Exeter and a number of other prominent local people. There are a number of portraits by Thomas Hudson including one of George II as Prince of Wales.

Royal Albert Memorial Museum

RAMM cares for a wonderful and diverse collection consisting of approximately one and a half million individual objects and specimens from all over the globe. They are divided into the following curatorial departments: antiquities; ethnography; natural history, decorative and fine arts. The collections contain items of local, national and international importance, and many are of outstanding historical or cultural significance.

Other Heritage Assets

The Council owns a range of assets around the City which are of historic value including; the Roman Wall, Underground Passages, Catacombs and various statues. These have not been valued and do not form part of the figure held in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS

Categories of financial instruments

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board
- Short-term loans from other local authorities
- Finance leases detailed in Note 34
- Trade payables for goods or services received
- Capital grants received in advance

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under two classifications and comprise:

Loans and Receivables

- Cash in hand
- Bank current and deposit accounts
- Fixed term deposits
- Impaired investments in Icelandic banks
- Loans made for service purposes or to other local authorities
- Lease receivables detailed in Note 34
- Trade receivables for goods or services delivered

Available for sale

- Money market funds
- Equity investments in Exeter Science Park Limited

NOTES TO THE FINANCIAL STATEMENTS

Financial Instruments - Balances

The borrowing and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Financial Liabilities				
Borrowings				
Loans at amortised cost:				
PWLB	56,906	56,906		
Other local authorities/public bodies			10,015	10,016
Other Long Term Liabilities				
Liabilities at amortised cost:				
Long term creditors	77	119		
Capital grants receipts in advance	5,884	9,386		
Creditors				
Liabilities at amortised cost:				
Short term creditors			16,379	14,532
Total Financial Liabilities	62,867	66,411	26,394	24,548
Financial Assets				
Investments				
Unquoted equity investment at cost	50	778		
Loans and receivables:				
Loans made for service purposes	1,606	1,868		
Lease receivables	11,313	11,458		
Impaired investments		82	429	429
Cash and Cash Equivalents				
Loans and receivables:				
Short term investments				8,007
Cash (including bank accounts)			5,410	3,008
Available-for-sale investments:				
Money market funds			8,038	6,010
Debtors				
Loans and receivables			8,103	10,617
Total Investments	12,969	14,186	21,980	28,071

NOTES TO THE FINANCIAL STATEMENTS

Income, Expense, Gains and Losses

The gains and losses in the Comprehensive Income and Expenditure Account in relation to Financial Instruments for Investments and Borrowing are made up as follows.

	2014-15			2015-16		
	Measured at Amortised Cost	Loans and Receivables	Financial Assets	Measured at Amortised Cost	Loans and Receivables	Financial Assets
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Interest Expenses	2,098	0	2,098	2,220	0	2,220
Total Expense	2,098	0	2,098	2,220	0	2,220
Interest Income	0	(75)	(75)	0	(226)	(226)
Increase in fair value	0	0	0	0	0	0
Gains on Derecognition	0	0	0	0	0	0
Total income	0	(75)	(75)	0	(226)	(226)
Gains on Revaluation	0	0	0	0	(63)	(63)
Losses on Revaluation	0	35	35	0	0	0
Surplus/Deficit on Revaluation	0	35	35	0	(63)	(63)
Net (Gain)/Loss for the year	2,098	(40)	2,058	2,220	(289)	1,931

Material Soft Loans Made by the Authority

Soft loans are those advanced at below market rates in support of the Council's service priorities.

The largest loan given by the Council was for £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity along with accrued interest in 2023/24.

	2014-15 £'000s	2015-16 £'000s
Balance at start of year	0	735
New loans granted in the year	1,000	0
Fair value adjustment on initial recognition	(292)	0
Accrued interest	27	51
Nominal value at 31 March	735	786

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by Exeter Science Park Ltd.

Reclassification of Financial Instruments

During the year the Council has not reclassified any financial instruments, or transferred any financial instruments that would require a change in the recognition of that instrument. The Council has not pledged any financial assets as collateral for liabilities or contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Fair Value of Financial Instruments

Financial Assets Classified as Available for Sale

Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For the Council this includes shares in money market funds, whereby the fair value is taken from the market price.

The Council's equity shareholding in the Exeter Science Park Limited is held at cost as a fair value cannot be reliably measured.

Unquoted Equity Instrument Measured at Cost

The Authority has a 21.5% shareholding in Exeter Science Park Limited. The shares are carried at cost of £727,115 and have not been valued as a fair value cannot be measured reliably. The Company does not have an established trading history as its first building on the site, Science Park Centre, only opened during the financial year. There are also no established companies with similar aims in the Authority's area whose shares are traded and which might provide comparable market data. The Authority has no current intentions to dispose of its shareholding.

Financial Assets Classified as Loans and Receivables and Financial Liabilities

Financial assets classified as loans and receivables and financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been calculated using the following methods and assumptions:

- The fair value of short term debtors and creditors (trade payables and receivables) is assumed to be the invoiced or billed amount less an estimate of impairment for the collectability of that debt.
- The fair value of finance leases (receivable) have been calculated by discounting the contractual cash-flows at the appropriate PWLB annuity loan rate
- The fair value of loans and investments such as fixed term deposits, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31st March 2016
- The fair value of soft loans is arrived at by taking the authority's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.
- The fair value of long-term creditors and capital grants received in advance is assumed to approximate to the carrying value as it is considered unlikely, owing to historical experience, that they will require repayment.

NOTES TO THE FINANCIAL STATEMENTS

Financial Assets Measured at Fair Value

Fair values are shown in the table below, split by their level in the fair value hierarchy:

	Fair Value Level	Balance		Balance	
		Sheet Fair Value		Sheet Fair Value	
		31 March 2015	31 March 2015	31 March 2016	31 March 2016
		£'000	£'000	£'000	£'000
Financial Assets Held at Fair Value					
Available for Sale:					
Money market funds	1	8,038	8,038	6,010	6,010
Unquoted equity investment	3	50	50	778	778
Financial Assets Held at Amortised Cost					
Loans and receivables:					
Loans made for service purposes	2	1,606	1,606	1,868	1,868
Lease receivables	3	11,313	11,313	11,458	11,458
Impaired investments	2	429	429	511	511
Short term investments	2	-	-	8,007	8,007
Cash (including bank accounts)	2	5,410	5,410	3,008	3,008
Short term debtors	3	8,103	8,103	10,617	10,617
Total Financial Assets		34,949	34,949	42,257	42,257
Financial Liabilities Held at Amortised Cost					
Long term loan from PWLB	2	56,906	78,996	56,906	65,359
Short term borrowing	2	10,015	10,015	10,016	10,016
Long term creditors	3	77	77	119	119
Capital grants receipts in advance	3	5,884	5,884	9,386	9,386
Short term creditors	3	16,379	16,379	14,532	14,532
Total Financial Liabilities		89,261	111,351	90,959	99,412

The fair value of our long term loan from PWLB of £65.359million is higher than the principal sum because the Council has a fixed rate loan at a rate higher than currently available borrowing from the market.

NOTES TO THE FINANCIAL STATEMENTS

17. SHORT TERM DEBTORS

	2014-15	2015-16
	£'000	£'000
Government Departments	2,604	2,519
Other Local Authorities	1,289	1,249
Public Body	232	264
Sundry Debtors	6,967	9,835
Debtors of Strata Service Solutions Ltd	79	178
	11,171	14,045
Provision for bad debts	(3,068)	(3,428)
Total Debtors	8,103	10,617

18. CASH AND CASH EQUIVALENTS

	2014-15	2015-16
	£'000	£'000
Cash held by the Council	8	13
Bank current accounts	885	2,814
Money Market Funds	8,038	6,010
Short-term investments	0	8,007
Short-term call accounts	4,023	0
Strata - Cash at bank and in hand	494	181
Total cash and cash equivalents	13,448	17,025

19. ASSETS HELD FOR SALE

	Current	
	2014-15	2015-16
	£'000s	£'000s
Balance at 1 April	609	281
Assets newly classified:		
Property, plant and equipment	201	399
Intangible assets	0	0
Other assets / liabilities	0	0
Revaluation losses	0	0
Revaluation gains	3	2
Impairment losses	0	0
Assets declassified:		
Property, plant and equipment	(40)	(45)
Intangible assets	0	0
Other assets / liabilities	0	0
Assets sold	(492)	(155)
Transfers between current and non-current	0	
Other movements	0	0
Balance at 31 March	281	482

NOTES TO THE FINANCIAL STATEMENTS

20. SHORT TERM CREDITORS

	2014-15	2015-16
	£'000	£'000
Government Departments	4,540	2,753
Other Local Authorities	2,365	2,752
Public bodies	91	75
Sundry Creditors	9,245	8,859
Creditors of Strata Service Solutions Ltd	138	93
	16,379	14,532

21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 7.

	2014-15	2015-16
	£'000	£'000
General Fund Balance	3,974	5,518
Housing Revenue Account	7,864	7,237
Capital Receipts Reserve	1,181	3,517
Major Repairs Reserve	5,215	6,343
Earmarked Reserves	5,903	5,655
Capital Grants Unapplied	950	1,684
Balance at 31 March	25,087	29,954

22. UNUSABLE RESERVES

	2014-15	2015-16
	£'000	£'000
Revaluation Reserve	81,901	89,358
Capital Adjustment Account	222,676	229,499
Financial Instrument Adjustment Account	(317)	(288)
Deferred Capital Receipts Reserve	11,451	11,587
Pensions Reserve	(96,538)	(89,414)
Collection Fund Adjustment Account	(661)	(148)
Accumulated Absences Account	(464)	(455)
Total Unusable Reserves	218,048	240,139

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.

NOTES TO THE FINANCIAL STATEMENTS

2014-15 £'000	2015-16 £'000	£'000
70,215		81,901
12,691	10,960	
	Downward revaluation of assets and impairment losses not charged (20) to CIES	(2,202)
12,671		8,758
	Difference between fair value depreciation and historical cost (719) depreciation	(1,020)
	0 Prior year adjustment	0
(266)	(281)	
(985)		(1,301)
81,901		89,358

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority 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 Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2014-15 £'000	2015-16 £'000	£'000
215,961		222,676
	Charges for depreciation and impairment of non-current assets	(8,801)
(5,617)	(185)	(193)
	Amortisation of intangible Assets Revenue expenditure funded from capital under statute	690
(3,178)		
	Gain on value of assets donated to Strata	0
195		
	Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal	(1,513)
(1,017)		(9,817)
(9,802)		
	Adjusting amounts to Revaluation reserve	1,020
719		
	Net amount written out of the cost of non-current assets in year	213,879
206,878		

NOTES TO THE FINANCIAL STATEMENTS

Capital Adjustment Account

2014-15	2015-16		
	£'000	£'000	£'000
	Capital finance applied in year:		
3,368	Use of Capital receipts reserve	683	
1,066	Use of the Major Repairs Reserve	1,433	
	Capital Grants and contributions		
278	applied - CIES	1,979	
	Capital Grants and contributions		
87	applied - CGU Account	5	
	Statutory provision for financing		
1,332	capital	818	
	Voluntary provision for financing		
2,150	capital	1,477	
	Capital Expenditure charged		
	directly to the General Fund and		
6,337	HRA	7,351	
14,618			13,746
	Movements in the market value of		
1,369	Investment Properties		1,915
	Movement in the Donated Assets		
0	Account		80
(189)	Repayment of Long Term Debtors		(121)
222,676	Balance at 31 March		229,499

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 statute.

2014-15	2015-16		
	£'000	£'000	£'000
(58)	Balance at 1 April		(317)
	Premiums incurred in year and		
0	charged to CIES	0	
	Proportion of premiums incurred in		
	previous years to be charged to		
0	General Fund	0	
0			0
	Amount by which finance costs		
	charged to CIES differ from finance		
(259)	costs charged in year under statute	29	
(259)			29
(317)	Balance at 31 March		(288)

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 Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Account as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and

NOTES TO THE FINANCIAL STATEMENTS

investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

2014-15 £'000	2015-16	
	£'000	£'000
(75,530) Balance at 1 April		(96,538)
(17,132) Remeasurements of the net defined benefit liability/(asset)		11,036
(7,630) Reversal of items relating to retirement benefits in the CIES		(7,596)
Employers pension contributions and direct payments to pensioners	3,754	3,684
(96,538) Balance at 31 March		(89,414)

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2014-15 £'000	2015-16	
	£'000	£'000
11,574 Balance at 1 April		11,451
Transfer of Finance Lease		
(102) Premium to CIES	146	
Transfer to Capital Receipts		
(21) Reserve upon receipt of cash	(10)	
		136
11,451 Balance at 31 March		11,587

Collection Fund Adjustment Account

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

2014-15 £'000	2015-16	
	£'000	£'000
(1,914) Balance at 1 April		(661)
Amount by which council tax and NNDR income credited to CIES differs from that calculated for the		
1,253 year under statute	513	
		513
(661) Balance at 31 March		(148)

NOTES TO THE FINANCIAL STATEMENTS

Accumulated Absences Account

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

2014-15 £'000	2015-16	
	£'000	£'000
(468) Balance at 1 April		(464)
Settlement / cancellation of		
468 previous year's accrual	464	
(464) Amounts accrued at the end of	(455)	
Amount by which remuneration		
charged to CIES differs from		
remuneration charged for the year		
4 under statute		9
(464) Balance at 31 March		(455)

23. CASHFLOW STATEMENT – OPERATING ACTIVITIES

	2014-15		2015-16		2015-16	
	£'000	£'000	£'000	£'000	£'000	£'000
	ECC	Strata	Total	ECC	Strata	Total
Net (surplus) / deficit on provision of Services	(5,896)	734	(5,162)	(7,697)	533	(7,164)
Depreciation	(5,256)	(45)	(5,301)	(5,176)	(125)	(5,301)
Impairment	(362)		(362)	(3,500)		(3,500)
Amortisation	(186)	(65)	(251)	0	(193)	(193)
Investment (losses) / gains	(35)		(35)	63		63
Donated assets	0	194	194	81		81
Pension liability	(2,684)	(1,192)	(3,876)	(3,747)	(165)	(3,912)
Carrying amount of non-current assets sold	(3,503)		(3,503)	(1,796)		(1,796)
Movement in investment properties	1,368		1,368	1,915		1,915
Capital grants applied			0			0
Finance lease income	102		102	(146)		(146)
Other	263		263	(1,342)		(1,342)
Movement in inventories	(20)	5	(15)	(12)	(2)	(14)
Movement in debtors	(635)	258	(377)	807	292	1,099
Movement in creditors	775	(415)	360	2,842	(47)	2,795
less			0			0
Items classified elsewhere						
	406	68	474	884	4	888
	(15,663)	(458)	(16,121)	(16,824)	297	(16,527)

NOTES TO THE FINANCIAL STATEMENTS

24. CASHFLOW STATEMENT – INVESTING ACTIVITIES

	2014-15	2014-15	2014-15	2015-16	2015-16	2015-16
	£'000	£'000	£'000	£'000	£'000	£'000
	ECC	Strata	Total	ECC	Strata	Total
Purchase of non-current assets	16,845	0	16,845	14,770	253	15,023
Purchase of short and long-term investments	149,000	0	149,000	132,500	0	132,500
Other payments for investing activities	2,077	0	2,077	2,040	0	2,040
Proceeds from the sale of non-current assets	(2,468)	0	(2,468)	(3,375)	0	(3,375)
Proceeds of short and long-term investments	(148,500)	0	(148,500)	(130,500)	0	(130,500)
Other receipts for investing activities	(665)	(37)	(702)	(773)	(237)	(1,010)
Net cash flows from investing activities	16,289	(37)	16,252	14,662	16	14,678

25. CASHFLOW STATEMENT – FINANCING ACTIVITIES

	2014-15	2014-15	2014-15	2015-16	2015-16	2015-16
	£'000	£'000	£'000	£'000	£'000	£'000
	ECC	Strata	Total	ECC	Strata	Total
Cash receipts of short and long-term borrowing	(18,000)	0	(18,000)	(10,000)	0	(10,000)
Other receipts for financing activities	(9,295)	0	(9,295)	(1,728)	0	(1,728)
Cash payments for the reduction of liabilities relating to finance leases	0	0	0	0	0	0
Repayments of short and long-term borrowing	26,000	0	26,000	10,000	0	10,000
Other payments for financing activities	0	0	0	0	0	0
Net cash flows from financing activities	(1,295)	0	(1,295)	(1,728)	0	(1,728)

NOTES TO THE FINANCIAL STATEMENTS

26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- not all charges are made in relation to capital expenditure (revaluation and impairment losses in excess of the balance on the Revaluation Reserve 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

The income and expenditure of the Council's Committees recorded in the budget reports for the year are as follows:

	2014-15	2015-16
Committee Net Expenditure	£'000	£'000
Scrutiny - People	3,731	3,212
Scrutiny - Place	9,540	7,896
Scrutiny - Corporate	692	1,999
HRA	0	0
less		
Notional Capital Charges	(2,955)	(2,614)
IAS Pension Adjustment		
Net Expenditure	11,008	10,493

NOTES TO THE FINANCIAL STATEMENTS

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

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

	2014-15 £'000	2015-16 £'000
Net expenditure in the Committee analysis	11,008	10,493
Net expenditure of services not included in the analysis	2,820	4,686
Amounts in the CIES not reported to management in the analysis	3,772	(473)
Amounts included in the analysis not included in the CIES cost of services	(7,270)	(2,750)
Amounts included in respect of Strata Service Solutions	910	487
Cost of Services in CIES	11,240	12,443

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation to Subjective Analysis

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

	Directorate Analysis	Services & Support Services not in analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Adjustments - Strata Service Solutions	Cost of services	Corporate Amounts	Corporate Amounts - Strata Service Solutions	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2015-16									
Fees & charges	(19,884)			2,423	(2,200)	(19,661)		(4)	(19,665)
Interest & Investment income						0	(4,895)		(4,895)
Income from Council Tax						0	(4,787)		(4,787)
Government grants & contributions	(46,471)					(46,471)	(14,221)		(60,692)
Total Income	(66,355)	0	0	2,423	(2,200)	(66,132)	(23,903)	(4)	(90,039)
Employees	19,249	2,072		(1,615)		19,706			19,706
Other expenses	57,599		(669)	(3,558)	2,369	55,741	42		55,783
Support Service recharges						0			0
Depreciation, amortisation & impairment		2,614	196		318	3,128		50	3,178
Interest payments						0	5,302		5,302
Payments to Housing Pool						0	463		463
Gain / loss of disposal of assets						0	(1,557)		(1,557)
Total Expenditure	76,848	4,686	(473)	(5,173)	2,687	78,575	4,250	50	82,875
Surplus / deficit on the provision of services	10,493	4,686	(473)	(2,750)	487	12,443	(19,653)	46	(7,164)

NOTES TO THE FINANCIAL STATEMENTS

	Directorate Analysis	Services & Support Services not in analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Adjustments - Strata Service Solutions	Cost of services	Corporate Amounts	Corporate Amounts - Strata Service Solutions	Total
2014-15	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & charges	(18,835)			2,237	(885)	(17,483)			(17,483)
Interest & Investment income						0	(3,542)	(1)	(3,543)
Income from Council Tax						0	(4,612)		(4,612)
Government grants & contributions	(47,001)					(47,001)	(12,719)		(59,720)
Total Income	(65,836)	0	0	2,237	(885)	(64,484)	(20,873)	(1)	(85,358)
Employees	19,292	(135)		(422)		18,735			18,735
Other expenses	57,552		3,411	(9,085)	1,795	53,673	55		53,728
Support Service recharges						0			0
Depreciation, amortisation & impairment		2,955	361			3,316			3,316
Interest payments						0	5,343	19	5,362
Payments to Housing Pool						0	400		400
Gain / loss of disposal of assets						0	(1,151)	(194)	(1,345)
Total Expenditure	76,844	2,820	3,772	(9,507)	1,795	75,724	4,647	(175)	80,196
Surplus / deficit on the provision of services	11,008	2,820	3,772	(7,270)	910	11,240	(16,226)	(176)	(5,162)

NOTES TO THE FINANCIAL STATEMENTS

27. MEMBERS ALLOWANCES

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

	2014-15	2015-16
	£'000	£'000
Salaries	12	8
Allowances	247	261
Expenses	5	0
Total	264	269

28. OFFICERS REMUNERATION

The number of employees whose remuneration (including exit packages) excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees	
	2014-15	2015-16
£50,000 - £54,999	0	0
£55,000 - £59,999	4	4
£60,000 - £64,999	10	0
£65,000 - £69,999	0	7
£70,000 - £74,999	0	0
£75,000 - £79,999	1	0
£80,000 - £84,999	0	0
£85,000 - £89,999	2	1
£90,000 - £94,999	0	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	1
£105,000 - £109,999	0	0
£110,000 - £114,999	1	1
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	0

NOTES TO THE FINANCIAL STATEMENTS

The table below sets out the remuneration of Statutory Officers and the Council's Strategic Management Team.

2015-16

Post	Salary, fees & allowances	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive & Growth Director	110,000	110	0	0	110,110	15,510	125,620
Deputy Chief Executive	89,760	102	0	0	89,862	12,656	102,518
Assistant Director Economy	65,280	637	0	0	65,917	9,204	75,121
Assistant Director Environment	65,506	283	0	0	65,789	9,236	75,025
Assistant Director Customer Access	65,280	46	0	0	65,326	9,204	74,530
Assistant Director Finance	65,280	134	0	0	65,414	9,204	74,618
Assistant Director City Development	65,280	0	0	0	65,280	9,204	74,484
Assistant Director Housing	65,280	43	0	0	65,323	9,204	74,527
Assistant Director Public Realm	65,280	600	0	0	65,880	9,204	75,084
Corporate Manager - Property	57,120	285	0	0	57,405	8,054	65,459
Corporate Manager - Policy/Communications/Community Engagement	57,340	243	0	0	57,583	8,085	65,668
Corporate Manager - Democratic/Civic Support	57,230	393	0	0	57,623	8,069	65,692
Corporate Manager - Legal	57,120	42	0	0	57,162	8,054	65,216

NOTES TO THE FINANCIAL STATEMENTS

2014-15

Post	Salary, fees & allowances	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive & Growth Director	110,000	146	0	0	110,146	15,510	125,656
Deputy Chief Executive	88,440	0	0	0	88,440	12,470	100,910
Assistant Director Economy	64,320	901	0	0	65,221	9,069	74,290
Assistant Director Environment	64,765	398	0	0	65,163	9,132	74,295
Assistant Director Customer Access	64,320	119	0	0	64,439	9,069	73,508
Assistant Director Finance	64,320	58	0	0	64,378	9,069	73,447
Assistant Director City Development	64,320	65	0	0	64,385	9,069	73,454
Assistant Director Housing	64,320	0	0	0	64,320	9,069	73,389
Assistant Director Public Realm	64,320	198	0	0	64,518	9,069	73,587
Corporate Manager - Property	56,280	303	0	0	56,583	7,935	64,518
Corporate Manager - Policy/Communications/Community Engagement	54,170	21	0	0	54,191	7,638	61,829
Corporate Manager - Democratic/Civic Support	58,635	21	0	0	58,656	8,268	66,924
Corporate Manager - Legal	58,635	109	0	0	58,744	8,268	67,012

The 2014/15 comparatives have been restated to reflect the removal of pension back-funding contributions, as they are not directly attributable to current employees.

NOTES TO THE FINANCIAL STATEMENTS

29. EXTERNAL AUDIT COSTS

In 2015/16 Exeter City Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	2014-15	2015-16
	£'000	£'000
Core Audit Fees payable to Grant Thornton (14/15) and KPMG (15/16) with regard to external audit services carried out by the appointed auditor	77	58
Audit Commission rebate	(8)	0
Fees payable to Grant Thornton for the certification of grant claims and returns *	20	22
Fees payable to KPMG for the certification of grant claims and returns	0	16
Fees payable to Grant Thornton in respect of other services **	8	4
	97	100

* Additional fees incurred in 2014/15 and 2015/16 which relate to significant testing work undertaken in respect of the housing benefit subsidy claims for 2013/14 and 2014/15 respectively.

** Charge for advice in respect of submission of a trade waste VAT claim (£6,667 – 2014/15) and other VAT related advice (£1,800 – 2014/15 and £3,516 – 2015/16)

30. GRANTS, CONTRIBUTIONS AND DONATIONS

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

	2014-15	2015-16
	£'000	£'000
Credited to Taxation and non-specific grant income		
Council taxpayers	(4,612)	(4,787)
Revenue Support Grant	(4,049)	(2,899)
New Homes Bonus	(2,778)	(3,529)
Council Tax Freeze Grant	(118)	0
NDR	(5,133)	(5,054)
Community Infrastructure Levy	(9)	(21)
Other Capital Grants & Contributions	(632)	(2,718)
Total	(17,331)	(19,008)
Credited to Services		
Benefit Subsidy	(39,762)	(38,532)
NDR Cost of Collection	(224)	(220)
Supporting People	(275)	0
CT/HB Admin Grant	(622)	(560)
Other Grants and Contributions	(1,453)	(1,591)
Total	(42,336)	(40,903)

NOTES TO THE FINANCIAL STATEMENTS

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

	2014-15	2015-16
	£'000	£'000
Capital Grants receipts in advance		
Land at Beacon Avenue	(57)	(58)
Environmental Cont - Rydon Lane	(13)	(13)
Affordable Housing - Cowick St	(487)	(413)
Community Facility - Western Way	(38)	(39)
Leisure Contribution - Hill Barton	(68)	(68)
Local Energy Networks	(73)	(78)
Leisure Contribution - Newcourt	(750)	(1,104)
Community Facility - Newcourt	(185)	(323)
Affordable Housing - Newcourt	(245)	(246)
Extracare - St Loyes	(1,734)	(5,632)
Leisure Contribution - Earls Park	(95)	(95)
Affordable Housing - Earls Park	(901)	(907)
Leisure Contribution - St Loyes	(293)	(278)
Leisure Contribution - Prince of Wales Rd	(764)	0
Other Grants	(181)	(132)
Total	(5,884)	(9,386)

31. RELATED PARTIES

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

Central Government – has significant influence over the general operations of the Council, providing the statutory framework, the majority of the funding, and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

Council Members – have direct control over the council's financial and operating policies. The total of member allowances paid in 2015/16 is shown in Note 27. During the financial year, the Council paid grants to organisations totalling £306,757 in which six members had positions on the governing body. In all instances, the grants were made with proper considerations of declarations of interest. The relevant members did not take part in any discussion relating to the grants.

Other public bodies – Exeter City Council is part of a designated pool for the retention of business rates, which allows local authorities to be treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

NOTES TO THE FINANCIAL STATEMENTS

31. RELATED PARTIES (Continued)

Entities Controlled or Significantly Influenced by the Authority

Exeter Business Centre Ltd

Exeter Business Centre Ltd (EBC) main purpose is the letting of affordable business units to support small businesses.

The Authority controls EBC through its ownership of 100% of the shares in the Company and it is deemed to be a subsidiary. The Authority made a £45,000 contribution towards running costs during 2015/16 and EBC had net assets of £102,322 as at 31 March 2016 (£45,952 31 March 2015).

Exeter Canal and Quay Trust Ltd

Exeter Canal and Quay Trust (ECQT) has a charitable status and its main objectives are to preserve and develop the Exeter Canal and Quay area.

ECQT is deemed to be an associate company, as the company is limited by guarantee and the Council has significant influence through its representation on the Trust board. The Council leases a number of assets to ECQT on a long term basis at nil rent, with the exception of Double Locks Hotel whereby rent is 5% of turnover divided equally between ECQT and the Council (£24,516 in 2015/16). ECQT also contributed £76,990 towards Council costs mostly in respect of running the Quay House Visitors Centre.

The Council received a £70,000 lease premium for the grant of a long lease in respect of the Custom House and £47,500 for the disposal of 60 Haven Road to ECQT during 2015/16.

Exeter Science Park Ltd

The principal activity of the Company is to ensure the successful delivery of the Science Park by enabling the market for the Science Park to be developed through connections with the knowledge base at the University of Exeter, the Met Office and the Peninsula College of Medicine and Dentistry. The largest shareholding is Devon County Council (49.9%) along with the University of Exeter (21.5%) and East Devon District Council (7.1%).

The Authority has a 21.5% shareholding in the Company. It is deemed to be an associate due to the Council's ownership interest and significant influence. The Council has previously provided a loan of £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity in 2023/24.

The Council's share in the net assets of Exeter Science Park Ltd is £393,051 at 31 March 2016.

NOTES TO THE FINANCIAL STATEMENTS

32. INTERESTS IN JOINT OPERATIONS

Exeter City Council, Teignbridge District Council and East Devon District Council each have interests in a joint operation called Strata Service Solutions Ltd, a registered company (company number 09041662) whose registered office is Civic Centre, Paris Street, Exeter, Devon, EX1 1JN. The Company was established on 30 October 2014.

The business of the Company is the operation and provision of a shared information communications technology service to each of the Councils including;

- A source of expertise regarding information technology
- A resilient and reliable ICT infrastructure
- A service desk that maintains and supports devices, operating systems and core applications
- Information security and information management services
- Developing and implementing business systems to meet Council business objectives
- A Street Name and Numbering function

The proportions of ownership interests are; Exeter City Council (35.936%), Teignbridge District Council (27.372%) and East Devon District Council (36.692%). Each authority has equal voting rights, with decisions taken collectively and unanimously.

NOTES TO THE FINANCIAL STATEMENTS

The figures that have been consolidated into the Council's single entity financial statements in respect of Strata Service Solutions Ltd are:

	2014-15	2015-16
	£'000's	£'000's
Adjustments to CIES		
Fees	(953)	(2,200)
Cost of sales	470	1,048
Admin expenses	257	1,639
Transfer of pension scheme liability	1,136	0
Cost of Services	910	487
Gain on disposal of assets	(194)	0
Net interest on the net defined benefit liability	19	50
Interest receivable	(1)	(4)
(Surplus) or Deficit on Provision of Services	734	533
Remeasurement of the net defined benefit liability	253	(396)
Total CIES	987	137

	2014-15	2015-16
	£'000's	£'000's
Adjustments to Balance Sheet		
Property, plant & equipment	512	(55)
Intangible assets	715	(10)
Investment in Strata removed upon consolidation and replaced with proportional share of assets and liabilities	(1,173)	(152)
Total Long Term Assets	54	(217)
Inventories	5	(2)
Short Term Debtors	79	99
Cash & cash equivalents	494	(313)
Total Current Assets	578	(216)
Short Term Creditors	(138)	45
Total Current Liabilities	(138)	45
Capital Grants Receipts in Advance	(36)	20
Pension Scheme Liability	(1,445)	231
Total Long Term Liabilities	(1,481)	251
Net assets	(987)	(137)
Financed by:		
Usable Reserves	263	(50)
Unusable Reserves	(1,250)	(87)
Total Reserves	(987)	(137)

NOTES TO THE FINANCIAL STATEMENTS

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2014-15	2015-16
	£'000	£'000
Opening Capital Financing Requirement	89,960	91,227
Capital Investment		
Intangible Assets	83	0
Property, Plant and Equipment	10,952	14,021
Investment Properties	0	0
Long Term Debtors	1,008	345
Long Term Investments	50	0
REFCUS	4,319	644
Sources of Finance		
Capital Receipts	(3,368)	(683)
Government grants and other contributions	(879)	(2,439)
Sums set aside from revenue	(7,404)	(8,784)
Minimum Revenue Provision	(1,332)	(818)
Voluntary Revenue Provision	(2,150)	(1,477)
Repayment of Long Term Debtors	(12)	(6)
Closing Capital Financing Requirement	91,227	92,030
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by Government financial assistance)	1,267	803
Increase/(decrease) in Capital Financing Requirement	1,267	803

NOTES TO THE FINANCIAL STATEMENTS

34. LEASES

Council as a Lessee

Finance Leases

The Council has acquired a number of its investment properties and some small items of equipment under finance leases. However the items of equipment are below the Council's de minimis for treatment as capital expenditure and they have therefore been treated at operating leases, with the rental charge being charged to the relevant service within the net cost of services.

In respect of investment properties, there are ten assets, which have been leased in under finance leases, owing to the length of the lease. However, none of the ten leases attracted a lease premium payment, nor is there an annual lease payment due. The assets therefore have been initially recognised in the accounts at zero, being the lower of the net present value of the lease payments or the fair value of the asset. Where appropriate the assets have been revalued to reflect the value to the Council of the lease, were the Council to sell it at market value.

The Council therefore has no minimum lease payments in respect of finance leases.

Operating Leases

The Council holds some capital assets, principally property, plant and equipment under operating lease agreements. The majority of the lease payments represent rent payments to property owners who have provided property on short term lease arrangements (3-5 years) for temporary accommodation. Rental payments made in the year amounted to £696,708 (2014/15 £775,249). The future minimum lease payments due under non-cancellable leases in 2016/17 can be broken down as follows:

Due to expire in 2016/17 (or on 1 year rolling agreements)	£47,837
2 – 5 Years	£633,871
5+ Years	£15,000

NOTES TO THE FINANCIAL STATEMENTS

Council as a Lessor

Finance Leases

The Authority has thirty six leases, which would be classified as finance leases under IFRS. The asset valuation in the Balance Sheet is therefore based on the freehold interest in the asset.

Twenty six of the leases were entered into prior to 2010 and therefore the Council has taken advantage of the statutory regulations allowing the income received to be retained as revenue income.

The gross investment is made up of the following amounts

	2014-15 £'000	2015-16 £'000
Finance Lease Debtor		
• Current	113	115
• Non-current	11,313	11,458
Unearned finance income	11,426	11,573
Unguaranteed Residual Value	17,599	18,595
Gross investment in Lease	29,025	30,168
Minimum lease payments are:		
5 + Years	597	608

Operating Leases

The Council leases out approximately 270 Commercial Premises. Investment income totalling £2,424,191 has been received in respect of these properties during 2015/16 (£2,235,220 in 2014/15).

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

Due to expire in 2016-17 (or on 1 year rolling agreements)	£234,639
2 – 5 Years	£678,916
5+ Years	£2,159,437

Note 13 sets out the value of the investment properties in the accounts. As they are investment properties, they are carried at their fair value and no depreciation is charged.

NOTES TO THE FINANCIAL STATEMENTS

35. IMPAIRMENT LOSSES

During 2015/16, the Council has recognised impairment losses of £3.304million and £0.214m in relation to its council dwellings and operational land and buildings respectively.

The impairments are reflected in Note 12 which reconciles the movement over the year in the Property, Plant and Equipment balances.

36. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2015/16, incurring liabilities of £123,477 in redundancy payments (£237,456 2014/15) and £90,443 in pension strain payments (£164,450 2014/15), which have been charged to the Comprehensive Income and Expenditure Statement.

These are broken down as follows:

Band	Number of Employees	
	2014-15	2015-16
Compulsory Redundancy		
Less than £20,000	0	3
£20,000 - £39,999	1	1
£40,000 - £59,999	0	0
£60,000 - £79,999	1	0
£80,000 - £99,999	0	0
Voluntary Redundancy		
Less than £20,000	6	2
£20,000 - £39,999	3	3
£40,000 - £59,999	0	0
£60,000 - £79,999	2	0
£80,000 - £99,999	0	0
£100,000 - £149,999	0	0
Other Departures		
£60,000 - £79,999	0	1

NOTES TO THE FINANCIAL STATEMENTS

37. DEFINED BENEFIT PENSION SCHEMES

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

- Exeter City Council participates in the Local Government Pension Scheme, which is administered by Devon County Council in accordance with the Local Government Pension Scheme Regulations 2014. The Pension Fund Committee oversees the management of the Fund.
- The Local Government Pension Scheme is a defined benefit scheme and currently provides benefits based on career average re-valued salary and length of service on retirement.
- Although the Council only participates in the Local Government Pension Scheme, a number of early retirements mean that there is an element of unfunded liabilities for the Council to cover.
- The Pension Reserve shows the City Council's current deficit in the Devon County Council Pension Fund. The figure has been derived from an actuarial valuation as at 31 March 2013 rolled forward to take into account changes in the intervening period.

The most recent valuation was carried out as at 31 March 2013, and has been updated by independent actuaries to the Devon County Council Pension Fund to take account of the requirements of IAS 19 in order to assess the liabilities of the Fund as at 31 March 2016. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Exeter City Council's contribution rate over the accounting period was 14.1% of pensionable pay. The contribution rates certified for Exeter City Council at 31 March 2013 valuation are as follows:

Future Service Pay

April 2015 to March 2016	14.1% of pensionable pay
April 2016 to March 2017	14.1% of pensionable pay

Past Service Deficit

April 2015 to March 2016	£1.332 million
April 2016 to March 2017	£1.393 million

The estimated value of employer contributions for 2016-17 is £3.328m.

NOTES TO THE FINANCIAL STATEMENTS

The estimated asset allocation as at 31 March 2016 is as follows:

Asset Share	2014-15		2015-16	
	£'000	%	£'000	%
Equities	26,104	25	25,094	24
Overseas Equities	36,530	34	33,416	31
Infrastructure	2,935	3	3,937	4
Gilts	6,738	6	2,864	3
Other Bonds	3,682	3	3,688	4
Property	10,585	10	11,645	11
Cash	1,825	2	2,318	2
Target Return Portfolio	15,615	15	15,146	15
Alternative assets	1,883	2	5,875	6
Total	105,897	100	103,983	100

The main assumptions used for the purposes of IAS 19 are as follows:

	2014-15	2015-16
Discount rate for scheme liabilities	3.3% pa	3.6% pa
Rate of increase in salaries	4.2% pa	4.1% pa
Rate of increase in pensions	2.4% pa	2.3% pa
Rate of inflation - RPI	3.2% pa	3.2% pa
- CPI	2.4% pa	2.3% pa
Longevity at 65 – current pensioners		
Men	22.8	22.9
Women	26.1	26.2
Longevity at 65 – future pensioners		
Men	25.1	25.2
Women	28.4	28.6
Avg long term expected rate of return		
Conversion of pension into lump sum		
Pre April 2008 permitted amount	50%	50%
Post April 2008 permitted amount	50%	50%

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is reported in the cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out via the Movement in Reserves Statement as follows:

CIES	2014-15 £m	2015-16 £m
<i>Net Services Cost</i>		
Current Service Cost	3.516	4.242
Loss / (gain) on curtailment	0.447	0.180
(Gain)/Loss from settlements – re transfer of staff to Strata	0.349	0.000
<i>Other Operating Expenditure</i>		
Administration expenses	0.055	0.043
<i>Financing and Investment Income and Expenditure</i>		
Net interest on the defined liability (asset)	<u>3.263</u>	<u>3.131</u>
	7.630	7.596
Movement in Reserves Statement		
Reversal of net charges	(7.630)	(7.596)
Employers contributions	3.755	3.684

NOTES TO THE FINANCIAL STATEMENTS

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

	2014-15	2015-16
	(£m)	(£m)
Opening fair value of assets	97.365	104.091
Opening fair value of Strata assets	1.643	1.806
Interest income	4.243	3.468
Remeasurement gains / (loss)	6.064	(3.506)
Administration expenses	(0.055)	(0.043)
Contributions by the employer	3.683	3.835
Contributions by participants	0.920	0.916
Net benefits paid out	(6.626)	(6.584)
Settlement prices received / (paid) – re staff transferred to Strata	(1.340)	(0.000)
Closing fair value of assets	105.897	103.983

Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligation):

	2014-15	2015-16
	(£m)	(£m)
Opening present value of liabilities	172.895	199.184
Opening present value of Strata liabilities	2.779	3.251
Current service cost	3.516	4.242
Interest cost	7.507	6.600
Contributions by participants	0.919	0.916
<i>Remeasurement (gains) and losses:</i>		
Change in demographic assumptions	0.00	0.00
Change in financial assumptions	23.074	(14.326)
Experience loss(gain)	0.051	(0.065)
Benefits paid out	(6.346)	(6.306)
Past service cost, including curtailments	0.447	0.180
Liabilities assumed / (extinguished) on settlements – re staff transferred to Strata	(2.127)	(0.000)
Unfunded pension payments	<u>(0.280)</u>	<u>(0.279)</u>
Closing present value of liabilities	<u>202.435</u>	<u>193.397</u>

NOTES TO THE FINANCIAL STATEMENTS

Pension Assets and Liabilities Recognised in the Balance Sheet:

	2014-15	2015-16
	(£m)	(£m)
Present value of defined benefit obligations	202.435	193.397
Fair Value of Scheme Assets	<u>(105.897)</u>	<u>(103.983)</u>
Net Liability in Balance Sheet	96.538	89.414

The sensitivity analysis below sets out the impact on the defined benefit obligations for each change while all other assumptions remain constant:

	Increase in assumption	Decrease in assumption
	(£m)	(£m)
Longevity +/- 1 year	199.379	187.598
Salaries +/- 1%	193.800	192.996
Pensions +/- 1%	196.534	190.317
Discount rate +/- 1%	189.963	196.896

NOTES TO THE FINANCIAL STATEMENTS

38. CHARITABLE AND TRUST FUNDS

The Council administers 5 charitable/trust funds related to Leisure and Museum services, principally from legacies left by individual Exeter inhabitants over a period of years. The funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

The funds are:

	Value of fund at 1.4.15	Expenditure	Income	Value of fund at 31.3.16
	£'000	£'000	£'000	£'000
Reynolds Chard Bequest	373	0	13	386
Veitch Bequest	21	0	0	21
Dorothy Holman Trust	40	(15)	1	26
Bowling Green Marshes	0	0	0	0
Topsham Recreation Ground	17	0	0	17
	451	(15)	14	450

NOTES TO THE FINANCIAL STATEMENTS

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Council's finance team, under policies approved by full Council as set out in the Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the Council's exposure to Icelandic Banks, the Council's in-house criteria have been significantly tightened. The latest Strategy was approved on 23 February 2016.

Deposits are not made with banks and financial institutions unless they are rated independently (by both Fitch and Moody's credit rating agencies) and based in the UK or are a local authority. There are a range of investment limits relating to both value and length of deposit depending on rating. For example UK institutions with the highest rating of rates F1+ have a maximum investment of £4 million for up to 364 days, Foreign institutions that deal in Sterling and are rated F1+ have a maximum investment of £3 million for up to 180 days, whilst the lowest rating the Council will accept (F1 and P-1) have a maximum investment of £3 million for up to 90 days. Up to £5 million can be invested in a money market fund.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

NOTES TO THE FINANCIAL STATEMENTS

	Amount at 31/03/2016	Historical experience of default	Historic experience adjusted for market conditions at 31/03/2016	Estimated maximum exposure to default and uncollectability
	£'000	%	%	£'000
Deposits with banks and other financial institutions	429	4.3	5	21
Trade and other Receivables – Sundry Debt	10,230	10	15	1,534
Other statutory debts	387	10	15	58
Total	11,046			1,613

NOTES TO THE FINANCIAL STATEMENTS

The Council has varying credit terms for customers. In reviewing the Council's sundry debt (excluding Council Tax, Business Rates or money owed by the Government in respect of Business Rates etc): Out of the £9.835m sundry debt in Note 17, some £4.700m is invoiced debt. £3.519m of this invoiced debt is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
30 days – 1 year	1,928
1 – 2 years	733
2 – 3 years	435
3 – 4 years	271
4 – 5 years	152
5 + years	0
Total	3,519

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council has one long-term loan, taken out on 28 March 2012 to cover the HRA self-financing payment. This loan is due for repayment in 2062. There is a risk of having to replenish this loan at unfavourable interest rates.

All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowing and investments. Movements in interest rates have a complex impact on the Council. For example a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expenses charged to the Income and Expenditure will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the CIES. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the CIES and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income & Expenditure.

NOTES TO THE FINANCIAL STATEMENTS

The Council has a number of strategies for managing interest rate risk; however it has not borrowed using variable rate loans for many years.

If on the 31 March 2016 the interest rates are 1% higher than the actual interest rates the financial impact would be:

Borrowing:

The Council's short term fixed rate borrowing as at 31 March 2016 was taken out over 2 years. A 1% increase in interest rates would increase the cost by £100,000 per annum. The Council's long-term borrowing has been taken out over a period of 50 years and matures in 2062. A 1% increase in interest rates would increase the cost of borrowing by £568,840 a year.

Investments:

It is reasonable to assume that the Council's investments in "cash" accounts should increase by the change in interest rates. A 1% increase would generate an additional £88,000 over a year. In respect of the fixed term deposits of £8m a 1% increase in interest rates would have decreased the fair value by £80,000.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares. The Council does have an interest in three companies but these do not lead to a share of profits or consist of an equity value on the Balance Sheet.

Foreign Exchange Risk

The Council has received a substantial recovery of the money it placed in Iceland. The repayments were made in a basket of currencies, based on foreign exchange rates at 22 April 2009. Most of the funds have been converted to Sterling; however some repayments were made in Icelandic Kroner. Currency restrictions in Iceland mean that the funds must remain in Iceland and are held in escrow. The funds have been revalued at 31 March 2016 and a foreign currency gain has been credited to the Comprehensive Income and Expenditure Statement. A 1% reduction in the value of the Kroner will mean a reduction of £5,040 in the value of the investments.

NOTES TO THE FINANCIAL STATEMENTS

40. CONTINGENT ASSET

An outstanding legal case may result in the Council receiving a compensation award in the future. The timing and value of the potential award is, at this stage, uncertain and no provision has therefore been made in the accounts. Settlement payments and compensation orders already awarded to the Council in respect of this claim amount to £414,562.

41. STATUTORY HARBOUR AUTHORITY

Exeter City Council is the harbour authority for the Exe Estuary.

An annual Statement of Account relating to harbour activities is required to be prepared, in accordance with the 1964 Harbours Act.

	2014-15	2015-16
	£'000	£'000
Income		
Fees and Charges	(71)	(80)
	(71)	(80)
Expenditure		
Employees	44	30
Premises	61	56
Supplies and Services	27	29
Transport	9	7
Support Services	8	13
Capital Charges	5	2
	154	137
Net cost of Harbour Activities as included in the Comprehensive Income and Expenditure Statement	83	57

HRA INCOME & EXPENDITURE ACCOUNT

2014-2015		2015-2016	
£'000	Income	£'000	£'000
(19,257)	Dwelling rents	(19,664)	
(473)	Non dwelling rents	(479)	
(703)	Charges for services and facilities	(748)	
(131)	Supporting People Subsidy	0	
(20,564)	Total Income		(20,891)
	Expenditure		
4,836	Repairs and maintenance	7,074	
3,911	Supervision and management	4,142	
11	Rents, rates, taxes and other charges	19	
2,487	Depreciation and impairment of non-current assets	5,865	
8	Debt management costs	8	
68	Increase/(decrease) in bad debt provision	68	
11,321	Total Expenditure		17,176
(9,243)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(3,715)
158	HRA share of Corporate and Democratic Core		157
(9,085)	Net Cost of HRA Services		(3,558)

HRA INCOME & EXPENDITURE ACCOUNT

2014-2015		2015-2016
£'000		£'000
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	
(808)	(Gain) or loss on sale of HRA non-current assets	(955)
1,986	Interest payable and similar charges	1,986
(76)	Interest and investment income	(104)
242	Net interest on the net defined benefit liability (asset) and administration expenses	265
(78)	Capital grants and contributions receivable	(352)
(7,819)	(Surplus)or deficit for the year on HRA services	(2,718)

Movement on the HRA Statement

2014-2015		2015-2016
£'000		£'000
(6,067)	Housing Revenue Account surplus brought forward	(7,864)
(7,819)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(2,718)
6,022	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year	3,345
(1,797)	(Increase) or decrease in the HRA Balance	627
(7,864)	Housing Revenue Account surplus carried forward	(7,237)

HRA – NOTES TO THE ACCOUNT

1. HRA DWELLINGS

	Flats	Houses and Bungalows	Total
At 31 March 2015	2,594	2,391	4,985
At 31 March 2016	2,582	2,396	4,978

2. VACANT POSSESSION VALUE OF DWELLINGS

At 1 April 2016 the vacant possession value of the dwellings was £677.877 million, this compares to the tenanted market value in the Balance Sheet of £210.142 million. The difference of £467.735 million represents the economic cost to the Government of providing council housing at less than open market rents.

3. COUNCIL'S OWN BUILD SCHEME

The Council's Own Build scheme involves the development of 21 homes at Sivell Place and Merlin Crescent. Whilst the developments remain within the overall umbrella of the Housing Revenue Account, the costs and incomes arising from the developments are accounted for separately as part of their build costs were financed from borrowing. The cost of servicing the borrowing will therefore be met from the rent income received from the completed dwellings.

4. MAJOR REPAIRS RESERVE

This is a reserve for the financing of major repairs and improvements to HRA assets. The movements during 2015/16 were as follows:

	2014-15	2015-16
	£'000	£'000
Income		
Balance at 1 April	3,794	5,215
Transfer from the HRA	2,487	2,561
	6,281	7,776
Expenditure		
Financing HRA Capital Expenditure		
Land	-	
Houses	843	1,318
Other Property	223	115
	1,066	1,433
Balance at 31st March	5,215	6,343

HRA – NOTES TO THE ACCOUNT

5. BALANCE SHEET VALUATIONS OF ASSETS

	Dwellings	Garages	Vehicles, Plant & Equipment	Intangible Assets	Assets Under Construction	Assets Held for Sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2015	204,784	4,073	361	0	4,204	281	213,703
At 31 March 2016	210,142	4,100	441	0	611	482	215,776

Within the valuation of Council dwellings as at 31 March 2016 of £210.142m, £106.505m was attributable to the value of land (2014/15 £103.727m) and £103.637m to buildings (2014/15 £101.057m).

6. HRA CAPITAL EXPENDITURE

HRA capital expenditure amounted to £7.885 million during 2015/16 (£9.174 million 2014/15), the expenditure and sources of finance were as follows:

	Total Expenditure	Major Repairs Reserve	Sources of Finance			
			Revenue Contributions	Borrowing	Grants & Other Contributions	Capital Receipts
	£'000	£'000	£'000	£'000	£'000	£'000
Land	0	0	0	0	0	0
Houses	7,770	1,318	5,772		595	85
Other Property	115	115	0	0	0	0
Total	7,885	1,433	5,772	0	595	85

HRA – NOTES TO THE ACCOUNT

7. HRA CAPITAL RECEIPTS

The following capital receipts were received during the year from disposals of land, houses and other property within the authority's HRA:

	2014-15 £'000	2015-16 £'000
Land	0	0
Dwellings	1,970	2,464
Repayment of discounts	7	36
	<u>1,977</u>	<u>2,500</u>
Less amount pooled	<u>(400)</u>	<u>(463)</u>
	1,577	2,037

8. IMPAIRMENT CHARGES

Impairment charges of £3.303 million were debited to the HRA Income and Expenditure Account in 2015/16 although they were reversed out in the Statement of Movement on the HRA Balance, to avoid having an impact on rent levels, in accordance with the Code of Practice.

9. DEPRECIATION & AMORTISATION

The depreciation and amortisation charges for the year in respect of HRA assets were:

	2014-15 £'000	2015-16 £'000
Intangible assets	1	0
Operational assets		
Dwellings	2,385	2,415
Garages	52	54
Equipment	49	93
Total depreciation and amortisation charged	<u>2,487</u>	<u>2,562</u>
Less depreciation written off - disposals	(8)	(17)
Less depreciation written off - revaluations	(2,429)	(2,426)
Less depreciation written off - impairments	0	(26)
Total depreciation and amortisation	50	93

10. RENT ARREARS

The rent arrears at 31 March 2016, amounted to £0.583m (31 March 2015, £0.466m) and the aggregate Balance Sheet provision in respect of uncollectable HRA debts is £0.307m (31 March 2015, £0.239m).

COLLECTION FUND

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with other accounts of the billing authority.

2014-2015			2015-2016		
Council			Council		
Tax	NNDR	Total	Tax	NNDR	Total
£'000	£'000	£'000	£'000	£'000	£'000
Income from:					
53,310	0	53,310	55,291	0	55,291
0	(959)	(959)	0	(155)	(155)
0	76,911	76,911	0	77,771	77,771
53,310	75,952	129,262	55,291	77,616	132,907
Expenditure					
Demands on the Fund by:					
5,734	0	5,734	5,974	0	5,974
2,653	734	3,387	2,764	769	3,533
39,292	6,604	45,896	40,937	6,925	47,862
4,548	29,349	33,897	4,693	30,779	35,472
0	36,686	36,686	0	38,474	38,474
0	224	224	0	220	220
22	0	22	68	0	68
Bad and doubtful debts					
193	0	193	245	534	779
385	130	515	310	(40)	270
0	(802)	(802)	0	(1,261)	(1,261)
52,827	72,925	125,752	54,991	76,400	131,391
(483)	(3,027)	(3,510)	(300)	(1,216)	(1,516)
Add					
(1,029)	5,010	3,981	(1,512)	1,983	471
(1,512)	1,983	471	(1,812)	767	(1,045)

COLLECTION FUND

NOTES:

1. Council Taxbase

The council tax base, for tax setting purposes, is calculated by reference to the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. The figures for 2015/16 were:

Band	Dwellings	Less Discounts	Conversion Factor	Band D equivalents
A relief	20	9	5/9ths	6
A	9,549	3,882	6/9ths	3,835
B	14,006	3,398	7/9ths	8,281
C	12,561	2,011	8/9ths	9,402
D	7,471	781	9/9ths	6,705
E	3,597	262	11/9ths	4,082
F	1,636	112	13/9ths	2,206
G	819	51	15/9ths	1,285
H	26	3	18/9ths	46
Band D equivalent				35,848
Less Hardship relief (Band D)				<u>(22)</u>
Total Band D equivalent				<u>35,826</u>
Collection rate @ 97%				<u>(1,076)</u>
Tax base				<u>34,750</u>

2. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values (£186.297m at March 2016) multiplied by a uniform rate 49.3p (48.0p for those receiving small business relief) for 2015/16.



Exeter City Council

Annual Governance Statement

2015/16

Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, paragraph 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the **six principles** of good governance and describes the arrangements the Council has put in place to meet each of these principles:

1. Creating and implementing a local vision
2. A common purpose for Members and Officers
3. Upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions
5. Developing the capacity and capability to be effective
6. Ensuring robust public accountability

A copy of the Council's code is available on our website at

<https://exeter.gov.uk/Code>

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve the Council's aims and objectives, but it seeks to provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on going process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework has been in place at Exeter City Council for the year ended 31 March 2016 and up to the date of approval of the annual statement of accounts.

The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

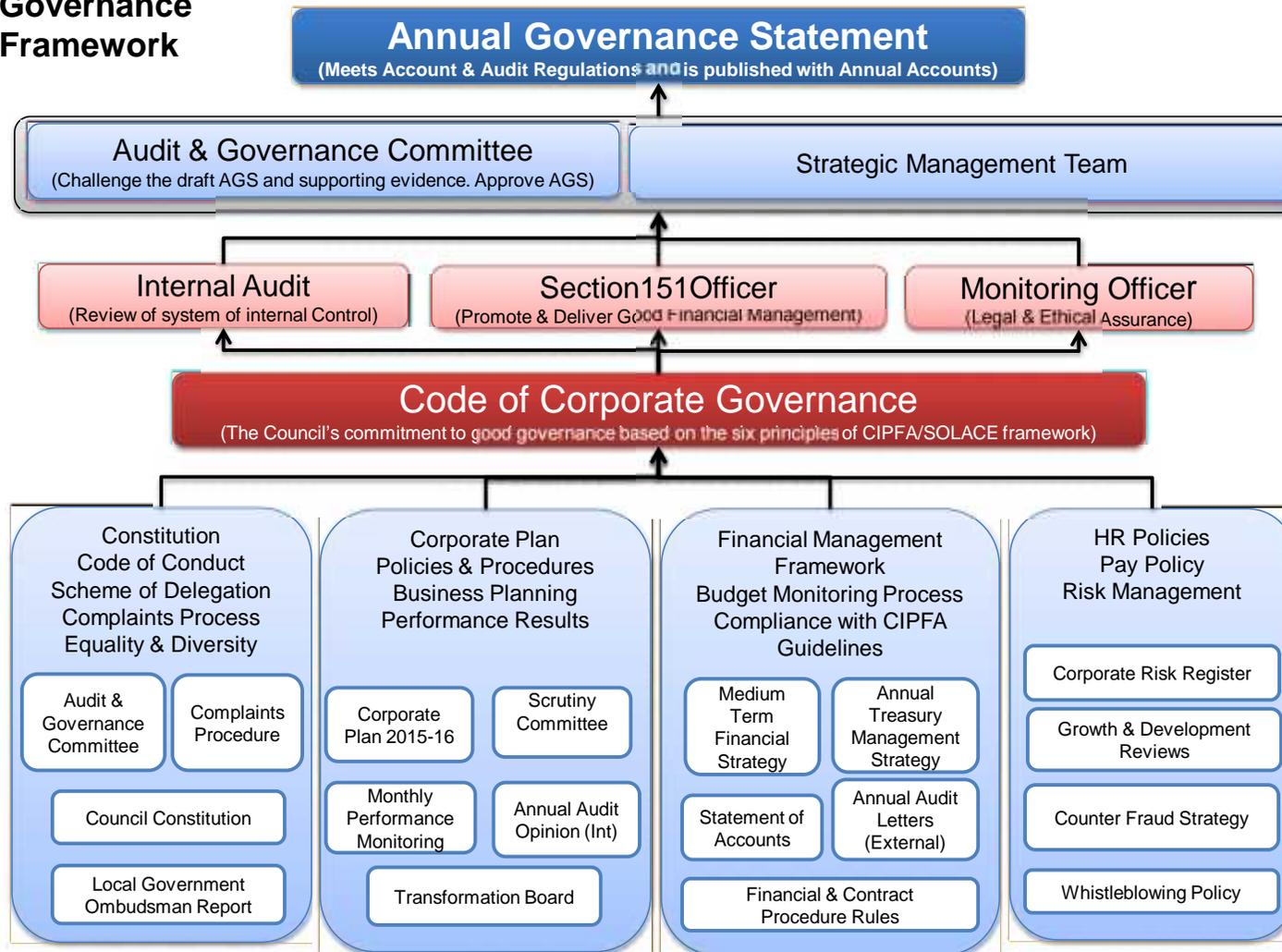
The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee. This last happened on 9 March 2016 and will be reviewed on 15 March 2017. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Team (SMT) which comprises the Chief Executive and Growth Director, Deputy Chief Executive, Assistant Directors, Corporate Managers and a Business Manager.

The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

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ANNUAL GOVERNANCE STATEMENT

Governance Framework



Review of Effectiveness

Exeter City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- ✓ the work of the Strategic Management Team who have responsibility for the development and maintenance of the governance environment;
- ✓ the Audit Manager's annual report;
- ✓ comments made by the external auditors and other review agencies and inspectorates; and
- ✓ the Audit & Governance Committee review the elements of the governance framework that are in place and to ensure that it is effective complies with the 6 principles. They also reviewed the system of internal audit and concluded it was effective and remained a key source of assurance for the Council in 2015/16.

The Council's Monitoring Officer has a legal responsibility to look into matters of potential unlawfulness within the Council. The role is undertaken by the Corporate Manager Legal who attends every Full Council Meeting along with the Section 151 Officer, who is responsible for ensuring that all expenditure approved is legal.

The Audit & Governance Committee has monitored standards of conduct of Members and advised the Council on probity issues. Changes to, and entries made in the Register of Members' Interests were reviewed by the Monitoring Officer.

The Constitution is reviewed regularly to ensure it is up to date, and reflects best practice and legal requirements. The Monitoring Officer last reviewed Standing Orders during 2015-16. The Constitution is approved by Full Council.

The council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The section 151 Officer is a member of the Council's Strategic Management Team.

The Performance Management Framework has improved during the year. Monitoring information on key areas of performance has been provided to the Strategic Management Team for review and action, with key issues reported to the Transformation Board. Budget monitoring reports have been presented to all three Scrutiny Committees along with the Executive.

In 2015/16 the Council responded to 119 (2014/15 – 213) customer complaints. All complaints were responded to by the relevant Assistant Director or Corporate Manager so that any issues identified could be actioned.

Review of Effectiveness

The Audit & Governance Committee have undertaken a self-assessment in accordance with The CIPFA publication '*Audit Committees: Practical Guidance for Local Authorities*' to evaluate its performance against the responsibilities set out in the terms of reference and to demonstrate the Council's commitment to improving its governance. One area for improvement was identified.

Internal Audit undertook a risk management 'health check' against the 'Alarm National Performance Model for Risk Management in Public Services' in order to assess the Council's current risk management maturity level and the results of this have been reported to the Audit and Governance Committee. There has also been a major review of risk in respect of the Council's key project – the leisure complex

All key systems were audited in 2015/16 and a total of 19 audit reports have been provided to management and the Audit & Governance Committee.

In September 2015 the Council's external auditor (Grant Thornton) provided the Council with an unqualified opinion on the Council's accounts within their Annual Audit and Inspection letter, and a positive value for money opinion has been received

The council's assurance arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Head of Internal Audit in Public Service Organisations" (2010). Based on this assurance work, the Audit Manager has provided an opinion on the adequacy of the control environment which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy. It should be noted that all risks of failure cannot be eliminated, and the assurance given is therefore reasonable and not absolute. Isolated areas in which controls were below the required standard are reported initially to the relevant Assistant Director who ensures prompt corrective action is taken, and ultimately to the Audit and Governance Committee who monitor progress with improvements via follow up reports from Internal Audit.

In the 2014/15 Annual Governance Statement, six areas of concern were identified, which are set out along with the action taken.

- Risk of Fraud – completed.
- Housing benefit Data Quality – significant improvement after management intervention - completed.
- Separation of duties risk – ongoing review.
- Business Continuity – progressing and no longer an area of concern.
- Partnership Working Protocol – close to completion.
- STRATA – assurance provided by Devon Audit Partnership.

ANNUAL GOVERNANCE STATEMENT

Significant Governance Issues

This Statement is intended to provide reasonable assurance. It is stressed that no system of control can provide absolute assurance against material misstatement or loss. In concluding this overview of the Council's governance arrangements, six issues have been identified that need to be addressed to ensure continuous improvement in the Governance Framework. The aim is to address these weaknesses during the 2016/17 financial year, by way of an action plan for improving the governance framework and system of internal control. This will be subject to regular monitoring by the Committee.

Issue No.	Issue Identified	Summary of Action Proposed
1	STRATA – there are currently no performance measures in place which results in a lack of accountability.	Strata are working to provide a set of service standards that the Councils can expect.
2	Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern.	Ongoing review.
3	Reduction in resources – general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation. As reported above, Internal Audit are aware of instances where long term sickness is impacting on service delivery.	Ongoing review.
4	Contract Regulations – current contract regulations conflict with the legislative requirements of the Public Contract Regulations 2015, therefore the Council is at risk of breaching legislation.	A major review is planned to report shortly with a recommended way forward regarding procurement.

ANNUAL GOVERNANCE STATEMENT

Significant Governance Issues

Issue No.	Issue Identified	Summary of Action Proposed
5	<p>Procurement – the Council currently does not have a procurement function in place that is fit for purpose. A recent audit of procurement identified a number of shortcuts in the procurement process e.g. extending contracts rather than retendering, a lack of effective contract management. The Interim Procurement Officer left the authority at the end of March and has not been replaced. However, the Council has engaged a consultant to review the current procurement process to help meet the requirements of the Public Contract Regulations 2015 but this review has yet to be finalised</p>	<p>A major review is planned to report shortly with a recommended way forward regarding procurement.</p>
6	<p>Increase in commercial activities - as the Council increases the number of new companies that it sets up e.g. Strata, ESCO (District Heating Scheme), there is a requirement for existing staff to act as directors of these new companies, sometimes without training or being fully aware of their responsibilities or liabilities under the role. Staff that take on a Directorship of a Council company have a conflict of interest i.e. they have a legal obligation to work in the interest of the company as a director, but that could mean they then don't work in the best interests of the Council. In addition, with the requirement to increase the Council's commerciality as a response to the current economic climate, staff must not forget the principles of public life and their obligations.</p>	<p>Training will be provided for Officers and Members who act as Directors.</p>

ANNUAL GOVERNANCE STATEMENT

Approval of the Annual Governance Statement

Through the action referred to on the previous page, we propose over the coming year to address the issues that have been identified, with a view to further enhancing our governance arrangements. These steps will identify improvements that are needed and we will monitor their implementation and operation as part of our next annual review.

Signed:  Date: 28/09/16

Councillor Natalie Vizard
Chair of Audit & Governance Committee

Signed:  Date: 28-09-16

Dave Hodgson CPFA
Assistant Director Finance & Section 151 Officer

Signed: Date:

Councillor Pete Edwards
Leader of the Council

Signed:  Date: 28-09-16

Karime Hassan
Chief Executive & Growth Director

AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXETER CITY COUNCIL

We have audited the financial statements of Exeter City Council for the year ended 31 March 2016 on pages 18 to 97. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Assistant Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements 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 the Assistant Director of Finance, and the overall presentation of the financial statements.

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

Opinion on financial statements

In our opinion the financial statements:

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

AUDITORS REPORT

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 98 to 106 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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.

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Exeter City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this

AUDITORS REPORT

criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Exeter City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Exeter City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering Exeter City Council's arrangements for working with partners and other third parties the Authority's internal auditors identified a number of instances where the procurement process, including contract management, had not been properly adhered to. The Authority has raised this as a significant governance issue within its Annual Governance Statement and has performing a detailed contract review and implemented an action plan to deal with the weaknesses identified. However our own testing identified a range of significant and smaller contracts where the Council had not followed its own procurement policies by failing to operate an appropriate procurement exercise and had incurred expenditure with external suppliers that was not supported by appropriate contractual terms.

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Exeter

City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the financial statements of Exeter City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.



Darren Gilbert

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

28 September 2016.

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.	Balances	Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied at the discretion of the authority, to reduce future demands on the Collection Fund or to meet unexpected costs during the year. Balances on holding accounts and provisions are available to meet expenditure in future years without having adverse effect on revenue expenditure.
Accrual Basis	The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made	Budget	A statement of the income and expenditure policy plan of the Council over a specified period. The most common is the annual Revenue Budget expressed in financial terms and including other physical data, e.g. manpower resources.
Actual	Actual, as opposed to budget, expenditure and income directly attributable to an accounting period, generally referred to as actuals.	Capital Expenditure	This is expenditure on the acquisition of a fixed asset, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.
Appointed Auditors	From 1 April 2015 the appointment of External Auditors to Local Authorities is undertaken by Public Sector Audit Appointments Limited, an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. This role was previously undertaken by the Audit Commission. KPMG is the Council's appointed Auditor.	Capital Financing	The raising of money to meet the cost of capital expenditure. Capital expenditure may be financed by borrowing, leasing, and contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants and contributions from developers or others.
Associate Companies	An associate is an entity over which the Council has significant influence.		

GLOSSARY OF TERMS

Capital Grants	Government grant towards capital expenditure on a specific service or project.	Creditors	charges, General Fund Balances, specific grants and any funding from reserves.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is the leading professional accountancy body for public services.	Current Service Cost	Amounts owed by the Authority for work done, goods received or services rendered, but for which payment was not made at the balance sheet date.
Collection Fund	This is a statutory fund kept separate from the main accounts of the Council. It records all income due from the Council Tax, National Non Domestic Rates and Revenue Support Grant and shows the precept payments due to Devon County Council, Police and Crime Commissioner for Devon and Cornwall, Devon & Somerset Fire and Rescue Service and Exeter City Council.	Current Assets	This is an increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.
Community Assets	These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and may have restrictions on their disposal.	Current Liabilities	Assets that can be expected to be consumed or realised during the next accounting period.
Contingent Liability or Assets	These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which provision has not been made in the Council's accounts.	Current Liabilities	Amounts that will become due or could be called upon during the next accounting period.
Council Tax Requirement	This is the estimated revenue expenditure on General Fund services that will be financed from the Council Tax after deducting income from fees and	Curtailment	The cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year/
		Debtors	Amounts due to the Council that have not been received at the balance sheet date.
		Deferred Liabilities	This represents the liability for principal repayments on finance leases.

GLOSSARY OF TERMS

Depreciation	This is the measure of the wearing out, consumption or other reduction in the useful economic life of property, plant and equipment.	Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.
Earmarked Reserves	The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.	Financial Instruments	Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
Employee Costs	These include salaries, wages and allied national insurance and superannuation costs payable by the City Council, together with training expenses and charges relating to the index-linking of pensions of former employees.	Financial Year	The local authority financial year commences 1 April and finishes 31 March the following year.
External Audit	The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.	Financial Regulations	These are a written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.
Final Accounts	Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services and a balance sheet is prepared for them. They are produced as a record of stewardship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet) as specified in the Accounts and Audit Regulations 2011.	Government Grants	Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.
		Housing Benefit	This is an allowance to persons receiving little or no income to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to local authorities. Benefits paid to the Authority's own tenants are known as rent rebates and

GLOSSARY OF TERMS

	that paid to private tenants as rent allowances.		
Housing Revenue Account	Local authorities are required to maintain a separate account, the Housing Revenue Account, which sets out the expenditure and income arising from the provision of Council housing.	Provision (MRP)	applying a percentage of outstanding debt in accordance with the Council's approved policy.
Impairment	A reduction in the value of assets below its value brought forward in the Balance Sheet. Factors which may cause such a reduction include; fall in general prices, a decline in an asset's market value and evidence of obsolescence or physical deterioration.	Non Domestic Rates (NDR)	NDR is also referred to as business rates; is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. Authorities can voluntarily form a business rate retention pool, where all authorities in the pool can benefit from keeping a proportion of business rate revenue as well as growth on the revenue that is generated in their area to spend on local services.
Interest	An amount received or paid for the use of a sum of money when it is invested or borrowed.		
Inventories	Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.	Net Book Value	The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
Investment Properties	Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.	Non-Current Assets	Assets that can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.
Materiality	Information is material if omitting it or misstating it could influence the decisions that users make on the statement of accounts.	Operating Lease	A lease under which ownership of the asset remains with the lessor; the lease costs are revenue expenditure to the Authority.
Minimum Revenue	The minimum amount that must be charged to an authority's revenue accounts and set aside as a provision for credit liabilities. It is calculated by	Precepts	The amount levied by various Authorities that is collected by the Council on their behalf. The major precepting authorities in Exeter are

GLOSSARY OF TERMS

	Devon County Council, Devon and Somerset Fire and Rescue Service and Devon and Cornwall Police Authority.	there are many difficulties in its use because value, as such, is a subjective measure and there are rarely supporting objective measures. The Audit Commission is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision.
Prior Period Adjustments	These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.	
Property, Plant and Equipment (PPE)	Tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used during more than one year.	
Public Works Loan Board (PWLB)	An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities	
Revenue Expenditure Financed by Capital under Statute	Expenditure which has been legally capitalised but which does not produce a fixed asset for the council, e.g. renovation grants for homeowners.	
Revenue Support Grant	A grant paid by government to meet a proportion of the local authority expenditure necessary to provide a standard level of service throughout the country.	
Value for Money	An expression describing the benefit obtained (not just in financial terms) for a given input of cash. The phrase is widely used within public bodies, but	



Exeter City Council

Civic Centre

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