Cumbria County Council
Audited Annual Financial Report 2016/17

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1. Overview

1.1. The purpose of presenting the Statement of Accounts is to report on the Council, Cumbria Local Government Pension Scheme and Group Accounts financial performance for the year 2016/17 and the overall financial position as at 31st March 2017. This is to give electors, local taxpayers, Elected Members of the Council, employees and other interested parties comprehensive information about the Council's finances and provide confidence that public money, with which the Council has been entrusted, has been used and accounted for in an appropriate manner.

1.2. The Statement of Accounts for 2016/17 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts comply with International Financial Reporting Standards (IFRS) as interpreted by the Code.

1.3. In respect of the closure of accounts process an earlier closedown timetable for 2016/17 was achieved with draft accounts available for Senior Manager review on the 19th May 2017. The unaudited Annual Financial Report 2016/17 was handed to the Auditor on the 29th June 2017. Following the audit process the final audited Annual Financial Report 2016/17 was presented to the Audit and Assurance Committee on the 25th September 2017 for approval.

1.4. The following financial statements are included in the Statement of Accounts (the Council's financial statements are set out in Section 4) :-

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

1.5. In addition, the Statement of Accounts includes

- **Narrative Statement** (Section 1)
- **Auditor's Report** (Section 3) **Statement of Accounting Policies** of the Council (Section 5)
- **Notes and other explanatory information** (Section 6)
- **Group Accounting Statements** which set out the accounts of the Council and its subsidiary companies (Section 7)
- **Fire Fighters' Pension Scheme Accounts** which the Council administers (Section 8)
- **Glossary of Terms** to assist the reader to understand key words and financial terminology (Section 9)
- **Cumbria Local Government Pension Scheme** which the Council administers (Section 10)
- **Cumbria Local Government Pension Scheme Auditor's Report** (Section 11)

1.6. The Annual Governance Statement which sets out the main features of the Council's corporate governance arrangements and its effectiveness is presented alongside, but separate to, the Statement of Accounts. The Annual Governance Statement 2016/17 is available on the Council's website.

1.7. This section, the Narrative Statement, provides an opportunity to explain the key messages resulting from the Council's 2016/17 financial position, the context in respect of key facts and figures about Cumbria and summary performance information relating to Council activity in the year.

1.8. During the year the Council's financial and non-financial performance is regularly reported to Elected Members. At the year end the financial 'outturn' position is reported and then converted through a series of technical accounting adjustments to present an International Financial Reporting Standards (IFRS) compliant Statement of Accounts.

1.9. Finally, as part of the development of the Statement of Accounts each year the content is reviewed for applicability and materiality. The aim being to 'declutter' the Accounts by only including relevant and material accounting policies and disclosure notes. This review is reflected in the Accounts presented and supplementary information.

2. Cumbria Context

2.1 The County of Cumbria was established in 1974 and is one of the most sparsely populated counties in the United Kingdom. It is the most north westerly County in England and is the second largest county in England. It covers 6,767 km^2 and its population is estimated to be 498,000.

2.2 Within Cumbria there is the County Council, six District Councils, two National Parks and seven NHS organisations. In addition there are six Members of Parliament and over 250 Parish and Town Councils.

2.3 Cumbria County Council is responsible for many of the key services that are important to local communities such as education, libraries and youth services, social services, highways maintenance, waste disposal, emergency planning, consumer protection and the Fire and Rescue Service. It employs almost 6,000 people and has a net Budget of £410m.

2.4 Cumbria has one of the most rapidly ageing populations in England; by 2020 one in four people will be over 65. This is as a result of an ageing population and an expected decline in numbers of people of employment age (nearly 8,000 less people by 2021).

2.5 In respect of the Cumbrian Economy there are over 28,000 businesses and 235,000 people in work. This results in a Gross Value Added of £11.2bn per year with opportunities relating to inward investment in infrastructure, nuclear, manufacturing.

2.6 To put the services that the Council delivers into context the Council:

- Arranges and delivers home care for more than 5,600 older people.
- Is Corporate Parent for 616 Children in Care out of a total of 103,000 young people aged 0-19.
- Supports 320 schools (including Academies).
- Funds 28 Children centres.
- Supports 56,000 residents across Cumbria providing unpaid care to either family members, friends, neighbours or others because of long-term physical or mental ill-health / disability or problems relating to old age.
- Provides access to almost 730,000 library books and publications.
- Provides through Libraries and Archives offices over 310 public access computers.
- Carries out more than 10,000 'Safe and Well / Home safety check' assessments.
- Maintains approximately 5,000 miles of road, 4,000 miles of public rights of way and over 44,000 streetlights.
- Registers almost 4,700 births.
- 2,700 weddings registered and held in Cumbria.
- Approx. £38 million contribution to the Cumbria economy from ceremonies in 2016/17.
- Recycles 50% of 230,000 tonnes of household waste generated in Cumbria.

2.7 The Council agreed £198m of revenue savings and budget reductions between 2011/12 and 2016/17 in setting its balanced budget each year i.e. it has to live within its means. With a further £52m of estimated savings required over the next three financial years 2017/18 – 2019/20 this means the Council will have been required to achieve £250m of savings over a nine year period. This has meant significant changes across the Council, changes to the way services are delivered and continued reductions in staffing levels.

2.8 A new Chief Executive was appointed for the County Council on 1st March 2017, Katherine Fairclough. Local Elections were held on the 4th May and a new Labour/Liberal Democrat Administration has been formed. The shape and future direction of the Council will be determined once the new administration develops its priorities and Council Plan. The Budget and Medium Term Financial Plan (MTFP) will be developed through the usual strategic planning processes and will reflect any changes in priorities.

Key Messages

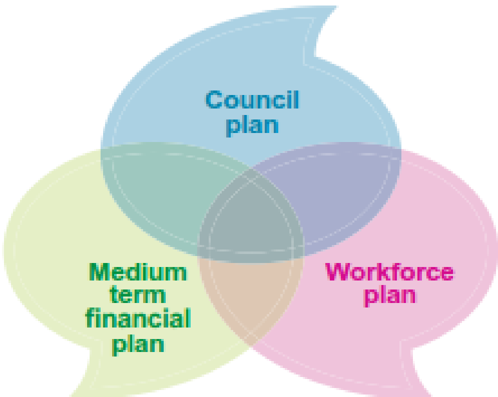
3.1 This is a challenging time for the public sector, with funding reductions from Central Government expected to continue, economic uncertainty, uncertainty regarding funding for the sector and increasing pressures upon key local services, in particular, care for the elderly and care for vulnerable adults and children. The sector is responding to these challenges with increasing focus on collaborative working, integration of services, in particular in health and social care, and alternative delivery mechanisms.

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

3.3 In February 2016 Council agreed five priorities for the next three years, effective from 2016/17:

- To safeguard children and support families and schools so that all children in Cumbria can grow up in a safe environment, and can fulfil their potential.
- To support older, disabled and vulnerable people to live independent and healthy lives.
- To enable communities to help shape their local services, promote health and wellbeing and support those in poverty.
- To provide a safe and well managed highways network, secure infrastructure improvements and support local economic growth.
- To be a modern and efficient council.

3.4 The Medium Term Financial Plan sets the framework for how the Council plans to use its financial resources to fund the activity to deliver on the Councils priorities. The Workforce Plan provides an organisation wide framework to develop the workforce to achieve the Council's priorities. Collectively these three plans form the key strategic planning documents for the Council.



3.5 For 2016/17 the financial performance reported to Cabinet and Management shows that the Council managed its resources effectively through the year resulting in a small overspend position of £0.583m compared to the revised total net expenditure budget for 2016/17 for the Council of £409.504m. It also achieved delivery of 96% of the revised planned savings of £42.3m in year (see para 4.4).

3.6 From a capital investment perspective the Council achieved £126.531m of investment across a number of significant schemes and programmes supporting the delivery of services across the Council. Further information is provided in section 6 of this Narrative Statement.

3.7 The final budget position reflects the Council's proactive approach to financial management during the year and the need to effectively manage the use of reserves throughout the year as agreed in the MTFP.

3.8 One of the key accounting concepts that underpin the production of the accounts is that they are prepared on a "going concern" basis. Due to the economic and statutory environment in which local authorities operate it has been confirmed that as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis.

3.9 Although that is the technical definition to allow a going concern basis to be provided the Council can also clearly demonstrate that it can continue to meet its financial commitments as they occur via the delivery of its Medium Term Financial Plan (MTFP). The usable cash reserves position, see paragraphs 5.1 to 5.14 (£86.069m) remains healthy and on the Balance Sheet the Current Assets position of £226.578m is higher than Current Liabilities position of £107.304m so liquidity in the short term is positive.

3.10 When the management accounts are converted into the annual financial statements the Council continues to shows that it is in a robust position. Although the Balance Sheet has returned to a negative position in 2016/17 this is due to accounting for its long term pension liabilities. A negative Balance Sheet was also reported in 2014/15 due to the net pension liabilities. Pension liability figures are volatile and are dependent upon market conditions at the Balance Sheet date as well as specific pension member information for the employer body. This can result in significant shifts in value from one year to the next with the subsequent impact on the net Balance Sheet position.

3.11 The calculation of the future liabilities of the Pension Fund to be funded is calculated by the Fund Actuary every three years and is known as the Triennial Valuation. This determines the contribution rates of each employer in the Fund.

3.12 The Council is addressing the pension liability position set out in the Triennial Valuation in 2016 in accordance with external requirements and its accounting policies, over both the medium and longer term. The Council, along with all other employers, are paying additional employer contributions annually to meet this shortfall as required by the actuarial valuation of the Fund carried out as at 31st March 2016.

3.13 The method of calculation of the liability of each employer on an annual basis for the purposes of preparing their annual Accounts to comply with International Accounting Standards is different to that applied in respect of the Triennial Valuation. However, both valuations are undertaken by the Fund Actuary.

3.14 For 2016/17 there is also a positive picture of non-financial performance across the full range of the Council's services. Performance is reported in respect of delivery of the Council Plan Delivery Plan and associated indicators. A majority of the Council Plan Delivery Plan actions (79%) are on schedule or the key milestone met and 73% of performance indicators are on target or exceeding target or within 10% of the target.

3.15 In relation to Childrens and Families Services, all reports and correspondence from Ofsted, the Chair of the Children's Improvement Board (ChIB) and the Chair of the Local Safeguarding Children Board (LSCB) indicate that progress is being made since the last Ofsted inspection in March 2015. The Council has repeatedly received positive feedback from both the DfE and Ofsted about its overall direction of travel and improvement journey. There is evidence of improvement across key areas since the last inspection. Performance is measured using the 19 'HERD' Performance Indicators; these are used to track the Children's Improvement Plan. The performance (up to 28th February 2017) showed a majority of indicators (74% (14)) were either on target, better than target or within 5% of target. This has improved throughout the year. The performance information is considered by the ChIB.

3.16 In respect of the number of Children Looked After the number is safely reducing but is still above the target set to be comparable with other similar Local Authorities. This is reflected in the overspend position reported at year end (although cost is not just about numbers of Children Looked After but also the cost of placement). One of the Council's strategic risks that is being managed is that of a higher number of Children Looked After than in comparator authorities.

3.17 The percentage of schools with an Inadequate Ofsted Grade has risen to 3.7% (5 Primary, 6 Secondary and 1 Special school, giving a total of 12 out of 322 schools) which is above the target of 1.8%. Work is ongoing with the schools and CASL (Cumbria Association of School Leaders) to support schools with improvement activities. Again the standards in secondary schools is a strategic risk for the Council.

3.18 Within Health and Care Services there is positive performance in relation to 2,547 service users receiving assistive technology or telecare which exceeds the target of 2,500. There have been improvements in relation to the permanent admissions of older people (65+) to residential and nursing care homes and 1,609 people have received reablement in 2016/17 compared to the target of 623. There have also been recent improvements in relation to the performance challenge around Delayed Transfers of Care (DTOC). In support of the preventative agenda 30 Health and Wellbeing Coaches have been recruited and have been in post since January 2017.

3.19 In relation to Highways the percentage of road defects that are rectified first time remains above target, and the end to end times for repairs has shown continued improvement during the year. Also having achieved the initial target of Level 2 (of 4 Levels) in the Department for Transport (DfT) self-assessment ahead of schedule in April 2016 the service has recently achieved an even greater level of performance by achieving Level 3 in the DfT self-assessment for 2017/18. This has resulted in additional capital funding for the Council of £2.315m in 2017/18 that can be utilised to improve the highways network.

3.20 Corporately there continues to be challenges in respect of the overall staff absence due to ill health and there are ongoing actions to improve these indicators. This issue has been raised as part of the Value for Money (VFM) discussions in previous years and ongoing actions and monitoring of the outcomes of those actions are regularly reported to Departmental Management Teams and Corporate Management Team throughout the year. The target for working days lost per FTE due to sickness was 9 days in 2016/17, the annual performance at the end of March 2017 was 13.21 working days lost per FTE. As the organisation delivers significant change managing staff performance, including ill health, continues to be a focus within Directorate service plans.

3.21 Strategic risks are considered by the Council's Corporate Management Team and reported to Audit and Assurance Committee on a quarterly basis. The risks are managed alongside the performance management responses and the budget management reporting. This integrated reporting is developing across the Council and will be a theme for improved reporting during 2017/18.

4 Revenue Outturn (Year End) Position 2016/17

4.1 This section provides background to the Council's financial strategy and budget for 2016/17 and compares actual expenditure against the budget. It provides an indication of financial stewardship i.e. how well the Council has managed the resources allocated to services.

4.2 The Council agreed the net Revenue Budget for 2016/17 as part of the Medium Term Financial Plan (MTFP) at its meeting in February 2016. The net Revenue Budget requirement (gross expenditure less specific grants and fees and charges) was £381.152m. Council also agreed a 1.99% increase in Council Tax and a 2% Adult Social Care precept. The Council Tax levels set by the Council for 2016/17 therefore increased to £1,231.87 per Band D property. The Council Tax requirement (income raised from Council Tax Payers) was £202.868m.

4.3 The 2016/17 financial year has been another year of significant change for the Council. The provisional year end revenue budget position (before technical accounting adjustments are taken into account) is a net pressure of £0.583m. This is a result of the total net expenditure of £410.087m being greater than the revised total net expenditure budget for 2016/17 for the Council of £409.504m. The outturn is within 0.1% of the overall budget.

4.4 The Council budget set in February 2016 included £45.5m of savings. This is the largest annual savings delivery target since 2011 which was the commencement of the grant funding reductions from Central Government. The original savings target of £45.5m was reduced by £3.2m to £42.3m following the approval of one year transitional funding from the Rural Services Delivery Grant to facilitate a longer transition period to deliver a number of the Health and Care savings. This means that overall 96% of the revised savings target was delivered which is a significant achievement for the Council. The £1.871m of savings not delivered has been recognised through the approval of pressures subsequently funded in setting the 2017/18 Budget.

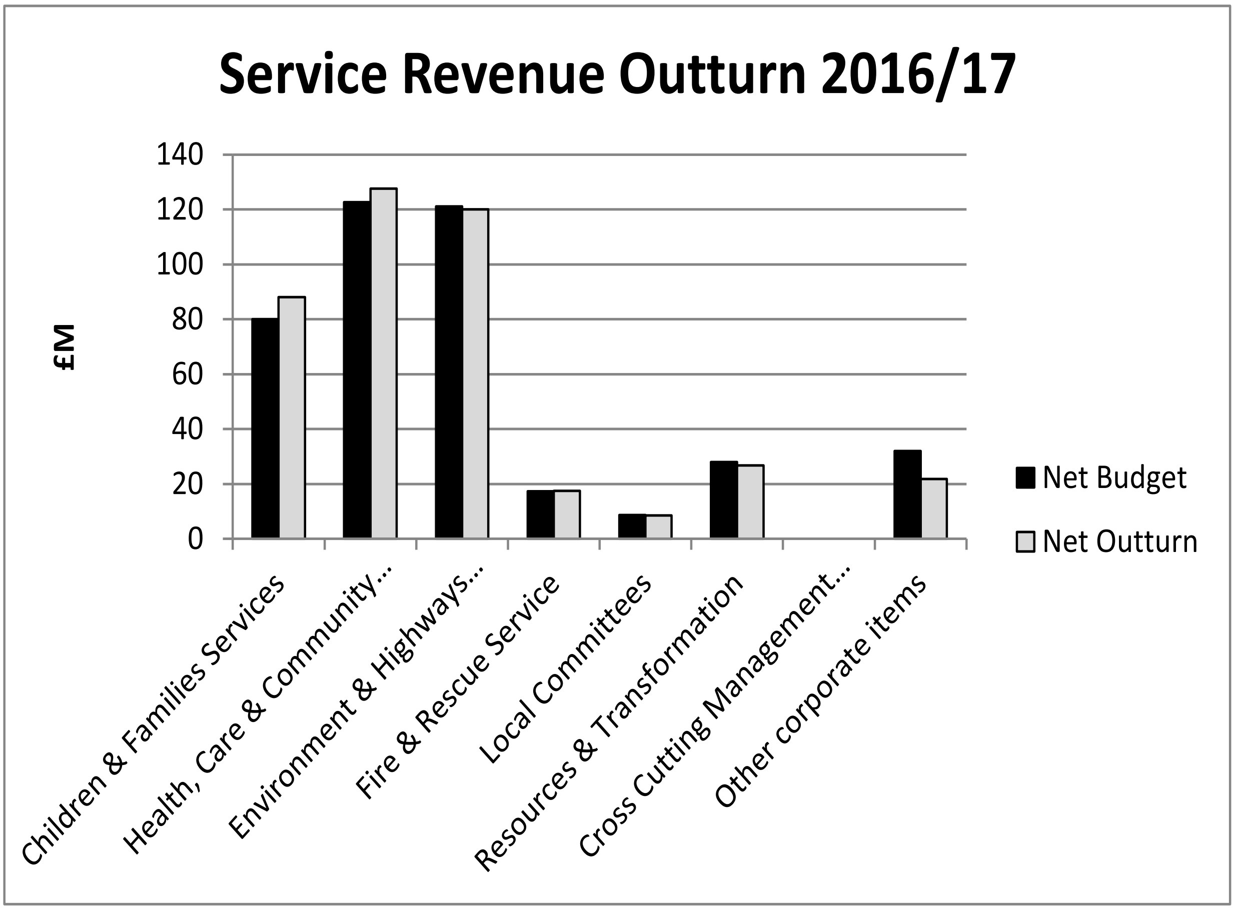
4.5 Within the £0.583m net pressure there are significant pressures reported within Directorates (£10.724m) that have been offset by additional savings and efficiencies being identified across corporate items such as Treasury Management, Insurance and Inflation (£10.141m). This is a result of pressures in Children & Families Services of £7.999m, Health, Care & Community Services of £4.939m and Fire and Rescue Services of £0.283m offset by Directorate underspends in Economy & Highways Services (£1.002m), Local Committees (£0.219m) and Resources & Transformation (£1.276m).

4.6 The table below summarises the final outturn position (subject to external audit) for 2016/17.

Table 1 – Summary of Final Outturn Position 2016/17 as at 31st March 2017

	Original Budget £m	Final Budget £m	Actual £m	Variance Overspend / (Underspend) £m
Children and Families Services	69.142	80.020	88.019	7.999
Health, Care & Community Services	116.932	122.662	127.601	4.939
Economy & Highways Services	116.072	121.035	120.033	(1.002)
Fire & Rescue Service	17.361	17.239	17.522	0.283
Local Committees	7.989	8.698	8.479	(0.219)
Resources & Transformation	24.334	27.939	26.663	(1.276)
Cross cutting management savings	(2.336)	0	0	0
Other Corporate Costs (Treasury Management, Inflation, Dividends, Insurance, residual and past service pensions costs)	31.658	31.911	21.770	(10.141)
Total Net Expenditure	**381.152**	**409.504**	**410.087**	**0.583**
Financed by:				
Government Grants	154.920	156.341	156.341	0
Retained Business Rates	20.568	20.883	20.883	0
Council Tax	205.413	205.413	205.413	0
Transfer (to)/from Reserves – Earmarked Reserves	0.251	22.567	22.567	0
Transfer (to)/from General Reserves	0	4.300	4.300	0
Transfer (to)/from General Reserves	0	0	0.583	(0.583)
Total Financing	**381.152**	**409.504**	**410.087**	**(0.583)**

4.7 The following graph shows the outturn position for the County Council in 2016/17 for each Directorate against the Net Revenue Budget Position.



4.8 The overall Children & Families Services net pressure of £7.999m is primarily linked to additional costs linked to commissioning of places for Children Looked After (CLA). The CLA budget is based on the overall mix of placement types (for example in-house fostering, residential care and external foster placements) and the number of children cared for in that setting. Overall expenditure is therefore a combination of the two variables above as the "unit cost" varies across placement type. The year-end pressure was £4.272m. This is a budget pressure that many Councils are dealing with and work is ongoing to improve preventative solutions within the early year support services to help manage future budget pressures. The number of Children Looked After is reducing from 31st March 2016 and as at 31st March 2017 the Council had 616 Children in Care. This is consistent with the performance reporting and the active management of the related strategic risk.

4.9 The other significant element of the pressure is linked to the additional cost of Externally Provided Workforce (agency staff) which was £2.506m for the year. Actions are in place to reduce the EPW pressure in 2017/18.

4.10 As a result of managing the improvement of the Children & Families Services Directorate there was a budget pressure of £0.642m in 2016/17 relating to a delay in fully delivering the Children's Services restructure and Business Support savings within Children's Services. This delay in delivering these staffing savings was necessary to ensure there is sufficient staffing resource to deliver the improvement of the Children & Families Services Directorate. This has been accommodated in the 2017/18 budget as a permanent pressure allowing the Directorate to continue to focus on the improvement agenda and continuing the improved delivery of performance indicators.

4.11 In respect of Health, Care and Community Services the outturn position reflects a position of reducing income from personal contributions alongside cost pressures in Cumbria Care and non-delivery of savings. Overall the directorate had 20 MTFP savings schemes to deliver in 2016/17 totalling £14.389m. During the year £10.609m has been delivered with under delivery of savings of £3.780m. After allowing for transitional funding of £3.178m to assist with the Health & Care savings, agreed by Council in February 2016, the Directorate savings shortfall is £0.602m.

4.12 Fire and Rescue Service achieved a small overspend position linked to a one off cost linked to historic pension costs whilst Economy & Highways and Resources & Transformation achieved underspend positions. The detail of these variances have been reported through regular reporting to Cabinet throughout the year.

4.13 Corporate budgets significantly underspent (£10.141m) as a result of careful risk management of budgets and technical finance changes linked to Minimum Revenue Provision policy changes and active Treasury Management throughout the year including the continuation of utilising internal balances to fund the capital programme. The Council also received an additional £0.5m dividend from its 100% owned company Cumbria County Holdings Ltd bringing the total dividend received by the Council to £1.5m.

4.14 The Expenditure and Funding Analysis (Note 4, Section 6) reports the Net Expenditure chargeable to General Reserves which is the outturn position referred to above. These figures are then updated for adjustments between the funding and accounting bases (technical accounting requirements) and the Net Expenditure in the Comprehensive Income and Expenditure Statement (CIES) is reported. The net cost of continuing operations on an accounting basis is £408.756m compared to £410.087m on an outturn position.

4.15 The CIES shows the impact of adjustments to the accounts because of capital accounting requirements, pension adjustments and other technical adjustments. This includes charges to the CIES for impairment and revaluation gains and losses alongside the statutory charges for capital financing. Under the International Accounting Standard (IAS) 19, the Council is also required to recognise the cost of retirement benefits in the cost of services when earned by employees in the Comprehensive Income and Expenditure Statement rather than when the benefits are eventually paid as pensions.

4.16 Overall the CIES is reporting a lower net cost of continuing operations than the outturn position. After taking into account other Income and Expenditure which includes all the Council Tax income received and non-specific grants a surplus position of £0.206m is reported as the Surplus on Provision of Services. This compares to a £0.583m deficit reported as the outturn position. Table 2 below summarises the movement between the outturn position and the CIES.

Table 2 – Reconciliation of Outturn to Comprehensive Income and Expenditure Statement

	£m	£m
Net Expenditure		410.087
Other Income & Expenditure		(382.636)
Deficit on Provision of Services – Expenditure & Funding Analysis		**27.451**
Transfer from Earmarked Reserves		(41.027)
Transfers to Earmarked Reserves		18.459
Transfer from General Fund		(4.300)
Net expenditure – outturn		**0.583**
Technical Adjustments for Items in Outturn not Reported in CIES		
Transfer from Earmarked Reserves	41.027	
Transfers to Earmarked Reserves	(18.459)	
Transfer from General Fund	4.300	
Capital Charges	30.764	
Minimum Revenue Provision	(10.812)	
Revenue Contributions to Capital	(6.453)	40.367
Technical Adjustments for Items in CIES not Reported in Outturn		
Property, Plant & Equipment (PPE) net revaluation gains/losses	11.915	
Investment Properties net revaluations	(2.128)	
Profit/loss on disposals of PPE	1.170	
Loss on de-recognition of Academies (see note 7)	5.270	
Capital Financing	(78.420)	
Pensions technical accounting (see note 9)	18.211	
Employee leave accrual	2.444	
Collection Fund Adjustment	0.382	(41.156)
Surplus on Provision of Service in CIES		**(0.206)**

4.17 After other adjustments including the re-measurement of the net defined benefit (pension) liability which is a cost of £238.602m in 2016/17 the final position on the CIES is a total deficit of £229.540m. This is compared to a surplus for 2015/16 of £55.285m. The main reason for the change is the pension liability change. This is explained in para 6.19-6.23.

5. Reserves

5.1 The Movement in Reserves Statement identifies the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and "unusable" reserves (i.e. not cash backed).

5.2 In respect of Usable Reserves this is separated into General Reserves, Capital Receipts Reserve, Capital Grants Unapplied and a Long Term Investment Reserve. Usable Reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They are cash backed.

5.3 Unusable reserves are not available to fund services and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts may only become available when the assets are sold and others that reflect the timing difference of when certain transactions are accounted within the Statement of Accounts and act as a holding account for changes from one year to the next.

5.4 From a budget management perspective the Council focuses on the level of General Reserves which combines Earmarked Revenue and Capital Reserves and the General Fund Balance. The General Fund Balance provides a general contingency to respond to the impact of unplanned events or emergencies in year and provide flexibility to manage short term fluctuations between planned and actual levels of income and expenditure.

5.5 In respect of Revenue Earmarked Reserves the Council has a long established practice of allowing approved budgets within Directorates to be carried forward to the following financial year on a targeted basis to meet specific objectives. This transfer to Earmarked Reserves will enable the continuation of agreed schemes and activities funded from resources which were allocated as part of the 2016/17 budget to be delivered in 2017/18.

5.6 In addition the Council has a number of specific Earmarked Reserves that are utilised for specific purposes including the Modernisation Reserve, Insurance Reserve and DSG reserves for schools.

5.7 Although these Earmarked Reserves are provisionally earmarked to the Services or earmarked for specific purposes they form part of the Council's overall revenue balances and can be used by the Council for any other purpose if decisions are taken accordingly.

5.8 Council approves the minimum level of General Fund Balance each year as part of the Budget approval process. For 2016/17 this level was set at £13m and for 2017/18 the agreed level was approved as £10m. This is established in relation to the risks and uncertainties facing the Council when the annual budget is set.

5.9 The opening balance on the General Fund Balance for 2016/17 was £14.3m. Following realisation of the litigation risk of £3m, the release of £1.3m to Earmarked Reserves in year and the final outturn net pressure of £0.583m, the final outturn General Fund Balance at year end is £9.417m. This is slightly below the approved minimum level of £10m approved by Council in February 2017 but it has been agreed that the balance in the Council's volatility reserve of £0.742m will be utilised to supplement General Fund Balance from 1st April 2017. This results in a General Fund Balance on 1st April 2017 of £10.159m.

5.10 As shown in Table 1 the original 2016/17 budget planned the transfer of revenue from Earmarked Reserves of £0.251m. Adjustments during the year in respect of transfers to and from Revenue Earmarked Reserves reflect the active management of resources and transfer of budgets between financial years. This resulted in a net transfer from Revenue Earmarked Reserves to support revenue expenditure of £22.567m (including schools).

5.11 Overall usable reserves for the Council have reduced by £27.599m during 2016/17. This includes a reduction of £4.883m in the General Fund Balance (explained in para 5.9 above). It also includes a reduction in Earmarked Revenue reserves of £20.367m, a decrease of £2.201m in the Earmarked Capital Reserve and a reduction of £0.801m in the Usable Capital Receipts Reserve. The most significant movements in earmarked revenue reserves are explained in Note 36.1.

5.12 Note 5 sets out significant items of expenditure in the year. In 2016/17 the litigation launched by the Council's previous highways contractor (the contract ended on 31st March 2012) came to its conclusion. The Judge formally handed down his judgment in November 2016. Both parties had been successful in some of their claims and unsuccessful in others. However, the net payment of £11.542m to the contractor determined by the Court was funded from General Fund Balance (£3m) and £8.542m from Earmarked Reserves. The Audit and Assurance Committee considered the litigation dispute at its meeting in September 2017.

5.13 In respect of Unusable Reserves the largest change relates to the Pension Reserve. The increase in the Pensions Reserve is reflective of the increase in the net Pensions Liabilities as referred to in para 6.19-6.23.

5.14 There is an increase in the shortfall on the Pensions Reserve of £256.813m from £580.345m in 2015/16 to £837.158m in 2016/17. Note 37.3 explains how the Pensions Reserve works. In summary, the Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Statutory provisions will ensure that funding will have been set aside by the time the benefits come to be paid. The Council currently has an agreed 16 year deficit recovery period (following 2016 Triennial Valuation) in respect of the Cumbria Local Government Pension Fund consistent with actuarial advice. This supports the Council's going concern principle (see para 3.8-3.13).

6. Capital Investment and Balance Sheet

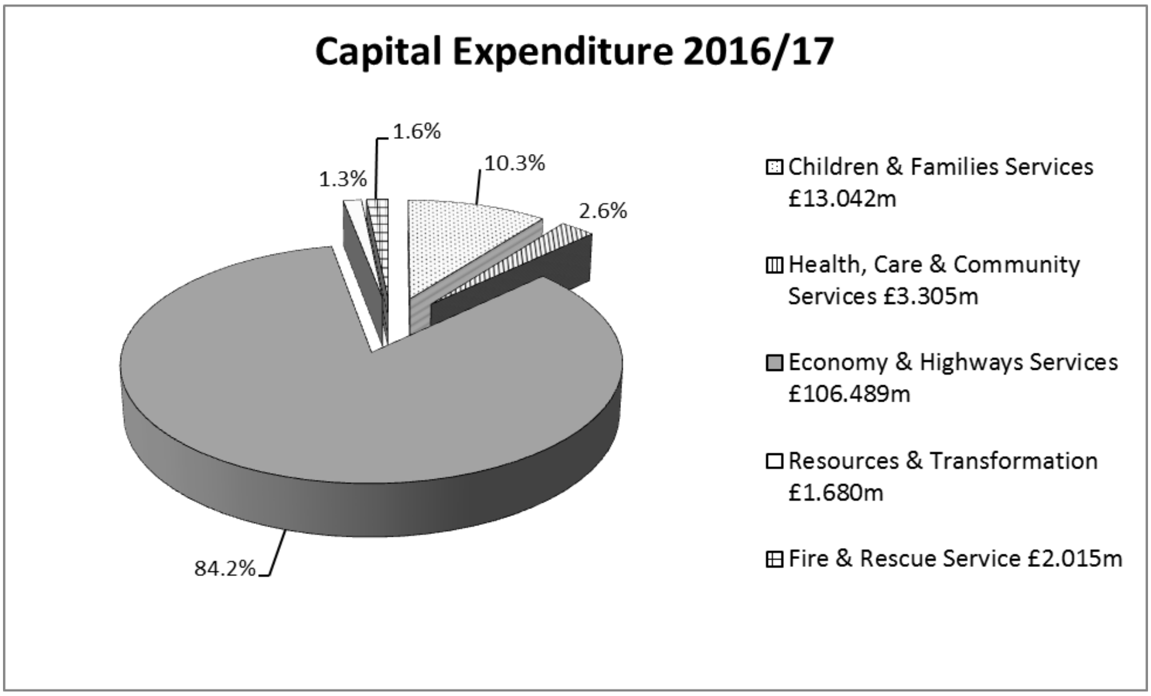
6.1 Capital expenditure as defined in Accounting Policy xi includes expenditure on buildings, adaptations, roads, equipment and intangible assets such as software and licences. Capital expenditure is defined by the Code of Practice and capital and revenue transactions must be accounted for separately.

6.2 In 2016/17, the Council's capital investment totalled £126.531m (£102.652m in 2015/16) as reported in Note 18. The Council approved an original capital programme of £119.151m for 2016/17 in February 2016. The capital programme was subsequently revised through the quarterly monitoring updates to £145.688m by the 31st March 2017. The variance between delivered capital investment and planned capital investment is £19.170m and that relates to slippage of (£23.946m), accelerated expenditure of £4.820m and underspends of (£0.031m). The slippage and accelerated expenditure will transfer into 2017/18.

6.3 The year-end actual expenditure reported on the Capital Programme is £126.531m. This represents £127m of capital investment across Directorates to support the delivery of Council services. This is the highest level of capital investment achieved in recent years and includes accelerated spend on Highways and Flood Recovery schemes which is a significant achievement given the devastating floods in December 2015.

6.4 The capital investment is across Directorates to support delivery of services and change programmes as planned and to deliver against the Council's key priorities. Of the total £127m investment; £79m of expenditure relates to highways and in particularly £30m of that relates directly to highways recovery schemes following Storm Desmond in December 2015 with £20m of expenditure relating to Local Committee highways schemes. £13m was spent on school projects and other Children & Families Services schemes whilst £16m was spent on Economic Development schemes including £7m on the Connecting Cumbria superfast broadband Phase 1 scheme which will be completed in June 2017.

6.5 The chart below shows the split of the £127m across the Council's Directorates.



6.6 Within Children & Families Services the Council has delivered significant capital investment in respect of priority maintenance schemes and individual school expansion schemes focusing on those in greatest need. A total of 52 Schools had maintenance works completed, primarily during the 2016 summer holidays to ensure schools are safe, wind and watertight.

6.7 Within Health, Care & Community Services, investment has been in supporting older and vulnerable people by investing in extra care housing to enable people to live independently for as long as possible. The Brampton scheme was completed during 2016/17. The new care home in Barrow – Parkview Gardens opened on the 16th March 2017. The Modernising Cumbria Care project is progressing with land purchase completed and consultation on potential designs ongoing.

6.8 Across the Highways network there was significant investment on infrastructure during 2016/17 including delivery of the Flood Recovery Programme. Due to the mild winter conditions accelerated spend was achieved across the network.

6.9 The street lighting lantern improvement programme has been completed and has achieved the £0.430m of revenue savings that it originally planned to deliver. The street lighting column replacement programme continues into 2017/18.

6.10 The Connecting Cumbria superfast broadband Phase 1 programme is completed with full financial close of the project planned for June 2017. The contractual delivery targets for the scheme in respect of total homes passed (i.e. available to receive fibre broadband) and number of high speed premises have been achieved. An underspend position has occurred in respect of not fully utilising the contractual BT contribution. This has been transferred to the phase 2 project and has allowed the extension of that project. The number of premises with access to superfast broadband speed of at least 24 Mbps download is now 112,421 premises between the works of contract 1 and 2. The programme is on track to achieve the target of 116,819 premises by 31st March 2018. Around 37% of the properties that are able to access infrastructure deployed through the programme have chosen to take up fibre broadband services.

6.11 Cumbria House, the new Council offices based in the centre of Carlisle, was completed and opened in November 2016. This represents the achievement of the property rationalisation strategy in Carlisle which has resulted in the concentration of office based staff in two sites in the city compared to 22 in 2010.

6.12 A summary of the capital expenditure and how it was financed is shown in Note 18 to the Statement of Accounts. The Council considers carefully capital financing to ensure it is prudent, affordable and sustainable in the medium and long term. The total capital receipts generated in 2016/17 totalled £3.136m (£5.128m in 2015/16), note 36.2 refers, whilst £3.937m of capital receipts were utilised in year to finance capital expenditure. Capital receipts are earmarked for specific schemes where appropriate.

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

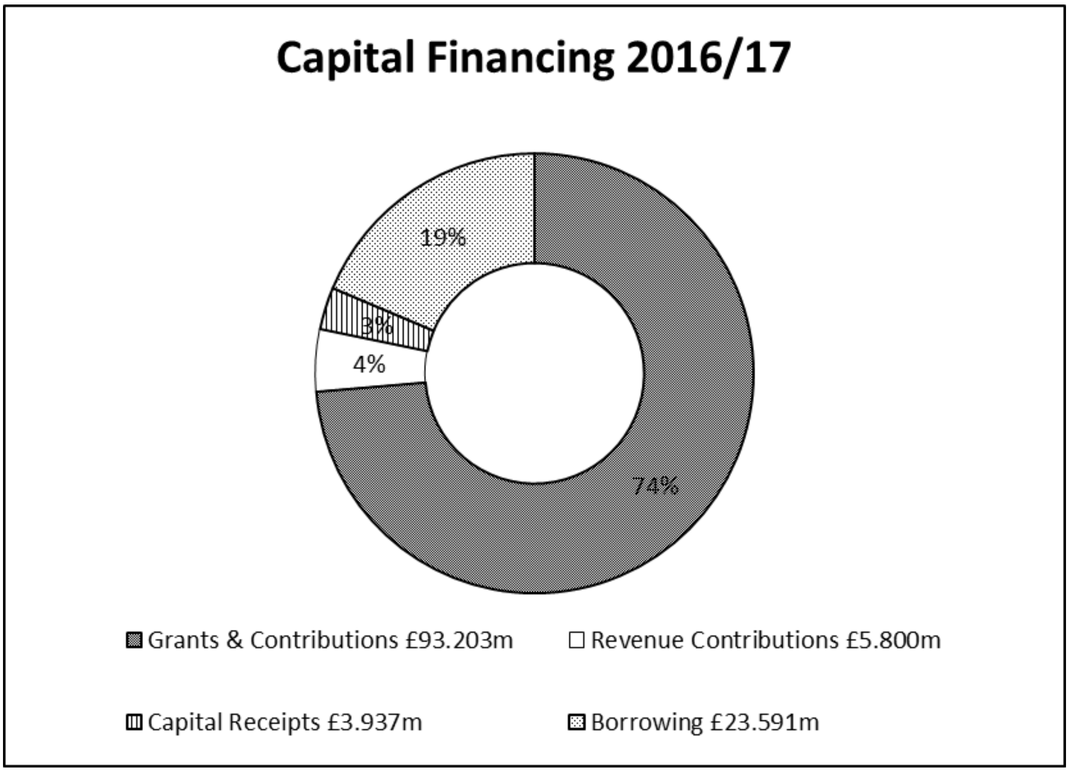
6.14 With respect to Treasury Management, the Council's strategy has been to continue its utilisation of short term cash balances (from reserves) to fund capital expenditure rather than raising new long term loans. This also reduces the risks from investment of cash with counterparties. This deferred borrowing strategy will not continue indefinitely and in the longer term the Council will need to raise new loans to fund its capital expenditure as revenue balances are utilised.

6.15 The Council's authorised limit for external debt for 2016/17 was £568m and the operational limit was £533m. In 2016/17 the Council operated within the agreed authorised limits.

6.16 The capital investment of £126.531m was financed as shown in the table below.

Table 3 – Capital Financing 2016/17

	£m
Capital Receipts	3.937
Government Grants and contributions	93.203
Revenue Contributions	5.800
Prudential Borrowing	23.591
Total Capital Financing	**126.531**



Balance Sheet

6.17 In respect of the overall Balance Sheet position the capital investment is reflected in the value of the Property, Plant and Equipment. The detail is shown in note 21. Overall the fair value is £1.062bn and if additional long term assets are added the overall value of Long Term Assets is £1.075bn.

6.18 Current Assets are reduced compared to 2015/16 mainly due to the lower cash balances. In 2015/16 the Council received a significant amount of Flood Recovery Grant funding at the end of the financial year. This year cash balances are reduced to £38m compared to £131m last year.

6.19 In respect of liabilities on the Balance Sheet the largest impact is the Council's net Pensions Liability. Pension liability figures are volatile and dependent upon market conditions at the Balance Sheet date as well as specific pension member information for the employer body. The current economic climate has a significant impact on the calculation of this liability. This can result in significant shifts in value from one year to the next with the consequent impact on the net Balance Sheet position.

6.20 For 2016/17 there has been an increase of £267.294m in the Council's net Pensions Liability to £837.158m (£569.864m in 2015/16). This has resulted in the Council having a Net Liability position (i.e. Assets less than Liabilities) of £187.197m as at 31st March 2017. This also occurred in 2014/15 where the size of the Pension Liability resulted in the Council having a net Liability position as at 31st March 2015. In 2015/16 the Council had a positive Balance Sheet position. The change from a negative to a positive Balance Sheet and back again is primarily due to the change in Pension Liability value.

6.21 The Fund Actuary uses a number of financial actuarial assumptions in calculating the net Pension Liabilities. One factor is the "discount rate" which is calculated by reference to corporate bond yields. Corporate bond yields are a fundamental building block in setting the discount rate applied to the estimated pension liabilities to reflect the 'time value of money' i.e. £1 now is worth more than £1 in the future (assuming no deflation in the future). The lower the discount rate the higher the pension liability. Due to the long timeframes involved in calculating pensions liabilities (70 years plus), a small change in the discount rate can lead to large changes in the valuation of promised retirement benefits.

6.22 Bond yields fell significantly in 2016/17 (from around 3.6% at 31st March 2016 to 2.6% as at 31st March 2017) which contributed to the decrease in the discount rate which in return increased the net Pensions Liabilities and the consequent impact on the Council's Balance Sheet. This shows the significant impact that the economic climate and in particular bond yields can have on the reported financial position (to meet accounting requirements) of the Council.

6.23 Note 3 of the Accounts provides a summary of the potential impact that a 0.1% change in discount rate could have on the net pension liability position, £38.888m. In 2016/17 there was a 1.1% decrease in the discount rate which contributed to the £267m increase in the net Pension liabilities. This demonstrates the volatility of the liability calculation and the sensitivity to market changes.

7.0 PENSION FUND

7.1 The Council is the administering body for the Cumbria Local Government Pension Scheme (LGPS) which is managed by the Council on behalf of 132 employers, across the county, and the Firefighters' Pension Scheme, hence the Council's Statement of Accounts include supplementary financial statements for these pension funds. Section 10 sets out these financial statements and relevant notes for the LGPS and Section 8 for the Firefighters' Pension Scheme.

Cumbria LGPS

7.2 During the year to 31st March 2017 the Cumbria LGPS value increased by £376.517m from £2,046.809m (31st March 2016) to £2,423.326m (31st March 2017). This compares to an increase of £19.493m during the year 2015/16. The Fund returned 19.2% (net of fees) for the year which was an outperformance of 1.6% on the Fund's bespoke index performance benchmark for the year of 17.6%. The 2016/17 year started with increased volatility across many asset classes, following the UK's decision to leave the European Union. However following the initial flight to security, volatility eased and investor confidence returned. In 2016/17, all markets in which the Fund holds investments showed positive returns, and ongoing weakness in sterling boosted returns for UK based investors, particularly in overseas equities.

7.3 UK index-linked gilts produced returns of 22.0% in 2016/17 and Global Equity Markets also rose over the year, averaging at 32.2% although there were variations by sector and geography. Asia Pacific markets showed the strongest performance of 37.4% with North America and Japan also providing strong returns of 34.9% and 32.4% respectively. Property provided positive returns over the year as a whole after one quarter of negative performance following the UK's vote to leave the European Union which was later recouped to yield 3.8%.

7.4 The Fund has also performed well over the medium to longer term with the three-year return of 11.9% (net of fees) outperforming the bespoke hedged benchmark of 9.9% (per year). The ten year Fund return was 7.4% (net of fees), outperforming the benchmark of 6.8% (per year).

8. GROUP ACCOUNTS

8.1 The Group Accounting Statements are set out in section 7 and show a decrease in the total value of the Group Net Assets of £229.879m (from a Net Assets position of £51.955m at 31st March 2016 to a Net Liabilities position of £177.924m at 31st March 2017). The decrease relates mainly to the increased pension liability of £268.415m which reflects the Council's increased net pension liability of £267.294m and the increased net pension liability of Cumbria County Holdings Ltd of £1.121m.

9. EVENTS AFTER THE BALANCE SHEET DATE

9.1 The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 25th September 2017 in respect of the audited Statement of Accounts for 2016/17.

9.2 Following the General Election on 8th June 2017, there is no material impact on the Accounts presented for issue.

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

The Council's Responsibilities
The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer (Assistant Director – Finance).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

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

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

In preparing this Statement of Accounts, the Assistant Director – Finance has:
- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

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

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the 31st March 2017 and its expenditure and income for the year ended the 31st March 2017.

Signed:

Julie Crellin, Assistant Director – Finance (S151 Officer)
25th September 2017

Certificate of Approval of the Council's Statement of Accounts

I certify that the accounts set out in this document have been considered by the Council's Audit and Assurance Committee at its meeting held on 25th September 2017 and have been approved by a resolution of this Committee.

Signed on behalf of Cumbria County Council

Hilary Carrick
Chair of Audit and Assurance Committee

25th September 2017

GrantThornton

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

We have audited the financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act").

The financial statements comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves Statement, the Group Movement in Reserves Statement, the Authority Balance Sheet, the Group Balance Sheet, the Authority Cash Flow Statement and the Group Cash Flow Statement, Section 5 Statement of Accounting Policies, and the related notes 1 to 44 and Group notes 1 to 17 and include the firefighters' pension scheme financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director Finance (s151 Officer) and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director Finance (s151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director Finance (s151 Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

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

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

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

Secondly, following a legal contractual dispute settled in November 2016 the Authority carried out a lessons learned review, which resulted in a number of agreed management actions in September 2017. These actions have been designed to address contractual management arrangements, which identified weaknesses on a specific contract, entered into by the Authority between 2005 and 2012. The actions also take into account the management of disputes, mediation and legal proceedings up to November 2016. The Authority acknowledges that, it needs to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring, risk and escalation management of all major contracts, and improved arrangements for the management of contract disputes and litigation, if required in the future.

This matter is evidence of weaknesses in proper arrangements for informed decision making and working with partners and third parties with inadequate governance arrangements for contractual management and ineffective working with third parties.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Gareth Kelly

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

110 Queen Street
Glasgow
G1 3BX

26 September 2017

Section 4 sets out four accounting statements in respect of the Council's activities in 2016/17, showing the previous year's comparators.

Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost.

The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Movement in Reserves Statement which identifies the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and other "unusable" reserves (i.e. not cash backed).

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

The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.

Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories – usable and unusable.

Usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable reserves are those that the Council is not able to use to provide services. This includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' and detailed in note 9.

Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31st MARCH 2017

2015/16 Restated					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service	Note to the Accounts	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			Services:				
382,998	(288,959)	94,039	Children and Families Services		371,627	(282,037)	89,590
190,578	(65,104)	125,474	Health, Care and Community Services		194,153	(62,760)	131,393
133,285	(30,564)	102,721	Economy and Highways Services		141,490	(28,699)	112,791
13,633	(418)	13,215	Fire & Rescue Service		13,948	(459)	13,489
8,068	(226)	7,842	Local Committees		8,786	(311)	8,475
35,924	(6,582)	29,342	Resources and Transformation		34,135	(6,868)	27,267
7,157	(2,332)	4,825	Flood Costs		0	0	0
15,923	(1,840)	14,083	Other Corporate Items		20,584	(1,563)	19,021
11,430	(8,442)	2,988	Non Distributed Costs		8,364	(1,634)	6,730
798,996	(404,467)	394,529	**Net Expenditure Continuing Operations**	4	793,087	(384,331)	408,756
8,680	0	8,680	Other Operating Expenditure	6	2,909	0	2,909
85,611	(6,049)	79,562	Financing and Investment Income and Expenditure	7	55,819	(7,017)	48,802
0	(449,381)	(449,381)	Taxation and Non Specific Grant Income	8	0	(460,673)	(460,673)
893,287	**(859,897)**	**33,390**	**(Surplus)/Deficit on Provision of Services**	4	**851,815**	**(852,021)**	**(206)**
		(6,415)	(Surplus) or Deficit on Revaluation of Non Current Assets	37.1			(8,842)
		636	Impairment Losses on Non Current Assets Charged to Revaluation Reserve	37.1			0
		(13)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets	37.4			(14)
		(82,883)	Remeasurements of the net defined benefit liability / (asset)	39.1			238,602
		(88,675)	**Other Comprehensive Income and Expenditure**				**229,746**
		(55,285)	**Total Comprehensive Income and Expenditure**				**229,540**

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31st MARCH 2017

The CIPFA Code of Local Authority Accounting in the UK 2016/17 requires the total General Reserves made up of General Fund Balance and Earmarked Revenue and Capital Reserves to be presented. Previously it was recommended that Earmarked Reserves be separately presented. The 2015/16 Movement in Reserves Statement has been restated to reflect this change and a new subtotal is included to show the total General Reserves.

	Note to the Accounts	General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2015		15,221	92,823	5,330	113,374	10,823	1,824	2,813	128,834	97,228	412,903	(642,863)	(507)	881	(8,278)	(140,636)	(11,802)
Adjustment to opening balance (note 37.3)												(1,140)				(1,140)	(1,140)
Movement in Reserves during 2015/16																	
Total Comprehensive Income and Expenditure		(33,390)			(33,390)	0	0	0	(33,390)	5,779	0	82,883	13	0	0	88,675	55,285
Adjustments between accounting basis and funding basis under regulations	9	17,847			17,847	884	(507)	0	18,224	(7,078)	3,282	(19,225)	0	2,940	1,857	(18,224)	0
Net Increase/(Decrease) in 2015/16		**(15,543)**	**0**	**0**	**(15,543)**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Transfers (to) Earmarked Reserves		(18,885)	18,885	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves		33,507	(30,901)	(2,606)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves		**14,622**	**(12,016)**	**(2,606)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance at 31st March 2016		**14,300**	**80,807**	**2,724**	**97,831**	**11,707**	**1,317**	**2,813**	**113,668**	**95,929**	**416,185**	**(580,345)**	**(494)**	**3,821**	**(6,421)**	**(71,325)**	**42,343**
Movement in Reserves during 2016/17																	
Total Comprehensive Income and Expenditure		206	0	0	206	0	0	0	206	8,842	0	(238,602)	14	0	0	(229,746)	(229,540)
Adjustments between accounting basis and funding basis under regulations	**9**	(27,657)	0	0	(27,657)	(801)	653	0	(27,805)	(3,453)	52,295	(18,211)	0	(383)	(2,443)	27,805	0
Net Increase/(Decrease) in 2016/17		**(27,451)**	**0**	**0**	**(27,451)**	**(801)**	**653**	**0**	**(27,599)**	**5,389**	**52,295**	**(256,813)**	**14**	**(383)**	**(2,443)**	**(201,941)**	**(229,540)**
Transfers (to) Earmarked Reserves	**36.1**	(18,459)	18,459	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	**36.1**	41,027	(38,826)	(2,201)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves		**22,568**	**(20,367)**	**(2,201)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance at 31st March 2017		**9,417**	**60,440**	**523**	**70,380**	**10,906**	**1,970**	**2,813**	**86,069**	**101,318**	**468,480**	**(837,158)**	**(480)**	**3,438**	**(8,864)**	**(273,266)**	**(187,197)**

BALANCE SHEET AS AT 31st MARCH 2017

Restated 31st March 2016 £000		Notes to the Accounts	31st March 2017 £000
	Long Term Assets:		
	Property, Plant and Equipment		
459,660	Other Land and Buildings		483,853
26,635	Vehicles, Plant, Furniture and Equipment		33,251
478,101	Infrastructure		525,078
54	Community Assets		53
15,881	Assets Under Construction		4,480
14,564	Surplus Properties Not Held For Sale	22	15,433
994,895	**Total Property, Plant and Equipment**	21	1,062,148
543	Heritage Assets	23	563
2,285	Investment Properties	24	4,655
833	Intangible Assets	25	528
0	Assets Held for Sale	26	548
3,183	Long Term Investments		3,183
7,174	Long Term Debtors	27	4,252
1,008,913	**Total Long Term Assets**		1,075,877
	Current Assets:		
1,048	Current Assets Held for Sale	26	1,623
1,040	Inventories		1,184
62,153	Short Term Debtors and Prepayments	28	60,731
100,201	Short Term Investments	29.1	125,447
116,451	Cash and Cash Equivalents	31	37,593
280,893	**Total Current Assets**		226,578
	Current Liabilities:		
(11,938)	Short Term Borrowings	29.1	(11,822)
(517)	Short Term PFI Liability	20	(523)
(79,570)	Short Term Creditors	32	(76,836)
(10,847)	Revenue Grants Receipts in Advance	33	(8,214)
(4,636)	Short Term Provisions	34	(5,341)
(10,739)	Bank Overdraft	29.1 & 31	(4,568)
(118,247)	**Total Current Liabilities**		(107,304)
	Long Term Liabilities:		
(295,361)	Long Term Borrowings	29	(287,835)
(4,424)	Long Term Creditors		(5,478)
(117,184)	Long Term PFI Liability	20	(116,623)
(134,375)	Capital Grants Receipts in Advance	35	(127,930)
(8,008)	Long Term Provisions	34	(7,324)
(569,864)	Net Pensions Liability	39.2	(837,158)
(1,129,216)	**Total Long Term Liabilities**		(1,382,348)
42,343	**Net Assets / (Liabilities)**		**(187,197)**
	Usable Reserves		
14,300	General Fund Balance		9,417
80,807	Earmarked Reserves	36.1	60,440
2,724	Earmarked Capital Reserve	36.1	523
11,707	Usable Capital Receipts Reserve	36.2	10,906
1,317	Capital Grants and Contributions Unapplied Reserve	36.2	1,970
2,813	Long Term Investment Reserve	36.2	2,813
113,668			86,069
	Unusable Reserves		
95,929	Revaluation Reserve	37.1	101,318
416,185	Capital Adjustment Account	37.2	468,480
(580,345)	Pensions Reserve	37.3	(837,158)
(494)	Financial Instruments Adjustment Account	37.4	(480)
3,821	Collection Fund Adjustment Account	37.5	3,438
(6,421)	Accumulated Absences Account	37.6	(8,864)
(71,325)			(273,266)
42,343	**Total Reserves**		**(187,197)**

CASH FLOW STATEMENT AS AT 31st MARCH 2017

Restated 2015/16			2016/17	
£000	£000		£000	£000
	(33,390)	Net Surplus/(Deficit) on the Provision of Services		206
		Adjust net surplus or (deficit) on provision of services for non cash movements		
30,331		Depreciation and impairments	30,459	
331		Amortisation	305	
11,635		Net Revaluations downwards	11,915	
(13)		Adjustments for effective interest rates	(14)	
(172)		Increase/(Decrease) in Interest Creditors	(116)	
(4,334)		Increase/(Decrease) in Creditors	(2,002)	
37		Increase/(Decrease) in Interest and Dividend Debtors	(110)	
6,297		(Increase)/Decrease in Debtors	189	
58		(Increase)/Decrease in Inventories	(144)	
29,837		Pension Liability	28,692	
(825)		Contributions to Provisions	21	
(732)		Movement in Investment Property values	(2,128)	
45,468		Carrying Amount of non current assets sold	9,576	
	117,918			**76,643**
		Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing or financing activities		
(56,797)		Capital grants credited to surplus or (deficit) on the provision of services	(78,390)	
(5,128)		Proceeds from the sale of property, plant and equipment, investment properties or intangible assets	(3,136)	
	(61,925)			**(81,526)**
	22,603	**Net Cashflows from Operating Activities *****		**(4,677)**
		Net Cashflows from Investing Activities		
(72,897)		Purchase of PPE, Investment property and intangible assets	(114,043)	
(159,914)		Purchase of short term and long term investments	(251,050)	
5,128		Proceeds from the sale of PPE, Investment property and intangible assets	3,136	
135,000		Proceeds from short term and long term investments	225,914	
148,932		Other receipts from investing activities	76,100	
	56,249			**(59,943)**
		Net Cashflows from Financing Activities		
(336)		Payments for the reduction on PFI liability	(555)	
(5,512)		Payment for the reduction of long term borrowing	(7,512)	
	(5,848)	Net cashflows from Financing Activities		(8,067)
	73,004	**Net Increase or (Decrease) in Cash and Cash Equivalents**		(72,687)
	32,708	Cash and Cash Equivalents at the Beginning of the Reporting Period		105,712
	105,712	**Cash and Cash Equivalents at the End of the Reporting Period (Note 31)**		**33,025**

*** The Net Cashflows from Operating Activities in 2016/17 include interest received of £1.344m (2015/16 £1.158m), dividends received £1.500m (2015/16 £1.500m) and interest paid of £28.430m (2015/16 £28.629m).

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

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i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its overall financial position as at 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 supported by International Financial Reporting Standards (IFRS).

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

ii. Accounting Concepts

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

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

ii. Accounting Concepts continued

Accruals of Income and Expenditure continued

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

Relevant

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

Reliable

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

Comparable

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

Understandable

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

Materiality

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

Going Concern

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

Primacy of Legislative Requirements

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct material errors.

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

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

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

iv. Charges to Revenue for Non Current Assets

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

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

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

iv. Charges to Revenue for Non Current Assets continued

The change in the MRP policy was agreed by full Council at its meeting on 10th November 2016.

In the case of capital spend incurred before 1st April 2008 and spend financed by "supported" borrowing in all the following years; from 1st April 2016 this is charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years. Previously, the Council charged MRP in line with former DCLG Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (Capital Financing Requirement or CFR) each year.

In the case of all capital spend financed by Prudential Borrowing; this is subject to MRP under the Asset life method – equal instalments charged over the estimated life of the asset. MRP is based on the estimated life of the assets, in accordance with the regulations.

Repayments included in the annual PFI charges or finance leases are applied as MRP.

v. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. Each service segment includes the appropriate charges for the use of its non-current assets e.g. depreciation, impairment, impairment reversals etc. Each service segment also includes the appropriate employee benefit accrued costs.

vi. Principal and Agent Transactions

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

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

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

vii. Employee Benefits

Benefits Payable During Employment

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the relevant service(s) line within the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw an offer relating to the termination of the employment of an officer or group of officers, or to encourage voluntary redundancy.

Post Employment Benefits

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

a) Teachers' Pensions

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

vii. Employee Benefits continued

b) Firefighters' Pensions

There are currently four Fire Fighters Pension Schemes:

- the 1992 scheme which came into effect on 1st March 1992 but became a closed scheme on 6th April 2006;
- the 2006 scheme which came into effect on 6th April 2006;
- the Modified scheme which is open to all Retained Firefighters who were employed between 1st July 2000 and 5th April 2006. Retained firefighters employed between these dates were not given the opportunity to join the membership of the 1992 Scheme. The Modified scheme is a modified section of the 2006 Scheme which gives membership to retained firefighters employed within the above period;
- the 2015 Scheme which came into effect on 1st April 2015 and is available to firefighters appointed on or after that date.

<u>Transfer to 2015 Scheme</u>

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

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

Firefighters who did not transfer into the 2015 scheme on 1st April 2015 will transfer into the scheme on defined taper dates based on their age.

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

c) The NHS Pension Scheme

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

vii. Employee Benefits continued

Post Employment Benefits continued

d) The Local Government Pension Scheme

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

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

1. The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees. Liabilities are measured on an actuarial basis discounted to present value using the projected units method. The discount rate to be used is determined in reference to market yields at the Balance Sheet date of high quality corporate bonds.

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

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

a) Service cost comprising:

- ***current service cost*** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- ***past service cost*** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- ***net interest on the net defined benefit liability i.e. net interest expense for the authority*** - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

vii. Employee Benefits continued

Post Employment Benefits continued

b) Re-measurement comprising:

- ***the return on plan assets*** – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

c) Contributions paid to the Cumbria Local Government Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

viii. Government Grants and Contributions

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

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

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

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

viii. Government Grants and Contributions continued

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

Capital Grants and Contributions

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

Revenue Grants

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

ix. Leases

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

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

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

The Council as Lessee

Buildings

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

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

ix. Leases continued

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

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

Land

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

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

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

ix. Leases continued

Finance Leases continued

The Council as Lessor

Buildings

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

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

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

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

Land

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

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

Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

ix. Leases continued

Finance Leases continued

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

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

x. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

x. Private Finance Initiative (PFI) and Similar Contracts continued

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator; and
- lifecycle replacement costs – are either recognised immediately as additions to Property, Plant and Equipment on the Balance Sheet when the relevant works are carried out or if required a prepayment is posted to the Balance Sheet for the lifecycle costs payable in that year and then recognised as additions to PPE when the relevant works are carried out. Where it is not possible to evidence that lifecycle replacements costs meet the capital expenditure definition then it is treated as revenue.

xi. Property, Plant and Equipment

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

Recognition

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

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

xi. Property, Plant and Equipment continued

Componentisation

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

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

xi. Property, Plant and Equipment continued

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

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

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

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

Revaluation losses

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

Impairment

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

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

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

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

xi. Property, Plant and Equipment continued

Disposals and Non Current Assets Held for Sale

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

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

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

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

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

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

xi. Property, Plant and Equipment continued

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

Where the assets of a school are recognised on the Council's Balance Sheet prior to a transfer to an Academy they are treated as a derecognition in year. The assets are treated as a disposal with nil sale proceeds to be recognised.

Depreciation

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

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

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

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

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

Components have been recognised in the financial year where:

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

xi. Property, Plant and Equipment continued

Depreciation continued

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

Non Current Assets - Schools

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

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

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

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

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

xiii. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

xiii. Investment Properties continued

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

Financial Instruments

xiv. Financial Liabilities

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

Borrowing

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

xiv. Financial Liabilities

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

xv. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

Debtors

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

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

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

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

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

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

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

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

xvi. Cash and Cash Equivalents

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

xvii. Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation. They are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties, and are classified as current or non current liabilities on the Balance Sheet.

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

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

xviii. Reserves

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

The Council's main usable reserves are as follows:

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

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

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

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

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

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

xix. Interests in Companies and Other Entities

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

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

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

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

xx. Joint Arrangements

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

- A Joint Venture
- A Joint Operation

Joint Venture

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

Joint Operation

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

xxi. Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

xxii. Events After the 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:

Adjusting Events

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

Non Adjusting Events

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

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

xxiii. Value Added Tax

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

xxiv. Pooled Funds

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

xxv. Council Tax and Business Rates

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

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

xxvi. Fair Value Measurement

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

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

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

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

xxvi. Fair Value Measurement continued

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

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

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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

This section provides a brief summary of the accounting and legislative issues that will affect local government accounting during the 2017/18 year.

Changes Introduced by the 2017/18 Code

Going Concern Basis of Reporting

The current provisions in the 2016/17 Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis.

CIPFA/LASAAC has augmented the provisions of the 2017/18 Code on Presentation of Financial Statements to confirm the going concern basis of accounting for local authorities.

The Local Authority Accounting Panel (LAAP) agreed with CIPFA/LASAAC's technical position above regarding the going concern basis of accounting. However, both CIPFA/LASAAC and LAAP are aware that there might be a tension between the going concern assumption and the substantial resource issues that some authorities may be experiencing. Therefore, CIPFA/LASAAC has requested that LAAP provides guidance on the issue and particularly on the value of including appropriate reports on financial resilience and sustainability in the Narrative Report.

Other Changes Introduced by the 2017/18 Code

In addition to the clarification in respect of going concern, the 2017/18 Code introduces changes in the following areas:

- Narrative Reporting
- Accounting Policies – Telling the Story of Local Authority Financial Statements
- Accounting and Reporting by Pension Funds – Investment Transaction Costs
- Other minor amendments

The effect of these changes will be assessed and where necessary figures will be restated in the Financial Statements for 2017/18.

2. Critical Judgements in Applying Accounting Policies

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

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

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

Land and Buildings

The Council has to decide whether land and buildings owned by the Council are investment properties. The Council's Valuers make judgements in accordance with IAS 40 Investment Property and IFRS13 Fair Value Measurement which was introduced into the Code of Practice on Local Authority Accounting in 2015/16. In 2016/17 it has been determined that the Council has ten investment properties from which £0.296m net income was generated in 2016/17 (eight investment properties from which £0.189m net income was generated in 2015/16).

The Capital Programme & Property Team is required to exercise judgement in determining the carrying value of land and buildings on the Council's Balance Sheet. The Council owns a large and diverse range of property assets. All properties are revalued on a five year rolling programme and reflect the fair value. The carrying value of land and buildings is reviewed annually to ensure that it is not materially different to the current value.

In 2016/17 The largest category of operational land and buildings is Schools in terms of both Net Book Value and the number of assets, accounting for £248m (52.5%) of the £472m Land and Building Net Book Value on the Balance Sheet. The accounting treatment for all schools was revised in 2014/15 following a change in the Accounting Code of Practice. As a consequence all schools were revalued in that year. The Community Primary Schools account for 60.9% of the Schools Net Book Value (NBV). The NBV of the 44 schools revalued in 2015/16 showed an average increase of 4.2% and the 26 schools revalued in 2016/17 a 9.8% average increase from the average of those last revalued in 2014/15. If the 9.8% increase was applied to the remaining 41 schools that have yet to be revalued in the 5 yearly cycle then the NBV could increase by £5.3m. If the 5.6% increase between 2015/16 and 2016/17 valuations were applied to 2015/16 schools then there could be an increase of £3.4m, which totals £8.7m. However these are only average figures and do not take into account any local conditions. The Council's materiality for accounting purposes in 2016/17 is £15.5m.

2. Critical Judgements in Applying Accounting Policies continued

Land and Buildings continued

During 2016/17 the Valuers have assessed that there has been no general impairment.

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

Group Accounts

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

Investments

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

Provisions and Contingent Liabilities

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

Grants Receivable

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

2. Critical Judgements in Applying Accounting Policies continued

Schools

Accounting for Schools – Consolidation

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the County are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The timetable for the closure of the Council's accounts requires the 86 schools that operate a "cheque book" arrangement locally i.e. they manage the day to day accounting for income and payments close their accounts by mid March. Therefore they have to make use of estimates for their March payroll costs.

Accounting for Schools – Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

The table below sets out the number and type of schools within the County as at 31st March 2017.

Type of School	No. of Primary Schools	No. of Secondary Schools	No. of Nursery Schools	No of Special Schools	No. of Pupil Referral Units	Total No. of Schools	On Council's Balance Sheet	Off Council's Balance Sheet
Community	110	8	6	4	3	131	131	0
Voluntary Controlled (VC)	48	1	0	0	0	49	0	49
Voluntary Aided (VA)	70	4	0	0	0	74	0	74
Foundation	13	2	0	0	0	15	11	4
Total Maintained Schools	**241**	**15**	**6**	**4**	**3**	**269**	**142**	**127**
Academies	29	21	0	1	0	51	0	51
Total	**270**	**36**	**6**	**5**	**3**	**320**	**142**	**178**

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

2. Critical Judgements in Applying Accounting Policies continued

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

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

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

<u>Closed Landfill Sites</u>

Consideration of the Issue

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

The Council has considered this issue again in 2016/17 and has concluded that no provision is required for the 2016/17 accounts but will continue to make disclosure in contingent liabilities (note 42).

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

The Statement of Accounts contains estimated figures that are either based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Provisions

Uncertainties	**Consequences if actual results differ from assumption**
Insurance The insurance provision represents the sum estimated to meet motor, employers' liability, public liability and education related fire claims identified and also claims incurred. The estimate is based on the advice of consulting actuaries – Marsh Risk Consulting.	The long term and short term provisions are estimated at £6.750m at 31st March 2017 (£7.205m at 31st March 2016). If the estimate of the insurance provision was underestimated by 10% then the charge to the accounts would increase by £0.675m.
Business Rates Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2016/17 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have challenged up to 31st March 2017. The Council's provision for the Business Rates appeals is a 10% share of the provision calculated by each of the six District Councils in Cumbria.	The provision as at 31st March 2017 is £0.792m (31st March 2016 £0.957m), if the District Councils had either under or over estimated their provisions by 10% then the Council provision would be increased or decreased respectively by £0.079m.

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

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

Property, Plant and Equipment

Uncertainties	**Consequences if actual results differ from assumption**
Useful Life of Assets Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to deliver the backlog maintenance programme following the condition surveys recently undertaken, bringing into doubt the useful lives assigned to assets.	The largest elements of the Council's annual depreciation charge of £30m are operational buildings £11m and infrastructure £15m. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £0.175m and infrastructure by £0.544m for every year that useful lives had to be reduced.
Fair Value Measurement When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: 1. For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;	Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible; judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.

Pensions Liability

Uncertainties	**Consequences if actual results differ from assumption**
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercers, a firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 39 includes a sensitivity analysis. In summary for all Pension schemes the effects are: 0.1% increase in the discount rate assumption would result in a decrease in the net pension deficit of £38.888m and vice versa. 0.1% increase in inflation would result in an increase of £39.590m in the net pension liabilities 1 year increase in life expectancy would increase net liabilities by £48.372m.

4. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates to council tax payers how the funding available to the Council (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

4. Expenditure and Funding Analysis continued

EXPENDITURE AND FUNDING ANALYSIS FOR YEAR ENDED 31st MARCH 2017

2015/16 Restated					2016/17		
Net Expenditure Chargeable to General Reserves £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000		Note to the Accounts	Net Expenditure Chargeable to General Reserves £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in Comprehensive Income and Expenditure Statement £000
			Services:				
81,053	12,986	94,039	Children and Families Services		88,019	1,571	89,590
123,884	1,590	125,474	Health, Care and Community Services		127,601	3,792	131,393
123,629	(20,908)	102,721	Economy and Highways Services		120,033	(7,242)	112,791
17,117	(3,902)	13,215	Fire & Rescue Service		17,522	(4,033)	13,489
7,850	(8)	7,842	Local Committees		8,479	(4)	8,475
28,740	602	29,342	Resources and Transformation		26,663	604	27,267
4,825	0	4,825	Flood Costs		0	0	0
18,075	(3,992)	14,083	Other Corporate Items		21,770	(2,749)	19,021
0	2,988	2,988	Non Distributed Costs		0	6,730	6,730
405,173	(10,644)	394,529	**Net Expenditure Continuing Operations**	4	410,087	(1,331)	408,756
(389,630)	28,491	(361,139)	Other Income and Expenditure	4	**(382,636)**	**(26,326)**	**(408,962)**
15,543	**17,847**	**33,390**	**(Surplus)/Deficit on Provision of Services**	4	**27,451**	**(27,657)**	**(206)**
113,374			Opening General Reserves	9	97,831		
(15,543)			Surplus / (Deficit) on General Reserves in year		(27,451)		
97,831			**Closing General Reserves**	9	**70,380**		

Analysis of Total General Reserves:

General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000		General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000
15,221	92,823	5,330	113,374	Opening General Fund Balance	14,300	80,807	2,724	97,831
33,507	(30,901)	(2,606)	0	Transfer from Earmarked Reserves	41,027	(38,826)	(2,201)	0
(18,885)	18,885	0	0	Transfer to Earmarked Reserves	(18,459)	18,459	0	0
(15,543)	0	0	(15,543)	Deficit for the year	(27,451)	0	0	(27,451)
14,300	**80,807**	**2,724**	**97,831**		**9,417**	**60,440**	**523**	**70,380**

4. Note to the Expenditure and Funding Analysis continued

Adjustment Between Funding and Accounting Basis

The adjustments between the funding and accounting basis shown in the Expenditure and Funding Analysis can be further broken down into the following three categories:

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- *Other operating expenditure* – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- *Financing and investment income and expenditure* – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- *Taxation and non-specific grant income and expenditure* – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

This column includes the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

This column includes all other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- *For Financing and investment income and expenditure* the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- *The charge under Taxation and non-specific grant income and expenditure* represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

4. Note to the Expenditure and Funding Analysis continued
Adjustment Between Funding and Accounting Basis continued

2016/17

Adjustments from General Fund to arrive at Comprehensive Income & Expenditure Statement Amounts	Adjustments For Capital Purposes	2016/17 Net Change for the Pensions Adjustment	Other Adjustments	Total Adjustments
Children and Families Services	(2,721)	2,226	2,066	1,571
Health, Care and Community Services	2,323	1,260	209	3,792
Economy and Highways Services	8,026	593	(15,861)	(7,242)
Fire & Rescue Service	(592)	(3,574)	133	(4,033)
Local Committees	(6)	1	1	(4)
Resources and Transformation	(190)	510	284	604
Flood Costs	0	0	0	0
Other Corporate Items	18,574	(10,112)	(11,211)	(2,749)
Non Distributed Costs	0	6,730	0	6,730
Net Expenditure Continuing Operations	**25,414**	**(2,366)**	**(24,379)**	**(1,331)**
Other Income and Expenditure	**(74,107)**	**20,577**	**27,204**	**(26,326)**

2015/16

Adjustments from General Fund to arrive at Comprehensive Income & Expenditure Statement Amounts	Adjustments For Capital Purposes	2015/16 Net Change for the Pensions Adjustment	Other Adjustments	Total Adjustments
Children and Families Services	10,023	4,735	(1,772)	12,986
Health, Care and Community Services	(763)	2,453	(100)	1,590
Economy and Highways Services	(6,197)	1,031	(15,742)	(20,908)
Fire & Rescue Service	(347)	(3,546)	(9)	(3,902)
Local Committees	(11)	3	0	(8)
Resources and Transformation	0	809	(207)	602
Flood Costs	0	0	0	0
Other Corporate Items	17,917	(10,088)	(11,821)	(3,992)
Non Distributed Costs	0	2,988	0	2,988
Net Expenditure Continuing Operations	**20,622**	**(1,615)**	**(29,651)**	**(10,644)**
Other Income and Expenditure	**(17,205)**	**20,840**	**24,856**	**28,491**

The significant differences between 2015/16 and 2016/17 Adjustments for Capital Purposes are due to the gains / (losses) on revaluation of non current Property, Plant and Equipment:

Childrens and Families Services	£12.408m
Health, Care and Community Services	(£3.372m)
Economy & Highways Services	(£11.072m)

The overall variance between years on revaluation gains/losses is £1.012m, the directorate variances depends on where each directorates assets fall due for revaluation in the five yearly valuation cycle.

4.1 Expenditure and Income Analysed by Nature and by Segment

Income and expenditure reported in the Comprehensive Income and Expenditure Statement is analysed on a segmental basis in the table below:

2016/17 Expenditure and Income Analysed by Nature and Segment	Childrens & Families Services £000	Health, Care and Community Services £000	Economy & Highways Services £000	Fire & Rescue Service £000	Local Committees £000	Resources & Transformation £000	Other Corporate Items £000	Flooding £000	Non Distributed Costs £000	Other Income and Expenditure £000	Total £000
Fees and charges	(16,431)	(36,321)	(10,084)	(92)	(85)	(1,810)	(956)	0	0	(1,480)	(67,259)
Other income	(4,785)	(5,424)	(3,897)	(367)	(188)	(1,093)	0	0	(1,634)	0	(17,388)
Interest & Investment Income	0	0	0	0	0	0	0	0	0	(5,536)	(5,536)
Income from Council Tax	0	0	0	0	0	0	0	0	0	(205,381)	(205,381)
Government Grants and Contributions	(260,821)	(21,015)	(14,718)	0	(38)	(3,965)	(607)	0	0	(255,293)	(556,457)
Total Income	**(282,037)**	**(62,760)**	**(28,699)**	**(459)**	**(311)**	**(6,868)**	**(1,563)**	**0**	**(1,634)**	**(467,690)**	**(852,021)**
Employee costs	169,859	56,723	24,718	10,449	3,544	26,064	3,167	0	0	654	295,178
Employee Costs of Voluntary Aided and Foundation Schools	64,778	0	0	0	0	0	0	0	0	0	64,778
Other Service Expenses less Internal Income	131,157	133,491	86,926	2,577	5,231	7,767	16,293	0	8,364	997	392,803
Depreciation, Amortisation and Impairment	7,492	1,616	18,666	1,464	11	304	50	0	0	1,161	30,764
Gains/ (Losses) on Revaluation of Non Current Assets	(1,659)	2,323	11,180	(542)	0	0	1,074	0	0	(460)	11,916
(Gains) / Losses on Disposal of Non Current Assets	0	0	0	0	0	0	0	0	0	6,439	6,439
Interest Payable	0	0	0	0	0	0	0	0	0	48,198	48,198
Precepts Paid	0	0	0	0	0	0	0	0	0	812	812
IAS19 Administration Expenses	0	0	0	0	0	0	0	0	0	927	927
Total Expenditure	**371,627**	**194,153**	**141,490**	**13,948**	**8,786**	**34,135**	**20,584**	**0**	**8,364**	**58,728**	**851,815**
(Surplus)/Deficit on Provision of Services	**89,590**	**131,393**	**112,791**	**13,489**	**8,475**	**27,267**	**19,021**	**0**	**6,730**	**(408,962)**	**(206)**

2015/16 Expenditure and Income Analysed by Nature and Segment	Childrens & Families Services £000	Health, Care and Community Services £000	Economy & Highways Services £000	Fire & Rescue Service £000	Local Committees £000	Resources & Transformation £000	Other Corporate Items £000	Flooding £000	Non Distributed Costs £000	Other Income and Expenditure £000	Total £000
Fees and charges	(14,547)	(40,144)	(7,799)	(62)	(103)	(2,313)	(349)	0	0	(2,413)	(67,730)
Other income	(4,493)	(3,538)	(3,461)	(356)	(10)	(934)	(60)	0	(8,442)	0	(21,294)
Interest & Investment Income	0	0	0	0	0	0	0	0	0	(3,636)	(3,636)
Income from Council Tax	0	0	0	0	0	0	0	0	0	(195,874)	(195,874)
Government Grants and Contributions	(269,919)	(21,422)	(19,304)	0	(113)	(3,335)	(1,431)	(2,332)	0	(253,507)	(571,363)
Total Income	**(288,959)**	**(65,104)**	**(30,564)**	**(418)**	**(226)**	**(6,582)**	**(1,840)**	**(2,332)**	**(8,442)**	**(455,430)**	**(859,897)**
Employee costs	170,824	61,264	24,720	10,241	3,012	26,212	3,368	1,109	0	731	301,481
Employee Costs of Voluntary Aided and Foundation Schools	62,064	0	0	0	0	0	0	0	0	0	62,064
Other Service Expenses less Internal Income	130,561	128,609	91,500	2,432	5,046	9,381	9,798	6,048	11,430	1,849	396,654
Depreciation, Amortisation and Impairment	8,800	1,754	17,417	1,339	10	331	92	0	0	918	30,661
Gains/ (Losses) on Revaluation of Non Current Assets	10,749	(1,049)	(352)	(379)	0	0	2,665	0	0	0	11,634
(Gains) / Losses on Disposal of Non Current Assets	0	0	0	0	0	0	0	0	0	40,340	40,340
Interest Payable	0	0	0	0	0	0	0	0	0	48,865	48,865
Precepts Paid	0	0	0	0	0	0	0	0	0	799	799
IAS19 Administration Expenses	0	0	0	0	0	0	0	0	0	789	789
Total Expenditure	**382,998**	**190,578**	**133,285**	**13,633**	**8,068**	**35,924**	**15,923**	**7,157**	**11,430**	**94,291**	**893,287**
(Surplus)/Deficit on Provision of Services	**94,039**	**125,474**	**102,721**	**13,215**	**7,842**	**29,342**	**14,083**	**4,825**	**2,988**	**(361,139)**	**33,390**

5. Material Items of Income and Expense

The Council has considered items within the Comprehensive Income and Expenditure Statement in relation to the materiality threshold of £15.5m. The following payments to contractors are included in the Accounts but have not been disclosed separately in the CIES but are set out below for information.

- Shanks Waste Management Ltd of £28.184m which comprises £22.133m unitary charge and £6.051m for services (2015/16 total £28.042m, £21.574m unitary charge and £6.468m for services) in respect of the Public Private Partnership for Waste Management.
- Connect CNDR Ltd of £14.006m which comprises of £13.752m unitary charge in respect of the Carlisle Northern Development Route PFI scheme and £0.254m of other services (2015/16 £13.671m unitary charge).
- Highways contractor litigation payment £11.542m in respect of the final net award to the contractor and contribution towards the costs determined by the Court during 2016/17.

The Council received income from Cumbria Clinical Commissioning Group in respect of the Better Care Fund and the Specialised Commissioning Fund Pooled Budgets. Note 11 sets out pooled budget arrangements.

6. Other Operating Expenditure

Other operating expenditure included in Comprehensive Income and Expenditure Statement.

2015/16 £000	Other Operating Expenditure	2016/17 £000
799	Precepts and Levies	812
7,092	(Gains)/losses on the disposal of non current assets	1,170
789	IAS 19 Administration Expenses	927
8,680	**Total**	**2,909**

The net gains/losses on disposal in 2015/16 are predominantly as a result of de-recognising Southfield Technology College (£4.027m) following the merger with Stainburn School to form Workington Academy in September 2015.

7. Financing and Investment Income and Expenditure

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

2015/16 £000		Financing and Investment Income and Expenditure	2016/17 £000	
		Trading Operations		
(2,413)		Port of Workington – Income from charges	(1,480)	
2,487		Port of Workington – Expenditure	1,492	
917		Port of Workington – Depreciation and revaluation	700	
	991	Net deficit on Port of Workington Trading Operations		712
		Expenditure		
28,813		Interest payable and similar charges	28,560	
20,051		Pensions interest cost and expected return on pensions assets	19,638	
	48,864			48,198
	33,248	Losses on the disposal of Academies		5,270
		Income		
	(1,121)	Interest receivable and similar income		(1,454)
	(189)	Income and expenditure in relation to investment properties		(296)
	(731)	Revaluation increase investment properties		(2,128)
	(1,500)	Investment Income – CCH Ltd dividend received		(1,500)
	79,562	**Total**		**48,802**

Financing and Investment Expenditure

Further details on the Pension interest cost and return on pension assets can be found in note 39. When a school becomes an Academy the Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. Net assets are therefore written off to revenue. The resultant loss is recognised in the Financing and Investing Income and Expenditure line of the Consolidated Income and Expenditure Statement. Further details on the schools that have transferred to Academy status during the year are included in note 10.

Financing and Investment Income

Interest receivable has increased as a result of the higher cash balances being held following the receipt of the DfT flood recovery grant in March 2016. The investment income is the ordinary share dividends received from Cumbria County Holdings Ltd.

8. Taxation and Non Specific Grant Income

The Council raises Council Tax, Business Rates and receives grants from central government each year to support revenue expenditure which is not attributable to specific services. The grants, Business Rates and Council Tax received for 2016/17 were:

2015/16 £000	Taxation and Non Specific Grant Income	2016/17 £000
129,329	Non ring fenced government grants	108,838
56,812	Capital grants and contributions	78,390
186,141		187,228
195,874	Council tax income	205,381
19,238	Retained Business Rates	19,516
787	Retained Levy from Business Rates Pool	809
201	Share of Business Rate Pool Volatility Reserve	206
47,140	Top up Grant Payments from District Councils	47,533
449,381	**Total**	**460,673**

Cumbria Business Rates Pool

Cumbria has a Business Rate Pool that comprises the County Council, Allerdale Borough Council, Barrow Borough Council, Eden District Council, South Lakeland District Council and Carlisle City Council. Government treats the Pool as a single body with the County Council acting as the lead authority. The arrangements came into effect from 1st April 2014 and have a formal agreement and a financial protocol agreed by all members. Due to Government treating the Pool as a single body, the District Councils pay their tariff payments direct to the County Council (rather than paying it to Government) and where the value of the tariff payments is less than the value of the County Council's expected Top Up Grant for that year the Council receives the difference as a grant from Government. For 2016/17 the total value of the Council's Top Up Grant was £62.046m, with £47.533m being paid by the District Councils (see table above) and £14.513m from Central Government (see note 17).

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

The financial protocol also requires that an element of the Net Retained Levy for the Pool is set aside each year to provide protection for Pool members from falls in business rate income. Each member retains its relative proportion of the Cumbria Business Rate Pool Local Volatility Reserve on its own Balance Sheet. The Council's cumulative share of the volatility reserve (£0.380m) is held on the Balance Sheet as an Earmarked Reserve.

8. Taxation and Non Specific Grant Income continued

The decision was made by all Members of the pool that due to the level of balance already built up in the volatility reserve that no further balances were required to be set aside in 2016/17.

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

2015/16 £000	Cumbria Business Rate Pool	2016/17 £000
	Retained Levy:	
539	Allerdale Borough Council	671
45	Barrow Borough Council	56
657	Carlisle City Council	836
157	Eden District Council	236
938	South Lakeland District Council	572
2,336	**Total Retained Levy**	**2,371**
	Pooling Distribution of Retained Levy:	
246	Allerdale Borough Council	371
46	Barrow Borough Council	62
289	Carlisle City Council	450
77	Eden District Council	136
391	South Lakeland District Council	307
30	Cumbria County Council – Lead Authority role	30
796	Cumbria County Council	1,015
461	Transferred to Pool Volatility Reserve	0
2,336	**Total**	**2,371**

9. Adjustments Between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2016/17 Movement in Reserves Statement

2016/17	General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2016	14,300	80,807	2,724	97,831	11,707	1,317	2,813	113,668	95,929	416,185	(580,345)	(494)	3,821	(6,421)	(71,325)	42,343
Movement in Reserves during 2016/17																
Surplus/(deficit) on the provision of services	206	0	0	206	0	0	0	206	0	0	0	0	0	0	0	206
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	8,842	0	(238,602)	14	0	0	(229,746)	(229,746)
Total Comprehensive Income and Expenditure	**206**	**0**	**0**	**206**	**0**	**0**	**0**	**206**	**8,842**	**0**	**(238,602)**	**14**	**0**	**0**	**(229,746)**	**(229,540)**
Adjustments between accounting basis and funding basis under regulations (Note 9)																
Adjustments to Revenue Resources																
Amount by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements																
Pension Costs - Employers contributions payable to pension funds	(46,903)	0	0	(46,903)	0	0	0	(46,903)	0	0	46,903	0	0	0	46,903	0
Pension Costs - IAS 19 retirement benefit charges	65,114	0	0	65,114	0	0	0	65,114	0	0	(65,114)	0	0	0	(65,114)	0
Council Tax and NDR - Collection fund adjustment account	383	0	0	383	0	0	0	383	0	0	0	0	(383)	0	(383)	0
Holiday Pay - Accumulated Absences	2,443	0	0	2,443	0	0	0	2,443	0	0	0	0	0	(2,443)	(2,443)	0
Application of Capital Grants to Finance Capital Expenditure	(78,390)	0	0	(78,390)	0		0	(78,390)	0	78,390	0	0	0	0	78,390	0
Total Adjustments to Revenue Resources	**(57,353)**	**0**	**0**	**(57,353)**	**0**	**0**	**0**	**(57,353)**	**0**	**78,390**	**(18,211)**	**0**	**(383)**	**(2,443)**	**57,353**	**0**
Adjustment Between Revenue and Capital Resources																
Minimum Revenue Provision	(10,812)	0	0	(10,812)	0	0	0	(10,812)	0	10,812	0	0	0	0	10,812	0
Capital expenditure charged to the general fund balance	(5,800)	0	0	(5,800)	0	0	0	(5,800)	0	5,800	0	0	0	0	5,800	0
Transfer to Capital Grant Unapplied Account	(653)	0	0	(653)	0	653	0	0	0	0	0	0	0	0	0	0
Net (Gains) and losses on disposal of non current assets	6,440	0	0	6,440	3,136	0	0	9,576	0	(9,576)	0	0	0	0	(9,576)	0
Depreciation of non current assets	30,459	0	0	30,459	0	0	0	30,459	0	(30,459)	0	0	0	0	(30,459)	0
Depreciation and impairment of Intangible assets	305	0	0	305	0	0	0	305	0	(305)	0	0	0	0	(305)	0
Donated Asset	(30)	0	0	(30)	0	0	0	(30)	0	30	0	0	0	0	30	0
Net Revaluation (Gains) and Losses on Investment Properties	(2,128)	0	0	(2,128)	0	0	0	(2,128)		2,128	0	0	0	0	2,128	0
Net Revaluation (Gains) and Losses on Property, Plant & Equipment	11,915	0	0	11,915	0	0	0	11,915		(11,915)	0	0	0	0	(11,915)	0
Revenue Expenditure Funded from Capital Under Statute	14,813	0	0	14,813	0	0	0	14,813	0	(14,813)	0	0	0	0	(14,813)	0
Grants on Revenue Expenditure Funded from Capital Under Statute	(14,813)	0	0	(14,813)	0	0	0	(14,813)	0	14,813	0	0	0	0	14,813	0
Total Adjustment Between Revenue and Capital Resources	**29,696**	**0**	**0**	**29,696**	**3,136**	**653**	**0**	**33,485**	**0**	**(33,485)**	**0**	**0**	**0**	**0**	**(33,485)**	**0**
Adjustments to Capital Resources																
Receipts used in financing	0	0	0	0	(3,937)	0	0	(3,937)	0	3,937	0	0	0	0	3,937	0
Total Adjustments to Capital Resources	**0**	**0**	**0**	**0**	**(3,937)**	**0**	**0**	**(3,937)**	**0**	**3,937**	**0**	**0**	**0**	**0**	**3,937**	**0**
Other adjustments																
Write off revaluation gains previously recognised on non current assets now disposed	0	0	0	0	0	0	0	0	(1,641)	1,641	0	0	0	0	0	0
Write off revaluation gains previously recognised on non current assets now reclassified to Investment properties	0	0	0	0	0	0	0	0	(15)	15	0	0	0	0	0	0
Difference between current value and historis cost depreciation on revalued assets	0	0	0	0	0	0	0	0	(1,797)	1,797	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(3,453)**	**3,453**	**0**	**0**	**0**	**0**	**0**	**0**
Adjustments between accounting basis and funding basis under regulations (Note 9)	**(27,657)**	**0**	**0**	**(27,657)**	**(801)**	**653**	**0**	**(27,805)**	**(3,453)**	**52,295**	**(18,211)**	**0**	**(383)**	**(2,443)**	**27,805**	**0**
Transfers (to) Earmarked Reserves	(18,459)	18,459	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	41,027	(38,826)	(2,201)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves	**22,568**	**(20,367)**	**(2,201)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increase/(Decrease) in 2016/17	**(4,883)**	**(20,367)**	**(2,201)**	**(27,451)**	**(801)**	**653**	**0**	**(27,599)**	**5,389**	**52,295**	**(256,813)**	**14**	**(383)**	**(2,443)**	**(201,941)**	**(229,540)**
Balance at 31st March 2017	**9,417**	**60,440**	**523**	**70,380**	**10,906**	**1,970**	**2,813**	**86,069**	**101,318**	**468,480**	**(837,158)**	**(480)**	**3,438**	**(8,864)**	**(273,266)**	**(187,197)**

9. Adjustments Between Accounting Basis and Funding Basis under Regulations continued
2015/16 Movement in Reserves Statement

2015/16	General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Pension Reserve £000	Financial Instruments Adjustment Account £000	Collection Fund Adjustment Account £000	Accumulated Absences Account £000	Total Unusable reserves £000	Total Reserves £000
Balance at 31st March 2015	15,221	92,823	5,330	113,374	10,823	1,824	2,813	128,834	97,228	412,903	(642,863)	(507)	881	(8,278)	(140,636)	(11,802)
Adjustment to opening balance (note 36.3)	0	0	0	0	0	0	0	0	0	0	(1,140)	0	0	0	(1,140)	(1,140)
Movement in Reserves during 2015/16																
Surplus/(deficit) on the provision of services	(33,390)	0	0	(33,390)	0	0	0	(33,390)	0	0	0	0	0	0	0	(33,390)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	5,779	0	82,883	13	0	0	88,675	88,675
Total Comprehensive Income and Expenditure	**(33,390)**	**0**	**0**	**(33,390)**	**0**	**0**	**0**	**(33,390)**	**5,779**	**0**	**82,883**	**13**	**0**	**0**	**88,675**	**55,285**
Adjustments to Revenue Resources																
Amount by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements																
Pension Costs - Employers contributions payable to pension funds	(47,387)	0	0	(47,387)	0	0	0	(47,387)	0	0	47,387	0	0	0	47,387	0
Pension Costs - IAS 19 retirement benefit charges	66,612	0	0	66,612	0	0	0	66,612	0	0	(66,612)	0	0	0	(66,612)	0
Council Tax and NDR - Collection fund adjustment account	(2,940)	0	0	(2,940)	0	0	0	(2,940)	0	0	0	0	2,940	0	2,940	0
Holiday Pay - Accumulated Absences	(1,857)	0	0	(1,857)	0	0	0	(1,857)	0	0	0	0	0	1,857	1,857	0
Application of Capital Grants to Finance Capital Expenditure	(56,812)	0	0	(56,812)	0	(507)	0	(57,319)	0	57,319	0	0	0	0	57,319	0
Total Adjustments to Revenue Resources	**(42,384)**	**0**	**0**	**(42,384)**	**0**	**(507)**	**0**	**(42,891)**	**0**	**57,319**	**(19,225)**	**0**	**2,940**	**1,857**	**42,891**	**0**
Adjustment Between Revenue and Capital Resources																
Minimum Revenue Provision	(16,289)	0	0	(16,289)	0	0	0	(16,289)	0	16,289	0	0	0	0	16,289	0
Capital expenditure charged to the general fund balance	(5,385)	0	0	(5,385)	0	0	0	(5,385)	0	5,385	0	0	0	0	5,385	0
Net (Gains) and losses on disposal of non current assets	40,340	0	0	40,340	5,128	0	0	45,468	0	(45,468)	0	0	0	0	(45,468)	0
Depreciation of non current assets	30,331	0	0	30,331	0	0	0	30,331	0	(30,331)	0	0	0	0	(30,331)	0
Depreciation and impairment of Intangible assets	331	0	0	331	0	0	0	331	0	(331)	0	0	0	0	(331)	0
Net Revaluation (Gains) and Losses on Investment Properties	(732)	0	0	(732)	0	0	0	(732)		732	0	0	0	0	732	0
Net Revaluation (Gains) and Losses on Property, Plant & Equipment	11,635	0	0	11,635	0	0	0	11,635		(11,635)	0	0	0	0	(11,635)	0
Revenue Expenditure Funded from Capital Under Statute	19,185	0	0	19,185	0	0	0	19,185	0	(19,185)	0	0	0	0	(19,185)	0
Grants on Revenue Expenditure Funded from Capital Under Statute	(19,185)	0	0	(19,185)	0	0	0	(19,185)	0	19,185	0	0	0	0	19,185	0
Total Adjustment Between Revenue and Capital Resources	**60,231**	**0**	**0**	**60,231**	**5,128**	**0**	**0**	**65,359**	**0**	**(65,359)**	**0**	**0**	**0**	**0**	**(65,359)**	**0**
Adjustments to Capital Resources																
Receipts used in financing	0	0	0	0	(4,244)	0	0	(4,244)	0	4,244	0	0	0	0	4,244	0
Total Adjustment to Capital Resources	**0**	**0**	**0**	**0**	**(4,244)**	**0**	**0**	**(4,244)**	**0**	**4,244**	**0**	**0**	**0**	**0**	**4,244**	**0**
Other adjustments																
Write off revaluation gains previously recognised on non current assets now disposed	0	0	0	0	0	0	0	0	(4,295)	4,295	0	0	0	0	0	0
Write off revaluation gains previously recognised on non current assets now reclassified to Investment properties	0	0	0	0	0	0	0	0	(965)	965	0	0	0	0	0	0
Difference between current value and historis cost depreciation on revalued assets	0	0	0	0	0	0	0	0	(1,818)	1,818	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(7,078)**	**7,078**	**0**	**0**	**0**	**0**	**0**	**0**
Adjustments between accounting basis and funding basis under regulations (Note 9)	**17,847**	**0**	**0**	**17,847**	**884**	**(507)**	**0**	**18,224**	**(7,078)**	**3,282**	**(19,225)**	**0**	**2,940**	**1,857**	**(18,224)**	**0**
Transfers (to) Earmarked Reserves	(18,885)	18,885	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	33,507	(30,901)	(2,606)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves	**14,622**	**(12,016)**	**(2,606)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increase/(Decrease) in 2015/16	**(921)**	**(12,016)**	**(2,606)**	**(15,543)**	**884**	**(507)**	**0**	**(15,166)**	**(1,299)**	**3,282**	**63,658**	**13**	**2,940**	**1,857**	**70,451**	**55,285**
Balance at 31st March 2016	**14,300**	**80,807**	**2,724**	**97,831**	**11,707**	**1,317**	**2,813**	**113,668**	**95,929**	**416,185**	**(580,345)**	**(494)**	**3,821**	**(6,421)**	**(71,325)**	**42,343**

10. Discontinued Operations

The transfer of schools to Academy status continued with 4 schools (10 in 2015/16) converting during the year, this resulted in a reduction in gross income of £1.860m (2015/16 £13.915m) and expenditure of £1.814m (2015/16 £15.349m). This transfer of responsibility also resulted in a reduction of £5.270m (2015/16 £33.248m) in the net book value of land, buildings and equipment recorded on the Balance Sheet. The schools that converted during 2016/17 were:

- Longtown Primary School
- Castle Park School, Kendal
- Northside School
- Lorton School

11. Pooled Budgets

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

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

Youth Offending Service

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

11. Pooled Budgets continued

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

Better Care Fund

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

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

Specialised Commissioning Pooled Fund

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

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

2016/17 **Pooled Funds**	**Youth Offending Service £000**	**Specialised Commissioning Fund £000**	**Better Care Fund £000**
Income			
Cumbria County Council	(490)	(16,766)	(4,919)
Youth Justice Board	(742)	0	0
Police Authority Home Office Grant	(60)	0	0
Cumbria CCG	(145)	(7,652)	(35,851)
Cumbria Police Service	(153)	0	0
Cumbria Probation Service	(70)	0	0
	(1,661)	(24,418)	(40,770)
Expenditure	1,560	25,806	40,770
(Surplus)/Deficit for year	(101)	1,388	0
Council's share of (surplus)/deficit	(101)	953	0

11. Pooled Budgets continued

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

12. Members' Allowances

Allowances and expenses paid to elected Members (Councillors) during 2016/17 were:

2015/16 £000	Type of Allowance	2016/17 £000
688	Basic Allowances	698
221	Special Responsibility Allowance	222
124	Expenses	109
1,033		**1,029**

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

13. Officers' Remuneration

The Accounts and Audit Regulations 2015 sets out the disclosure requirements for Senior Employees remuneration. The requirements provide transparency in respect of the total remuneration package for the senior team charged with the stewardship of the organisation. Senior employees include the Chief Executive, Corporate Directors, the Monitoring Officer and the Chief Finance Officer (Assistant Director – Finance). The Monitoring Officer post has been fulfilled by a number of posts during the period including the Assistant Director – Corporate Governance, Corporate Director – Resources & Transformation and Senior Manager – Legal & Democratic Services. The remuneration paid to the Council's senior employees (as members of Corporate Management Team) is shown in the table on the next page.

<u>Definitions</u>

- *Salary* - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.
- *Benefits in Kind* – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2016/17 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2016/17.
- *Employer's Current Service Pension Contribution* - LGPS 13.0%, NHS Pension Scheme 14.3%, and Firefighters' Pension Scheme 21.7% - on continuing employment and in relation to the salary thereof.

13. Officers' Remuneration continued

2016/17 Senior Officers' Remuneration

Post Title	Name	Salary £	Total Remuneration excluding pension contributions £	Employer's Pension contributions £	Total Remuneration including pension contributions £
Chief Executive (to 28/2/17)	Diane Wood **(note 1)**	129,617	129,617	16,850	146,467
Chief Executive (from 1/3/17)	Katherine Fairclough **(note 2)**	11,783	11,783	1,532	13,315
	Sub total	**141,400**	**141,400**	**18,382**	**159,782**
Corporate Director – Economy & Highways Services	Dominic Donnini **(note 3)**	131,250	131,250	16,413	147,663
Corporate Director – Children & Families Services	John Macilwraith **(note 4)**	131,250	131,250	16,413	147,663
Corporate Director – Health, Care & Community Services (from 6/6/16)	Brenda Smith **(note 5)**	103,455	103,455	13,449	116,904
Corporate Director – Resources & Transformation (from 1/7/16)	Dawn Roberts **(note 6)**	94,687	94,687	12,309	106,996
Assistant Director – Health & Wellbeing (Director Public Health)	Colin Cox	97,869	97,869	13,995	111,864
Assistant Director – Finance (Chief Finance Officer)	Julie Crellin	92,718	92,718	12,053	104,771
Assistant Director - Fire (Chief Fire Officer) (to 5/4/16)	Jim Onions **(note 7)**	3,660	3,660	258	3,918
Assistant Director- Corporate Governance (to 30/6/16)	Dawn Roberts **(note 6)**	23,180	23,180	3,013	26,193
Senior Manager – Legal & Democratic Services (Acting Monitoring Officer from 1/8/16)	Iolanda Puzio **(note 8)**	54,850	54,850	6,524	61,374
		874,319	**874,319**	**112,809**	**987,128**

13. Officers' Remuneration continued
2016/17 Senior Officers' Remuneration continued

Notes

1. Diane Wood retired as Chief Executive on 28th February 2017.

2. Katherine Fairclough was appointed to the post of Chief Executive in January 2017 and took up her post on 1st March 2017.

3. Dominic Donnini was previously the Corporate Director - Environment & Community Services until the new corporate structure came into place on 1st July 2016.

4. John Macilwraith was previously the Corporate Director – Children's Services until the new corporate structure came into place on 1st July 2016.

5. Brenda Smith was appointed to the post of Corporate Director – Health & Care Services from 6th June 2016. This post became Corporate Director – Heath, Care & Community Services in the corporate restructure on 1st July 2016.

6. Dawn Roberts was appointed to the new post of Corporate Director – Resources & Transformation on 1st July 2016. She was Monitoring Officer for the period 1st April 2016 to 31st July 2016, in her previous post of Assistant Director - Corporate Governance and for a short period in her new post.

7. Jim Onions was Chief Fire Officer at the start of the year; he retired on 5th April 2016. Paul Hancock, the Chief Fire Officer and Chief Executive of Cheshire Fire Authority, took up the post of Chief Fire Officer in a joint arrangement with Cheshire Fire Authority on 5th April 2016. The Council paid Cheshire Fire Authority a contribution of £60,000 in 2016/17.

8. Iolanda Puzio, was appointed to the post of Acting Monitoring Officer from 1st August 2016 and was appointed to the role permanently with effect from 21st April 2017.

9. In January 2015 the Council contracted Gatenby Sanderson to provide the services of an interim Corporate Director – Health & Care Services, this arrangement continued into 2016/17 until 6/6/16. The total fee payable to Gatenby Sanderson in 2016/17 was £37,051 (2015/16 £181,972). In April 2016 the Council appointed Brenda Smith to the post of Corporate Director – Health & Care Services with effect from 6th June 2016.

13. Officers' Remuneration continued

2015/16 Senior Officers' Remuneration

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

Notes

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

2. Caroline Elwood acted as Monitoring Officer from 1st April 2015 to 30th April 2015.

3. Dawn Roberts took over the responsibility for the Monitoring Officer post with effect from 1st May 2015.

4. Jim Onions was Chief Fire Officer during the year; he retired on 5th April 2016. Paul Hancock, the Chief Fire Officer and Chief Executive of Cheshire Fire Authority, took up the post of Chief Fire Officer in a joint arrangement with Cheshire Fire Authority.

13. Officers' Remuneration continued

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

There were 20 non-school staff (33 for 2015/16) whose salary is less than £50,000 but have been included in the note as they received or were due to receive payments upon the termination of their employment that brought their total remuneration above £50,000.

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

	2015/16 Number of Staff			2016/17 Number of Staff		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	80	66	146	87	29	116
£55,000 - £59,999	58	29	87	47	47	94
£60,000 - £64,999	35	19	54	32	14	46
£65,000 - £69,999	24	33	57	21	32	53
£70,000 - £74,999	6	9	15	7	2	9
£75,000 - £79,999	5	4	9	5	5	10
£80,000 - £84,999	1	4	5	3	3	6
£85,000 - £89,999	2	2	4	0	5	5
£90,000 - £94,999	2	6	8	1	6	7
£95,000 - £99,999	0	3	3	1	3	4
£100,000 - £104,999	1	0	1	1	1	2
£105,000 - £109,999	0	0	0	1	2	3
£110,000 - £114,999	0	0	0	0	0	0
£115,000 - £119,999	0	1	1	0	1	1
£130,000 - £134,999	1	1	2	1	0	1
£145,000 - £149,999	0	0	0	0	1	1
	215	**177**	**392**	**207**	**151**	**358**

14. Exit Packages and Termination Benefits

<u>Exit Packages</u>

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

14. Exit Packages and Termination Benefits continued

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

The total value of exit packages agreed in 2016/17 was £7.843m for 301 employees, an average of £26.1k (£8.954m for 402 employees in 2015/16, an average of £22.3k). The value of exit packages related to schools in 2016/17 was £1.000m for 69 employees (£1.091m for 84 employees in 2015/16).

Schools

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 £000	2016/17 £000
£0-£20,000	1	0	66	52	67	52	572	402
£20,001-£40,000	0	0	15	15	15	15	424	447
£40,001-£60,000	0	0	2	1	2	1	95	45
£60,001-£80,000	0	0	0	0	0	0	0	0
£80,001-£100,000	0	0	0	0	0	0	0	0
£100,000-£150,000	0	0	0	1	0	1	0	106
Total	**1**	**0**	**83**	**69**	**84**	**69**	**1,091**	**1,000**

Non-Schools

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 £000	2016/17 £000
£0-£20,000	0	5	196	138	196	143	1,509	1,098
£20,001-£40,000	0	3	64	34	64	37	1,832	1,081
£40,001-£60,000	0	0	24	17	24	17	1,133	808
£60,001-£80,000	0	0	14	14	14	14	953	976
£80,001-£100,000	0	0	6	9	6	9	514	810
£100,001-£150,000	0	0	10	5	10	5	1,209	608
£150,001-£200,000	0	0	3	2	3	2	505	352
£200,001-£250,000	0	0	1	5	1	5	208	1,110
Total	**0**	**8**	**318**	**224**	**318**	**232**	**7,863**	**6,843**

Total

Exit package total cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 No.	2016/17 No.	2015/16 £000	2016/17 £000
£0-£20,000	1	5	262	190	263	195	2,081	1,500
£20,001-£40,000	0	3	79	49	79	52	2,256	1,528
£40,001-£60,000	0	0	26	18	26	18	1,228	853
£60,001-£80,000	0	0	14	14	14	14	953	976
£80,001-£100,000	0	0	6	9	6	9	514	810
£100,001-£150,000	0	0	10	6	10	6	1,209	714
£150,001-£200,000	0	0	3	2	3	2	505	352
£200,0010-£250,000	0	0	1	5	1	5	208	1,110
Total	**1**	**8**	**401**	**293**	**402**	**301**	**8,954**	**7,843**

14. Exit Packages and Termination Benefits continued

Termination Payments

Termination payments to employees include: redundancy payments, payment in lieu of notice, or any other departure payments, but do not include any pension costs. In 2016/17 the termination payments made to employees totalled £3.901m and related to 297 staff. In 2015/16 the termination payments made to employees totalled £5.144m and related to 396 staff.

15. External Audit Costs

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

Restated 2015/16 £000	External Audit Costs	2016/17 £000
115	Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor	115
115	**Total External Audit Costs**	**115**
7	Fees payable to the Grant Thornton for the certification of grant claims and returns	5
0	Fees payable in respect of other services	3
122	**Total Including Fees for Additional Work**	**123**

There was an over accrual for a grant claim in 2015/16. The 2015/16 accounts included £9,000 as the fee payable for certification of grant, the actual payment made in 2016/17 was £6,800; consequently 2015/16 has been restated in the table above.

16. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). An element of DSG is recouped to fund Academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools' Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school

Details of the deployment of DSG receivable for 2016/17 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000	Total Carry Forward £000
DSG figure as issued by the Department in July 2016			335,088	
Academy Figure Recouped for 2016/17			(102,000)	
Total DSG After Academy Recoupment for 2016/17			233,088	
Add Brought Forward from 2015/16			(1,191)	
Less Carry forward to 2017/18 agreed in advance			(109)	109
Agreed initial budgeted distribution in 2016/17	30,150	201,638	231,788	
Add In Year Adjustments 2016/17	0	0	0	
Final Budgeted Distribution for 2016/17	30,150	201,638	231,788	
Less Actual central expenditure	(35,509)		(35,509)	
Less Actual ISB deployed to schools		(202,054)	(202,054)	
Add Council contribution for 2017/18	0	0	0	
Carry forward to 2017/18	**(5,359)**	**(416)**		(5,775)
Total Carry Forward				**(5,666)**

The main reason for the increase in the DSG deficit from 2015/16 to 2016/17 is spending pressures within the High Needs Block of the Dedicated Schools Grant. At its meeting on 15th December 2016, Cabinet approved a Schools Forum recommended recovery plan for the High Needs Block, which includes a projection to bring the DSG earmarked reserve back into surplus by 31st March 2020.

17. Grant Income

Specific grants are credited to services and shown as Gross Income in the Comprehensive Income and Expenditure Account. The Council received the following specific grants in 2016/17 that were credited to Services.

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

- £42,000 Police and Crime Panel Grant from the Home Office in 2016/17 (£41,863 2015/16). This grant is made to Cumbria County Council**,** as the host authority, for the maintenance of the police and crime panel for the Cumbria police area in 2016/17.
- £40,000 in 2015/16 and 2016/17 towards the salary of Independent Domestic Violence Advisors (IDVA).

2015/16 £000	**Grants Credited to Services**	**2016/17 £000**
240,283	Dedicated Schools Grant	233,088
27	Dedicated Schools Grant – adjustment re previous years	(244)
12,571	Pupil Premium	11,993
2,066	Primary PE and Sports Funding	2,107
7,494	Sixth Form Funding from YPLA	6,250
2,326	Adult & Community Learning	2,905
5,408	Universal Free School Meals	4,918
2,332	Business Recovery Grant	1,662
838	Youth Offending Teams	742
19,554	Public Health	19,363
42	Police and Crime Panel Grant	42
40	IDVA Grant	40
5,690	Other grants	3,485
19,185	Revenue Expenditure Funded from Capital Under Statute (REFCUS) grants	14,813
317,856	**Total Grants Credited to Services**	**301,164**

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

The Better Care Fund is treated as a Pooled Fund (see note 11).

17. Grant Income continued

The Council received the following non ring-fenced Government Grants and Capital Grants and contributions in 2016/17 which were credited to taxation and non specific grant income in the CIES and summarised in note 8.

2015/16 £000	Credited to Taxation and Non Specific Grant Income	2016/17 £000
78,615	Revenue Support Grant (RSG)	58,558
14,393	Top Up Grant (Central Government)	14,513
13,536	PFI Grant	13,536
297	Extended Rights to Free Travel	237
119	Local Lead Flood Authority	2
1,325	New Homes Bonus	1,886
262	New Homes Bonus RSG Top Slice Refund	0
245	Fire Revenue Grant	250
0	Fire Revenue Grant – 2017/18	102
5,087	Education Services Grant	4,466
382	Local Reform and Community Voice Grant	391
2,387	NNDR Small Business Relief Grant	2,190
1,322	Troubled Families	1,783
283	Special Educational Needs Reform	315
2,819	Independent Living Fund	3,569
0	Rural Services Support	5,770
2,559	Bellwin Claim re December 2015 Floods	0
2,000	DfT Highways Surveys (Flood related)	0
3,698	Other General Grants	1,270
56,812	Capital Grants	78,390
186,141	**Total Credited to Taxation and Non Specific Grant Income**	**187,228**

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

- £20.057m reduction in Revenue Support Grant (RSG) is determined by the overall reduction of the Settlement Funding Assessment (SFA).
- £21.578m increase in financing of capital spend.
- £5.770m new grant received for Rural Services Delivery Grant.

18. Capital Expenditure and Capital Financing

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

Movements on Capital Financing Requirement

2015/16 £000	Movement on Capital Financing Requirement	2016/17 £000
487,632	Opening Capital Financing Requirement	487,862
	Capital Investment:	
83,465	Property, Plant and Equipment	111,718
2	Assets Held for Sale	0
19,185	Revenue Expenditure Funded From Capital Under Statute	14,813
102,652		126,531
	Sources of Finance:	
(4,244)	Capital Receipts	(3,937)
(76,504)	Government Grants and Contributions	(93,203)
	Sums set aside from revenue:	
(16,289)	Minimum Revenue Provision	(10,812)
(5,385)	Revenue Contributions	(5,800)
487,862	**Closing Capital Finance Requirement**	**500,641**
	Explanations of Movement in Year:	
	Increase/ (Decrease) in underlying need to borrow	
(16,289)	- Supported by Government Financial Assistance	(10,812)
16,519	- Unsupported by Government Financial Assistance (Prudential Borrowing)	23,591
230	**Increase in Capital Financing Requirement**	**12,779**

Minimum Revenue Provision

The Council is required to set aside a minimum revenue provision (MRP) for the redemption of external debt in accordance with its MRP Policy which is approved by Council for each financial year. The difference between the MRP and depreciation is transferred to the Capital Adjustment Account to ensure capital charges do not impact on the amount to be raised by Government grant and local taxation. For 2016/17 this amount was £10.812m (2015/16 £16.289m).

In November 2016 Council approved a change to the MRP policy for supported and pre 2008 borrowing from 4% reducing balance to 2% straight line which results in a MRP charge which is more aligned with the period over which the underlying assets provide benefit.

19. Leases

Council as Lessee

Finance Leases

The Council has acquired a number of assets using finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet in Other Land and Buildings. The Net Book Value at 31st March 2017 was £14.929m (31st March 2016 £15.152m).

Minimum Lease Payments

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

For all the Council's finance lease property assets there are minimum rentals paid (maximum annual payment £25 pa) hence the payments have not been split between financing costs and principal elements. The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 there were no contingent rents payable by the Council (None in 2015/16).

The Council sub lets part of one of the buildings which it leases in. Income of £0.587m was received in 2016/17 (£0.565m 2015/16) and a further £0.524m is expected in future years.

Operating Leases

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

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

	31st March 2016			31st March 2017		
	Op. Land & Buildings £000	Eqpt & Other Leases £000	Total £000	Op. Land & Buildings £000	Eqpt & Other Leases £000	Total £000
Not later than one year	568	959	1,527	523	1,218	1,741
Later than one year but not later than five years	1,327	1,324	2,651	1,294	1,552	2,846
Later than five years	4,646	6	4,652	4,654	1	4,655
	6,541	**2,289**	**8,830**	**6,471**	**2,771**	**9,242**

Note: the 2015/16 figures have been amended to remove one leased in building which had been incorrectly included.

19. Leases continued

Operating Leases continued

The expenditure is allocated to the appropriate service within the Comprehensive Income and Expenditure Statement for 2016/17. Lease payments of £2.442m (2015/16 £2.445m) were recognised as an expense in the Comprehensive Income and Expenditure Statement. No contingent rents were payable.

Council as lessor

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

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

Operating leases

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

	31st March 2016	**31st March 2017**
	Operational Land & Buildings £000	**Operational Land & Buildings £000**
Not later than one year	814	776
Later than one year but not later than five years	1,573	867
Later than five years	4,223	4,142
	6,610	**5,785**

The income is allocated to the appropriate service within the Comprehensive Income and Expenditure Statement for 2016/17. Lease income of £1.120m (2015/16 £1.082m) were recognised as income in the Comprehensive Income and Expenditure Statement.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no contingent rents receivable by the Council in 2016/17 or 2015/16.

20. Private Finance Initiatives and Similar Contracts

The Council currently has three PFI/PPP contracts which are detailed below, the liability at 31st March 2017 is:

Short Term Liability at 31st March 2016 £000	Long Term Liability at 31st March 2016 £000	Total PFI Liability at 31st March 2016 £000	Contract	Short Term Liability at 31st March 2017 £000	Long Term Liability at 31st March 2017 £000	Total PFI Liability at 31st March 2017 £000
0	42,614	42,614	Waste Management PPP	121	42,457	42,578
258	59,022	59,280	Carlisle Northern Development Route PFI	120	58,900	59,020
259	15,548	15,807	Fire Station Replacement PFI	282	15,266	15,548
517	**117,184**	**117,701**		**523**	**116,623**	**117,146**

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

Waste Management Contract

The Waste Management Contract was signed in June 2009; it is a 25 year Public Private Partnership (PPP) contract between the Council and Shanks Waste Management Ltd. The cost to the Council over the remaining life of the contract is expected to be £482m. The overall aim of the project is to reduce the volume of waste sent to landfill and hence reduce landfill taxes and potential fines arising from the Government's Landfill Allowance Trading Scheme.

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

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

Property, Plant and Equipment

Both waste treatment facilities are on the Council's Balance Sheet at a Net Book Value of £37.517m (2015/16 £39.508m).

20. Private Finance Initiatives and Similar Contracts continued

Waste Management Contract continued

Payments

The Council is paying for these services via an annual unitary charge which is made up of fixed and variable elements. The unitary charge is subject to annual indexation, some prices, such as landfill, will be market tested regularly. The Council paid £22.133m gross unitary charge in 2016/17 (£21.574m in 2015/16).

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

	Service charges £000	Lifecycle Additions £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2017/18	16,360	387	121	(17)	5,929	22,780
Payable within 2 and 5 years	71,789	1,647	857	(513)	23,589	97,369
Payable within 6 and 10 years	101,454	2,301	6,985	(971)	27,306	137,075
Payable within 11 and 15 years	116,241	2,603	20,115	(1,417)	18,834	156,376
Payable within 16 and 20 years	51,047	1,135	14,430	(685)	2,622	68,549
Total	**356,891**	**8,073**	**42,508**	**(3,603)**	**78,280**	**482,149**

Carlisle Northern Development Route

The Carlisle Northern Development Route (CNDR) contract was signed in July 2009; it is a 30 year Private Finance Initiative (PFI) contract between the Council and Connect CNDR Ltd. The cost to the Council over the remaining life of the contract is expected to be £370m. The contract is an essential component of the economic regeneration of West Cumbria, one of the most economically deprived parts of the North West.

The primary aim of the contract was to design, build, finance and operate a new 8.3km largely single carriageway road to connect the North and West of Carlisle. The intention is to relieve pressure on radial routes within Carlisle City, which is key to realising development of the strategic employment site at Kingmoor Park to its full potential of 5,500 jobs. The CNDR was scheduled to be fully completed, contractually, by 2013, but was completed and became operational in February 2012 and was recognised on the Council’s Balance Sheet at £60.091m. The current net book value on the Council’s Balance Sheet is £51.283m (2015/16 £52.711m).

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

20. Private Finance Initiatives and Similar Contracts continued

Carlisle Northern Development Route continued

Payments

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

The Council paid £13.752m gross unitary charge in 2016/17 (£13.671m in 2015/16) and is committed to making the following payments in future years under the CNDR PFI scheme:

	Service charges £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2017/18	6,010	120	635	7,290	**14,055**
Payable within 2 and 5 years	21,480	4,248	4,223	28,333	**58,284**
Payable within 6 and 10 years	31,833	7,298	6,576	32,226	**77,933**
Payable within 11 and 15 years	37,551	12,306	7,975	26,414	**84,246**
Payable within 16 and 20 years	43,441	21,638	9,682	16,621	**91,382**
Payable within 21 and 25 years	22,082	14,704	5,049	2,676	**44,511**
Total	**162,397**	**60,314**	**34,140**	**113,560**	**370,411**

Fire Station Replacement PFI Scheme

The Council is involved in a PFI project, with Merseyside and Lancashire Fire and Rescue Authorities, to provide sixteen new fire stations, five of which are in Cumbria. The basis of the partnership is set out in a joint working agreement. Contracts were signed between Balfour Beatty Fire and Rescue NW Ltd in February 2011, with construction commencing in 2011/12 and completion in 2013/14. The cost to the Council of the Cumbria element of the contract is expected to be £51m. At the end of the concession period the fire stations will be transferred to the Council's ownership. The contract will run for 25 years from the date of final handover, and the Council pays a unitary payment. The stations built in Cumbria are:

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

20. Private Finance Initiatives and Similar Contracts continued

Property, Plant and Equipment

Patterdale and Carlisle West Fire Stations were completed and became operational in 2011/12. Carlisle East and Penrith were completed in 2012/13 and became operational in May 2012 and August 2012 respectively. The final fire station, Workington, was completed in 2013/14 and became operational in June 2013. The five fire stations are included in the Council's Balance Sheet at a net book value of £14.163m (2015/16 £13.895m). During 2016/17 Patterdale and Carlisle West Fire Stations were revalued.

Payments

The Council is paying for these services via an annual unitary charge which is made up of fixed and variable elements and is subject to annual indexation. The whole project will receive financial support from the Department for Communities and Local Government in the form of PFI Credits totalling £66.4m over the life of the contract. The Council paid £2.080m gross unitary charge in 2016/17 (£2.038m in 2015/16) and is committed to making the following payments in future years under the Fire Station Replacement PFI scheme:

	Service charges £000	Repayment £000	Contingent Rent £000	Interest £000	Total £000
Payable in 2017/18	522	282	43	1,299	**2,146**
Payable within 2 and 5 years	2,243	1,380	243	4,926	**8,792**
Payable within 6 and 10 years	3,192	2,476	462	5,366	**11,496**
Payable within 11 and 15 years	3,695	3,709	643	4,083	**12,130**
Payable within 16 and 20 years	4,279	5,582	827	2,156	**12,844**
Payable within 21 and 25 years	1,282	1,758	187	136	**3,363**
Total	**15,213**	**15,187**	**2,405**	**17,966**	**50,771**

21. Property, Plant and Equipment

21.1 Movement on Balances – Movement 2016/17

2016/17	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Properties Not Held for Sale £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1st April 2016	472,938	69,156	589,612	54	15,881	14,564	1,162,205	114,298
Additions	18.653	11,231	71,042	0	9,917	870	111,713	0
Donations	0	30	0	0	0	0	30	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,559	(1,077)	0	0	0	387	1,869	0
Revaluation increases / (decreases) recognised in the surplus/deficit on the provision of services	(13,838)	(1,128)	0	0	0	(3,976)	(18,942)	(2,786)
Derecognition – disposals	(2,047)	(265)	0	0	0	(625)	(2,937)	0
Derecognition	(6,769)	(189)	0	0	0	(640)	(7,598)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	(1,318)	(1,318)	0
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	(245)	(245)	0
Reclassifications – other	25,849	402	(11,370)	(1)	(21,318)	6,438	0	0
At 31st March 2017	**497,345**	**78,160**	**649,284**	**53**	**4,480**	**15,455**	**1,244,777**	**111,512**
Accumulated Depreciation								
At 1st April 2016	(13,278)	(42,521)	(111,511)	0	0	0	(167,310)	(8,184)
Depreciation charge	(11,558)	(4,249)	(14,502)	0	0	(150)	(30,459)	(3,422)
Depreciation written out to the Revaluation Reserve	5,631	735	0	0	0	502	6,868	0
Depreciation written out to the surplus/deficit on the provision of services	6,075	833	0	0	0	119	7,027	3,057
Derecognition – disposals	21	200	1	0	0	1	223	0
Derecognition	270	155	0	0	0	4	429	0
Impairment - disposals	585	0	0	0	0	0	585	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	4	4	0
Assets re-classified (to)/from Investment Properties	0	0	0	0	0	3	3	0
Depreciation on reclassifications - other	(1,238)	(62)	1,806	0	0	(505)	1	0
At 31st March 2017	**(13,492)**	**(44,909)**	**(124,206)**	**0**	**0**	**(22)**	**(182,629)**	**(8,549)**
Net Book Value								
at 31st March 2017	**483,853**	**33,251**	**525,078**	**53**	**4,480**	**15,433**	**1,062,148**	**102,963**
at 1st April 2016	**459,660**	**26,635**	**478,101**	**54**	**15,881**	**14,564**	**994,895**	**106,114**

21. Property, Plant and Equipment continued

21.2 Movement on Balances - Comparative Movements in 2015/16

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

21. Property, Plant and Equipment continued

21.3 Depreciation

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

21.4 Capital Commitments

At 31st March 2017 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to cost £10.513m. Similar commitments at 31st March 2016 were £11.431m. The major commitments are:

2015/16 £000	Capital Project	2016/17 £000
	School Projects:	
300	Priority Maintenance (Schools)	677
100	Campus Whitehaven	500
0	Short Breaks & Respite Provision	1,015
0	Houghton School	825
0	Other School Projects	304
20	Inclusive Cumbria –Sandside Lodge	0
20	Inclusive Cumbria – James Rennie	0
0	West Lakes Academy	0
158	Completed Projects (Schools)	0
	Other Projects:	
1,467	Highways Schemes	422
1,199	Street Lighting improvements	585
390	Flood Recovery	0
1,560	LEP - Devolved Major Transport Scheme Funding	0
49	LEP – Barrow Waterfront	1,000
220	LEP – Kendal Infrastructure	250
15	LEP – Optimising Connectivity	450
0	LEP – South Ulverston	1,485
0	Modernising Cumbria Care	850
0	ICT equipment	450
0	Fire Vehicles	400
3,900	Better Places for Work	0
380	Co-located Emergency Response Centre - Ulverston	0
660	Connecting Cumbria	0
200	Extra Care Housing	0
500	Barrow Elderly Persons Home	0
293	Other Minor commitments	1,300
11,431		**10,513**

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

21.5 Effects of Changes in Estimates

In 2016/17 the Council has not made any material changes in estimates methodology used.

21. Property, Plant and Equipment continued

21.6 Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The officers who undertook these valuations in 2016/17 were:

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

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors and in accordance with the CIPFA Code of Practice on Local Authority Accounting.

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

The significant assumptions applied in estimating the fair values are:

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

Property assets are classified as:

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

21. Property, Plant and Equipment continued
21.6 Revaluations

Fair Value is reported or measured as follows:

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

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

The history of asset valuations is as follows:

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Properties Not Held for Sale £000	Total £000
Carried at Historic Cost	0	30,892	0	30,892
Valued at fair value (Net Book Value) as at:				
31/3/2017	131,163	2,297	4,811	138,271
31/3/2016	163,168	0	10,622	173,790
31/3/2015	135,350	0	0	135,350
31/3/2014	21,087	0	0	21,087
31/3/2013	31,585	62	0	31,647
31/3/12	1,500	0		1,500
Total	**483,853**	**33,251**	**15,433**	**532,537**

There were impairment losses of £0.924m in 2015/16 as a result damage caused to three Council properties in the December 2015 flooding. The affected properties were the Whinfell Centre, Kendal, Mintsfeet Depot, Kendal and Edenside Care Home, Appleby. £0.585m of this loss has been written out on disposal of the Whinfell Centre in 2016/17.

22. Surplus Assets

All the Council's surplus assets have been value assessed as Level 2 of the fair value hierarchy for valuation purposes. The fair value of surplus assets has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year. In estimating their fair value, the Council's surplus assets have been valued to their highest and best use. The net book value at 31st March 2017 was £12.230m (31st March 2016 £14.564m).

Surplus Assets	2015/16 £000	2016/17 £000
Balance at start of year	17,030	14,564
Purchases	281	325
Subsequent expenditure	331	545
Depreciation charge for year	(92)	(150)
Disposals	(1,848)	(1,261)
Net gains/(losses) from fair value adjustments	(550)	(2,968)
Transfers to/(from) Assets Held for Sale	(193)	(1,314)
Transfer to/(from) Community Assets	(81)	0
Transfers to/(from) Investment Properties	(525)	(242)
Transfers to/(from) Assets Under Construction	25	(144)
Transfers to/(from) Property, Plant & Equipment	186	3,663
Transfers to/(from) Infrastructure	0	2,415
Balance at 31st March	**14,564**	**15,433**

23. Heritage Assets

Heritage assets are assets that are held by the Council for their cultural, environmental or historical value. Tangible heritage assets include historical buildings, paintings, sculptures, archives and other works of art. Intangible heritage assets include sound and film recordings. The heritage assets held by the Council include various collections within the Council's archive collection, monuments, artefacts, paintings, sculptures and civic regalia.

The carrying value of Heritage Assets held by the Council as at 31st March 2017 was £0.563m (£0.543m as at 31 March 2016). The increase in value of £0.020m reflects the updating of insurance valuations.

24. Investment Properties

Each year the Council reviews its property portfolio to identify any properties that should be classified as Investment Properties. The 2016/17 review has resulted in a further two properties being re-classified as investment properties. There are now a total of ten investment properties.

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

Investment Properties	2015/16 £000	2016/17 £000
Rental Income from Investment Properties	(283)	(455)
Direct Operating Expenses	94	159
	(189)	**(296)**

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

Investment Properties	2015/16 £000	2016/17 £000
Balance at start of year:	225	2,285
Net gains/losses from fair value adjustments	732	2,128
Transfer from Property Plant & Equipment	803	0
Transfer from Surplus Properties	525	242
Balance at 31st March	**2,285**	**4,655**

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

Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.

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

25. Intangible Assets

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

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.305m charged to revenue in 2016/17 (£0.331m 2015/16) was charged to Resources and Transformation directorate as part of the IT department costs in the Comprehensive Income and Expenditure Statement. The reclassification from Assets Under Construction in 2015/16 of £0.178m related to new software. The movement on Intangible Asset balances during the year is as follows:

Intangible Assets	2015/16 £000	2016/17 £000
Balance at start of year:		
Gross carrying amount	20,200	20,378
Accumulated amortisation	(19,214)	(19,545)
Net carrying amount at start of year	986	833
Reclassification from Assets under Construction	178	0
Amortisation for the period	(331)	(305)
Net carrying amount at end of year	**833**	**528**
Comprising:		
Gross carrying amount	20,378	20,378
Accumulated amortisation	(19,545)	(19,850)
	833	**528**

26. Assets Held For Sale

Assets held for Sale	Long Term Assets	Current Assets	
	2016/17 £000	2015/16 £000	2016/17 £000
Balance at start of year	0	2,866	1,048
Purchases	0	2	5
Assets newly classified as held for sale:			
Property, Plant & Equipment	548	644	1,099
Revaluation gains / (losses) recognised in the Revaluation Reserve	0	208	82
Revaluation gains / (losses) recognised in the surplus/deficit on provision of services	0	(13)	0
Assets declassified as held for sale:			
Property, Plant & Equipment	0	(589)	(333)
Assets Sold	0	(2,070)	(278)
Balance at year end	**548**	**1,048**	**1,623**

27. Long Term Debtors

Long Term Debtors	Balance at 1st April 2016 £000	Net In Year Transactions £000	Balance at 31st March 2017 £000
Charlotte Mason & Barrow 6th Form Colleges	390	(29)	361
Magistrates Court Service	545	(23)	522
Residential Care Charges	6,039	(2,897)	3,142
Staff Car Loans	200	27	227
	7,174	**(2,922)**	**4,252**

The long term debtor on Charlotte Mason represents sums due from the University of Cumbria, in relation to pre 1990 and earlier debts, incurred financing capital schemes.

The long term debtor for Magistrates is being repaid by HM Courts and Tribunals service. The grant is at 80% of the full cost. The debt repayable in respect of Barrow 6th Form College is being repaid, over 25 years, in equal instalments, the final repayment is to be made in 2017/18 which is shown in short term debtors.

The Council also has outstanding debtors owed by individuals in respect of residential care charges. Of this debt £3.142m is considered as long term debt in 2016/17 (£6.039m 2015/16), as it is either secured by a charge on property or is part of a deferred payment agreement.

28. Short Term Debtors and Prepayments

An analysis of sums due to the Council as at 31st March 2017 is as follows:

31st March 2016 £000	Debtors and Prepayments	31st March 2017 £000
	Debtors:	
18,780	Central Government Bodies	13,360
(66)	Central Government Bodies – doubtful debt allowance	(9)
9,477	Other Local Authorities	6,282
(32)	Other Local Authorities – doubtful debt allowance	(2)
1,530	NHS Bodies	2,105
(56)	NHS Bodies – doubtful debt allowance	(101)
28,284	Other Entities and Individuals	30,857
(7,478)	Other Entities and Individuals – doubtful debt allowance	(7,597)
50,440		**44,895**
	Prepayments:	
0	Central Government Bodies	1,738
19	Other Local Authorities	0
0	Public Corporations & Trading Funds	516
11,694	Other Entities and Individuals	13,582
11,713		**15,836**
62,153	**Total Debtors and Prepayments**	**60,731**

28. Short Term Debtors and Prepayments continued

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

BREAKDOWN OF LARGE VARIANCES	31st March 2016 £000	31st March 2017 £000	Variance
Social Care debt	8,025	12,120	4,095
E5 Accounts Receivable System	4,198	5,555	1,357
Council Tax – net balance owed by Billing Authority	2,542	3,151	609
Non Domestic Rates – net balance owed by Billing Authority	5,128	1,749	(3,379)
CLG Bellwin Scheme	2,559	0	(2,559)
Flood Related Insurance Claims	1,359	0	(1,359)
Out of County Placements	900	515	(385)
Debtors - Other	25,729	21,805	(3,924)
	50,440	**44,895**	**(5,545)**
Prepayments – Social Care	5,413	6,455	1,042
Prepayments – High Needs Top Up	0	1,006	1,006
Prepayments – ICT contracts	870	1,952	1,082
Prepayments - Other	5,430	6,423	993
	11,713	**15,836**	**4,123**
Total Debtors and Prepayments	**62,153**	**60,731**	**(1,422)**

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

Bad Debt Provision	31st March 2016 £000	31st March 2017 £000
Central Bad Debt Provision	637	625
Social Care	1,707	1,781
Business Rates Payers	289	293
Council Tax Payers	4,999	5,010
Total	**7,632**	**7,709**

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

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

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

29. Financial Instruments

Categories of Financial Instruments

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

29.1 Financial Instruments Balances

Long Term Financial Instruments

	31st March 2016 £000	31st March 2017 £000
Long Term Investments:		
Unquoted equity at cost	3,183	3,183
Long Term Debtors:		
Loans and receivables	7,174	4,252
Long Term Borrowings:		
Financial liabilities at amortised cost	(295,361)	(287,835)
Other Long Term Liabilities:		
PFI liabilities	(117,184)	(116,623)

Current Financial Instruments

	Current	
	31st March 2016 £000	**31st March 2017 £000**
Short Term Investments:		
Loans and receivables	100,201	125,447
Cash and Cash equivalents	116,451	37,593
Total Short Term Investments	**216,652**	**163,040**
Short Term Debtors:		
Loans and receivables (contractual debtors only)	14,899	17,545
Debtors and prepayments that are not financial instruments	47,254	43,186
Total Debtors and Prepayments	**62,153**	**60,731**
Short Term Borrowings:		
Financial liabilities at amortised cost	(11,938)	(11,822)
Bank Overdraft	(10,739)	(4,568)
Total Short Term Borrowings	**(22,677)**	**(16,390)**
Short Term Creditors:		
Financial liabilities at amortised cost (contractual creditors only)	(39,149)	(49,231)
Creditors that are not financial instruments	(40,421)	(27,605)
Total Short Term Creditors	**(79,570)**	**(76,836)**
Other Short Term Liabilities:		
PFI Liability	(517)	(523)

Reclassifications

There were no reclassifications in the year.

29. Financial Instruments continued

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

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

2016/17	PFI Liability £000	Financial Liabilities (measured at amortised cost) £000	Financial Assets (Loans & Receivables) £000	Total £000
Interest Expense	15,256	13,304	0	28,560
Impairment Losses	0	0	76	76
Total expense in (surplus) or deficit on the provision of services	**15,256**	**13,304**	**76**	**28,636**
Interest and Investment Income	0	0	(2,954)	(2,954)
Total income in (surplus) or deficit on the provision of services	**0**	**0**	**(2,954)**	**(2,954)**
Net (Gain)/Loss for year	**15,256**	**13,304**	**(2,878)**	**25,682**

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

29. Financial Instruments continued

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

Fair Value Of Assets And Liabilities

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

- For Public Works Loan Board (PWLB) debt, new borrowing rates as per PWLB rate sheet number 128/17 has been applied to provide the fair value under PWLB debt redemption procedures.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques between available rates have been used where the exact maturity period was not available.
- No early repayment or impairment is recognised. Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair values calculated are as follows:

Fair Value of Liabilities	31st March 2016 Carrying Amount £000	31st March 2016 Fair Value £000	31st March 2017 Carrying Amount £000	31st March 2017 Fair Value £000	Input Level in Fair Value Hierarchy
Financial Liabilities:					
PWLB borrowings	277,200	341,011	269,700	357,052	Level 2
Market Loans	25,494	31,564	25,480	34,670	Level 2
Local Authorities	167	167	155	155	Level 1
Accrued Interest	4,438	4,438	4,322	4,322	Level 1
Creditors – contractual	39,149	39,149	49,231	49,231	Level 1
Bank Overdraft	10,739	10,739	4,568	4,568	Level 1
PFI Liability	117,701	226,798	117,146	230,288	Level 2

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

29. Financial Instruments continued

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

Fair Value of Assets	31st March 2016		31st March 2017		
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Input Level in Fair Value Hierarchy
Loans and Receivables:					
Cash	9,542	9,542	8,853	8,853	
Deposits with banks and building societies	206,826	206,970	153,781	153,845	Level 2
Accrued Interest	237	237	347	347	
Deposit with Insurer	47	47	59	59	
Unquoted Equity	3,183	3,183	3,183	3,183	
Long Term Debtors	7,174	7,174	4,252	4,252	
Debtors – contractual	14,899	14,899	17,545	17,545	

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

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

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

On 1st April 2013 the Council purchased 370,000 ordinary £1 shares in Orian Solutions Ltd for a consideration of £0.370m. Orian Solutions Ltd is wholly owned by Cumbria County Holdings Ltd. The balance as at 31st March 2016 and 31st March 2017 is £3.183m.

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

30. Nature and Extent of Risks Arising From Financial Instruments

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

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

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

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy which requires that deposits are only placed with institutions that meet specific creditworthiness criteria. The credit ratings of investments as at 31st March 2017 are detailed below:

Credit ratings of Investments as at 31st March 2017

Deposits with Banks and Financial Institutions	Fitch Rating	Amount at 31st March 2017 £'000
Schools Investments (Lloyds Bank)	A+	100
Aberdeen (EX SWIP) MMF	AAA	7,100
Bank of Scotland (Lloyds Group)	A+	5,000
Barclays Bank	A	10,000
Birmingham City Council	AA	5,000
Commonwealth Bank Australia	AA-	10,000
DZ Bank	AA-	10,000
Goldman Sachs International Bank	A	10,000
J P Morgan MMF Sterling Liquidity Fund	AAA	10,000
Landesbank Hessen-Thuringen London	A+	10,000
National Bank of Abu Dhabi	AA-	3,000
Northumberland County Council	AA	10,000
Qatar National Bank	AA-	17,000
Royal Bank of Scotland	BBB+	10,000
Royal London Asset Management Cash Plus Fund	AAA	5,016
Santander UK	A	15,000
Standard Life Cash Plus Fund	AAA	5,007
Standard Life MMF (EX IGNIS)	AAA	1,559
Suffolk County Council	AA	10,000
	Total	**153,781**

Local Authorities do not have a specific credit rating the UK Government rating has been used

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

Credit Risk continued

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there is no evidence at 31st March 2017 that this was likely to crystallise.

Debtors

The table below analyses the age of the outstanding debt within the Accounts Receivable system for those debtors that are classed as financial instruments. The Council generally allows 30 days credit for customers, such that £2.045m (£1.315m 2015/16) of the £3.387m (£2.796m 2015/16) balance is past its due date for payment. This analysis does not include all contractual debtors. The Council also has £14.574m owed by individuals in respect of outstanding residential and non residential care charges (£14.064m in 2015/16). Of this debt £3.142m (2015/16 £6.039m) is considered as long term debt, as it is either secured by a charge on property or on deferred payment agreements.

Analysis of Accounts Receivable Debt classed as Financial Instruments

Age of Debt	31st March 2016 £000	31st March 2017 £000
Less than one month	1,481	1,342
One to two months	351	831
Two to six months	223	226
Six months to one year	123	268
More than one year	618	720
Total	**2,796**	**3,387**

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

Debtors continued

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

Provision	31st March 2016 £000	31st March 2017 £000
Central Bad Debt Provision	533	630
Social Care Debt	1,656	1,664
Total	**2,189**	**2,294**

Liquidity Risk

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

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

All financial assets investments sums owing (£153.781m) are due to be paid in less than one year.

Refinancing and Maturity Risk

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

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk.

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

Refinancing and Maturity Risk continued

The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

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

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

Analysis of maturity of long and short term loans

Loan Principal outstanding	**On 31st March 2016 £000**	**On 31st March 2017 £000**
Public Works Loans Board	277,200	269,700
Market debt	25,494	25,480
Other	167	155
Total	**302,861**	**295,335**
Less than 1 Year	7,500	7,500
Between 1 and 2 years	7,500	7,500
Between 2 and 5 years	31,000	23,500
Between 5 and 10 years	38,200	52,200
More than 10 years	218,661	204,635
Total	**302,861**	**295,335**

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

30. Nature and Extent of Risks Arising From Financial Instruments

Market Risk

Interest Rate Risk

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

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

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

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

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31st March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a net increase in investment income of £2.247m. The impact of a 1% fall in interest rates would be a net decrease in income of £1.303m, as the average rate of interest on investments is currently below 1%.

Price Risk

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

Foreign Exchange Risk

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

31. Cash and Cash Equivalents

31st March 2016 £000	Cash and Cash Equivalents	31st March 2017 £000
9,589	Bank Current Accounts	8,912
106,862	Short Term Deposits	28,681
116,451	**Cash and Cash Equivalents**	**37,593**
(10,739)	Bank Overdraft	(4,568)
105,712		**33,025**

The balance on the Council's main bank accounts at 31st March 2017 was £4.568m (2015/16 £10.739m) overdrawn, which is shown separately on the Balance Sheet in Current Liabilities. The balances on the Council's various imprest accounts, school bank accounts and cash in transit between internal accounts amounted to £8.912m (2015/16 £9.589m) in hand and are included as cash and cash equivalents in Current Assets. Short term deposits totalling £28.681m (2015/16 £121.862m) are funds invested by the Council in money market funds or business reserve accounts and are available on demand. On a daily basis the Council's Treasury Management function actively manages the cleared bank balance as close to zero as possible to maximise interest receipts and minimise interest payments. There was a large increase in the balances for 2015/16 due to the receipt of a £107m grant from the Department for Transport for flood recovery works in late March 2016.

32. Short Term Creditors

An analysis of amounts owed by the Council at 31st March 2017 is:

31st March 2016 £000	Creditors and Accruals:	31st March 2017 £000
18,049	Central Government bodies	8,687
2,871	Other Local Authorities	3,644
5,343	NHS Bodies	1,258
15	Public Corporations and Trading Funds	49
53,292	Other Entities and Individuals	63,198
79,570		**76,836**

BREAKDOWN OF VARIANCES	31st March 2016 £000	31st March 2017 £000	Variance £000
Capital creditors	17,407	15,096	(2,311)
E-procurement system - accruals	9,646	9,993	347
Cumbria CCG – Non elective risk share 2015/16	2,887	0	(2,887)
E5 Accounts Payable System	5,208	7,311	2,103
Employee Leave Accrual	6,766	9,092	2,326
Business Rates	3,825	927	(2,898)
Creditors and Accruals - Other	33,831	34,417	586
	79,570	**76,836**	**(2,734)**

33. Revenue Grants Receipts in Advance

The Council has received a number of revenue grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the conditions are not met. The balance at 31st March 2017 was £8.214m (31st March 2016 £10.847m).

34. Provisions

The Council has made the following provisions:

Long Term Provisions	Balance at 1st April 2016 £000	Additional Provisions Made in 2016/17 £000	Amounts used in 2016/17 £000	Balance at 31st March 2017 £000
Long term provisions				
Insurance – employers & public liability	7,051	0	(519)	6,532
Business Rates Appeals	957	792	(957)	792
Total Long term provisions	**8,008**	**792**	**(1,476)**	**7,324**
Short term provisions				
Insurance – motor and fire	154	64	0	218
MMI Provision	625	0	(428)	197
Equal Pay	156	9	0	165
Voluntary redundancies	321	1,353	(321)	1,353
Other Provisions	3,380	207	(179)	3,408
Total short term provisions	**4,636**	**1,633**	**(928)**	**5,341**

Insurance

The Council self insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self insurance; the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision (£6.532m for employers and public liability and £0.218m for motor and fire) represents the sum estimated to meet claims identified and also claims incurred but not reported at 31st March 2017. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'. The balance of funding is held in an insurance reserve (£9.857m note 36.1) to support the ongoing self insurance programme for the period to 31st March 2017.

Municipal Mutual Insurance (MMI)

MMI was the predominant insurer of public sector bodies, including the Council, prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. Most of MMI's public sector members, including the Council, elected to participate in the 'Scheme of Arrangements', effectively becoming 'Scheme Creditors'. Scheme Creditors receive payment for claims but have to pay back part of all claims for which they have received settlements since 1993 if MMI cannot meet all its liabilities. In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years).

34. Provisions continued

Municipal Mutual Insurance (MMI) continued

An initial 15% ‘clawback’ levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicated that the situation continues to worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. The provision as at 31st March 2016 was £0.625m including £0.509m for the increase in the levy from 15% to 25% paid during 2016/17. The provision for MMI liabilities as at 31st March 2017 has reduced to £0.197m.

Equal Pay

There remained a small number of possible equal pay claims for which a provision of £0.165m has been included in 2016/17 (£0.156m 2015/16).

Voluntary Redundancies

Provisions were made in 2015/16 for redundancies that had been agreed as part of the Corporate Voluntary Redundancy programme but the individuals’ employment ended after 31st March 2016. These provisions were fully utilised in 2016/17. The Council undertook a further programme of voluntary redundancies in 2016/17, some employees left the Council during 2016/17. Where the application has been accepted but the staff will leave the Council after 31st March 2017, further provisions of £1.353m have been made.

Other Provisions

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

Business Rates

Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31st March 2017. The provision is based on lodged appeals only. The Council’s provision for the Business Rates appeals is a 10% share of the provision calculated by each of the six District Councils in Cumbria. The provision as at 31st March 2017 is £0.792m (31st March 2016 £0.957m). The reduction in the provision this year is as a combination of settlement of a number of smaller appeals across all Districts prior to the revaluation exercise effective from April 2017.

35. Capital Grants Receipts in Advance

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

31st March 2016 £000	Capital Grants Receipts in Advance	31st March 2017 £000
	Children & Families Services	
1,356	Partnerships for Schools – Academies Grant	901
1,930	Devolved Formula Capital	1,651
5,177	Basic Need	8,343
7,146	Capital Maintenance	1,950
0	Campus Whitehaven	8,407
328	Other Children & Families Grants	489
	Economy & Highways Services	
1,366	DfT Flooding Recovery Grant (2009)	363
107,448	Highways Maintenance and Flood Recovery (2015)	90,365
554	Severe Weather Recovery (2014)	431
48	Pinch Point funding – Gilwilly Access	193
257	Other Transport grants and contributions	984
2,199	Department of Health grant	1,587
1,003	Fire grant	716
4,072	Fire Transformation Grant	3,578
1,041	Local Growth Fund	0
0	Broadband UK	1,650
0	Strategic Flood Recovery	5,000
450	Other grants & Contributions	1,322
134,375	**Total Capital Grants Receipts in Advance**	**127,930**

36. Usable Reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement and are detailed in notes 36.1 to 36.2 below.

36.1 Transfers to/from Earmarked Reserves

This note sets out the amounts transferred to and from earmarked reserves to provide financing for in year and future expenditure plans.

There was a Directorate reorganisation that took effect on 1st July 2016 which entailed the creation of the Resources and Transformation Directorate and realignment of the other Directorates. This has resulted in a presentational change identified in the table below.

Earmarked Reserves	Balance at 1st April 2016 £000	Transfer Between Reserves & Directorates £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31st March 2017 £000
Directorates:					
Health, Care & Community Services	704	950	(969)	288	973
Economy & Highways Services (previously Environment & Community Services)	7,826	(2,613)	(4,209)	1,537	2,541
Fire & Rescue Service	300	0	(600)	300	0
Local Committees	1,556	0	(1,556)	847	847
Resources & Transformation	0	1,308	(105)	346	1,549
Children's Services – HQ budgets	29	0	(90)	0	(61)
	10,415	(355)	(7,529)	3,318	5,849
Other Reserves:					
Improvement and Efficiency Reserve	1,108	0	(798)	0	310
Elections	453	0	0	119	572
Sea Fisheries	213	(213)	(103)	103	0
Business Rates Pool Volatility Reserve	380	0	0	0	380
Other Services	1,991	1,817	(4,885)	7,405	6,328
Modernisation Reserve	15,285	0	(10,283)	0	5,002
Revenue Grants	37,049	(1,249)	(4,242)	2,966	34,524
	56,479	355	(20,311)	10,593	47,116
Insurance	8,701	0	0	1,156	9,857
Sub Total – Council Revenue Earmarked Reserves	**75,595**	**0**	**(27,840)**	**15,067**	**62,822**
Delegated Schools Budgets and Ring Fenced Schools Related:					
Schools	6,402	0	(4,790)	1,672	3,284
Children's Services - DSG and other grants ring fenced to schools	(1,190)	0	(6,196)	1,720	(5,666)
	5,212	0	(10,986)	3,392	(2,382)
Total Revenue Earmarked Reserves	**80,807**	**0**	**(38,826)**	**18,459**	**60,440**
Revenue Reserves for Capital Purposes	**2,724**	**0**	**(2,201)**	**0**	**523**
Total Revenue Earmarked Reserves	**83,531**	**0**	**(41,027)**	**18,459**	**60,963**

36. Usable Reserves

36.1 Transfers to/from Earmarked Reserves continued

Directorates

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

Modernisation Reserve

Over a number of years the Council has set aside funds to meet the costs and risks associated with equal pay claims, single status implementation and meet the costs of organisational change, such as redundancies or transition costs. At 1st April 2016 the balance on this reserve was £15.285m.

As a result of the future funding situation facing the Council, it has implemented service reviews and opened a voluntary redundancy scheme in July 2016, to assist in delivering the savings required. The cost of redundancies has been met from this Reserve. In 2016/17 the Council has drawn down £6.445m (2015/16 £3.595m) from the reserve in respect of termination costs and £3.693m in respect of the financing of the highways litigation contractor payment.

Other small transfers to and from the reserve totalled £0.145m in respect of residual Equal Pay issues in the year. The balance on the reserve at 31st March 2017 is £5.002m.

Revenue Grants

Where revenue grants have been received, and there are no conditions i.e. no possibility or requirement to pay back the grant, then, irrespective of which year the money is for it must be recorded in the Comprehensive Income & Expenditure Statement as income and then in the Movement In Reserves Statement be transferred to an earmarked reserve. The balance at 31st March 2017 is £34.524m which includes £0.723m Performance Reward Grant (£2.818m 2015/16) to be spent as part of the Connecting Cumbria project, and £27.710m of PFI grant to support the Carlisle Northern Development Route and replacement fire stations project (£26.338m 2015/16).

Insurance

The Council self-insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self-insurance; the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision £6.750m (long term £6.532m and short term £0.218m note 34) represents the sum estimated to meet claims identified at 31st March 2017. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'.

The balance of funding is held in an insurance reserve to support the ongoing self-insurance programme. As at 31st March 2017 the reserve is £9.857m.

36. Usable Reserves

36.1 Transfers to/from Earmarked Reserves continued

Schools

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

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

Schools Earmarked Reserves

	31st March 2016		31st March 2017	
Schools Earmarked Reserves	**No.**	**£000**	**No.**	**£000**
Schools in surplus	226	9,813	214	7,882
Schools in deficit	48	(3,411)	56	(4,598)
	274	**6,402**	**270**	**3,284**
Children's Services - DSG ring fenced to schools		(1,190)		(5,666)
Total		**5,212**		**(2,382)**

Schools Surpluses and Deficits

There has been a decrease of 4 in the overall number of schools as a result of schools converting to Academies during the year. Further details are in Note 10. Included in the schools in deficit is one Community Development Centre which is attached to a school.

Children's Services - DSG ring fenced to schools

The movement on the Dedicated Schools Grant central reserve is set out below:

	2015/16		2016/17	
	£000	**£000**	**£000**	**£000**
Balance as at 1st April		4,646		(1,190)
Transfer to Reserve	0		1,720	
Southfield & Stainburn Schools deficits on closure	(2,174)		0	
High Needs Service overspend	(3,263)		(5,824)	
Other DSG central budgets underspend	662		48	
Other net transfers from reserve	(1,061)	(5,836)	(420)	(4,476)
Balance as at 31st March		**(1,190)**		**(5,666)**

36.2 Capital Reserves

Capital Reserves	2016/17			
	1st April 2016 £000	**In £000**	**Out £000**	**31st March 2017 £000**
Usable Capital Receipts Reserve	11,707	3,136	(3,937)	10,906
Capital Grants & Contributions Unapplied Reserve	1,317	653	0	1,970
Long Term Investment Reserve	2,813	0	0	2,813
Totals	**15,837**	**3,789**	**(3,937)**	**15,689**

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

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

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

37. Unusable Reserves

Unusable Reserves are summarised on the Balance Sheet on page 29. The details of each unusable reserve are set out in notes 37.1 to 37.6 below.

37.1 Revaluation Reserve

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

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

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

Movement on Revaluation Reserve

31st March 2016 £000	Revaluation Reserve	31st March 2017 £000
97,228	**Balance as at 1st April**	95,929
6,415	Revaluation gains / (losses) on non current assets	8,842
(636)	Impairment losses on non current assets	0
(1,818)	Difference between current value and historic cost depreciation on revalued assets	(1,797)
(4,295)	Write off revaluation gains previously recognised on non current assets now disposed	(1,641)
(965)	Write off revaluation gains previously recognised on non current assets now re-classified to Investment Properties	(15)
95,929	**Balance at 31st March**	**101,318**

37. Unusable Reserves continued

37.2 Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. The table below provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31st March 2016 £000	Capital Adjustment Account	31st March 2017 £000
412,903	**Balance at 1st April**	416,185
(30,043)	Charge for depreciation of non current assets	(30,459)
(288)	Impairment of non current assets	0
(331)	Amortisation of intangible assets	(305)
(10,903)	Revaluation gains / (losses) on non current assets	(9,787)
(19,185)	Revenue Expenditure Funded From Capital Under Statute	(14,813)
(45,468)	Amounts of non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	(9,576)
1,818	Difference between current value and historic depreciation on revalued assets	1,797
4,295	Write off revaluation gains previously recognised on non current assets now disposed	1,641
965	Write off revaluation gains previously recognised on non current assets now reclassified to investment properties	15
16,289	Statutory provision for the financing of capital investment charged against the General Fund (MRP)	10,812
4,244	Use of capital receipts to finance new capital expenditure	3,937
0	Donated Assets	30
56,812	Capital grants and contributions on non current assets credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	78,390
507	Capital grants unapplied – applied to capital financing	0
19,185	Capital grants and contributions on revenue expenditure funded from capital under statute credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	14,813
5,385	Capital expenditure charged against the General Fund	5,800
416,185	**Balance at 31st March**	**468,480**

37.3 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Notes 38 and 39 contain details of each Pension Scheme and their assets and liabilities.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31st March 2016 £000	Pensions Reserve	31st March 2017 £000
(642,863)	**Balance at 1st April**	**(580,345)**
(1,140)	Adjustment to opening balance	0
47,387	Employer's Contributions	46,903
(42,784)	Current Service Cost	(37,819)
(5,975)	Past Service (Cost) or Gain	(2,720)
(2,394)	Curtailments	(4,923)
5,381	Settlements	913
(58,821)	Interest on Liabilities	(62,766)
	Re-measurement of Liabilities:	
0	- Experience Gains / (Losses)	49,237
99,817	- Gain / (Loss) on Financial Assumptions	(462,763)
0	- Gain / (Loss) on Demographic Assumptions	15,153
38,770	Interest on Plan Assets	43,128
(789)	Administration Expenses	(927)
(16,934)	Re-measurement of Assets	159,771
(580,345)	**Balance at 31st March**	**(837,158)**

37.4 Financial Instruments Adjustment Account

The Financial Instrument Adjustments Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

31st March 2016 £000	Financial Instruments Adjustment Account	31st March 2017 £000
(507)	LOBOs adjustment to amortised cost	(494)
13	In year adjustment	14
(494)	**Balance at 31st March**	**(480)**

37.5 Collection Fund Adjustment Account

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

31st March 2016 £000	Collection Fund Adjustment Account	31st March 2017 £000
881	Balance at 1st April	3,821
911	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(32)
2,029	Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Business Rates income calculated for the year in accordance with statutory requirements	(351)
3,821	**Balance at 31st March**	**3,438**

37.6 Accumulated Absences Account

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

31st March 2016 £000	Accumulated Absences Account	31st March 2017 £000
(8,278)	Balance at 1st April	(6,421)
8,278	Settlement or cancellation of accrual made at the end of the preceding year	6,421
(6,421)	Amounts accrued at the end of the current year	(8,864)
(6,421)	**Balance at 31st March**	**(8,864)**

38. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2016/17, the Council paid £16.080m to Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2015/16 were £15.734m and 14.1% to August 2015 and 16.48% from September 2015 onwards. Although the Scheme is a defined benefit scheme, the arrangements for the scheme mean that the liabilities for these benefits cannot be identified to the Council, therefore for the purposes of this Statement of Accounts; it is accounted for on the same basis as a defined contribution scheme.

NHS Staff Pension Scheme

Council staff who transferred from the NHS have maintained their membership in the NHS Pension Scheme. In 2016/17, the Council paid £0.086m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2015/16 were £0.087m and 14.3%.

Nature of Funds

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

Governance

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

Funding the liabilities

Contributions to the arrangements are set by the government, having taken advice from the government actuary. Again, the Council has no material involvement in this process. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the Council is responsible. The weighted average duration of these particular liabilities is 8 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

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

38. Pension Schemes Accounted for as Defined Contribution Schemes continued

Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 39. Additional and discretionary pensions paid to retired teachers by the County Council totalled £3.193m in 2016/17 and £3.316m 2015/16.

Firefighters Pension Scheme

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

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

	1992		2006		Modified		2015		Total	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Contributions Receivable										
Employers Contributions	822	705	33	9	114	71	517	638	1,486	1,423
Employees Contributions	567	479	32	7	738	157	433	545	1,770	1,188
Total Income	**1,389**	**1,184**	**65**	**16**	**852**	**228**	**950**	**1,183**	**3,256**	**2,611**
Benefits Payable										
Pensions Paid	4,128	4,290	31	27	179	73	0	0	4,338	4,390
Ill Health and Injury	1,420	1,340	8	7	0	3	0	0	1,428	1,350
Lump Sums	1,475	1,371	22	0	286	100	0	0	1,783	1,471
Lump Sum Death Benefits & Widows Pensions	416	471	0	0	12	2	0	20	428	493
Total Expenditure	**7,439**	**7,472**	**61**	**34**	**477**	**178**	**0**	**20**	**7,977**	**7,704**
Contribution Rates										
Employers	21.7%	21.7%	19.8%	19.8%	21.7%	21.7%	14.3%	14.3%		
Employees - range depending on pensionable pay	11% - 17.0%	11% - 17.0%	8.5% - 12.5%	8.5% - 12.5%	11% - 17.0%	11% - 17.0%	10.0% - 14.5%	10.0% - 14.5%		

Nature of Funds

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

38. Pension Schemes Accounted for as Defined Contribution Schemes continued

Governance

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

Funding the liabilities

Given that the arrangements are unfunded, meaning that there are no investment assets built up to meet the pension liabilities the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government via a top up grant to meet the gap between pensions paid and contributions from employees and employers collected. The weighted average duration of the liabilities ranges from 16 years for the 1992 scheme to 39 years for the 2015 scheme, it is measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

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

Other risks

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

39. Defined Benefit Pension Schemes

Participation in Pensions Schemes

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

The majority of the Council's staff belong to the Cumbria Local Government Pension Scheme (CLGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated (based on the 2013 valuation) at a level intended to balance the pensions liabilities with investment assets over a period of 19 years. The deficit on the CLGPS will be made good by increased contributions as assessed by the Scheme Actuary. The parameters agreed by the Fund for the 2016 valuation include the reduction in the deficit recovery period from 19 years to 16 years however this does not become effective until contribution rates payable from April 2017.

39. Defined Benefit Pension Schemes continued

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

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. the County Council) pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has forgone. At the time of calculating the deficit lump sum amounts (as part of the 2013 valuation) the Council had a total deficit repayment value of £147m, with an agreed 19 year deficit recovery period. Paying in advance of this schedule enables a gross saving due to the avoidance of these "interest" payments. This is then netted off against the interest that could have been earned by the Council placing this money on deposit.

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

The contribution rates are based upon a triennial actuarial review of the fund. As part of the 2013 valuation the actuary calculated the rates required to be paid by the Council, as an employer within the Fund, for both the current service cost and the past service cost to reduce the deficit over 19 years.

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

Non ill health early retirements

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

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

2015 / 2016 £000	Employers Pension Contributions	2016 / 2017 £000
20,512	13.0% of pensionable pay	20,091
10,612	Annual element of 3 year lump sum prepayment	10,481
3,241	Actuarial strain costs	4,239
2,103	Benefits recharged	2,072
36,468		**36,883**

39. Defined Benefit Pension Schemes continued

Nature of LGPS Scheme

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

Governance

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

Funding the liabilities

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

A valuation was undertaken as at 31st March 2016 with the resultant contribution rates for employers being effective from 1st April 2017 to 31st March 2020. This has valued the shortfall of assets against liabilities for the Fund as being £0.210 billion as at 31st March 2016, equivalent to a funding level of 91%. The Council's Pensions Committee set the parameters for this valuation in September 2016 which included the reduction in deficit recovery period to 16 years.

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

Risks and Investment strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. accrued benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

39. Defined Benefit Pension Schemes continued

Market Risk

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

Interest Rate Risk

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

Foreign exchange risk

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

Credit / Counterparty risk

Credit risk is the risk that a counterparty to a transaction or a financial instrument will fail to discharge an obligation or commitment that it has entered into and cause the Fund to incur financial loss. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Through review of the Fund's external Investment Managers annual internal control reports the Fund monitors its exposure to credit and counterparty risk.

Liquidity risks

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

Other risks

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

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

39. Defined Benefit Pension Schemes continued

Amendments, curtailments and settlements

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

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

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

Transactions Relating to Post Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

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

39.1 Transactions Relating to Retirement Benefits – 2016/17

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

2016/17	LGPS £000	Firefighters £000	Teachers £000	Total £000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
Current Service Cost	(34,603)	(3,216)	0	(37,819)
Past Service Cost	(1,221)	(1,499)	0	(2,720)
Curtailments	(4,923)	0	0	(4,923)
Net (Gains) / Losses from Settlements	913	0	0	913
Total Service Cost	***(39,834)***	***(4,715)***	***0***	***(44,549)***
Other Operating Expenditure				
Administration Expenses	***(927)***	***0***	***0***	***(927)***
Financing and Investment Income & Expenditure				
Interest on Pension Liabilities	(54,106)	(7,392)	(1,268)	(62,766)
Interest on Plan Assets	43,128	0	0	43,128
Total Net Interest	***(10,978)***	***(7,392)***	***(1,268)***	***(19,638)***
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	***(51,739)***	***(12,107)***	***(1,268)***	***(65,114)***
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement Re-measurement of the net defined benefit liability comprising:				
Re-measurement Assets	159,771	0	0	159,771
Re-measurement – Liabilities:				
- Experience Gain / (Losses)	48,073	0	1,164	49,237
- Gains and (losses) arising on changes in financial assumptions	(411,773)	(46,951)	(4,039)	(462,763)
- Gains and (losses) arising on changes in demographic assumptions	14,883	0	270	15,153
Total Re-measurement recognised in Other Comprehensive Income and Expenditure	***(189,046)***	***(46,951)***	***(2,605)***	***(238,602)***
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	***(240,785)***	***(59,058)***	***(3,873)***	***(303,716)***
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	51,739	12,107	1,268	65,114
Actual Amount Charged against the General Fund Balance for pensions in the year Employers' Contributions Payable to the Scheme	(36,883)	(6,827)		
Retirement Benefits Payable to Pensioners			(3,193)	
Total Employers Contributions and Retirement Benefits Payable				(46.903)

39.1 Transactions Relating to Retirement Benefits continued

The **current service cost** is an estimate of the true economic cost of employing people in a financial year. It measures the full liability estimated to have been generated in the year.

The **past service costs** arise from decisions taken in the current year but whose financial effect is derived from years of service earned in earlier years.

Interest cost is the amount needed to unwind the discount applied in calculating the defined benefit obligations (liability). As members of the plan are one year closer to receiving their pension, the provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.

The **expected return on assets** is a measure of the return on the investment assets held by the plan for the year. It is not intended to reflect the actual realised return by the plan, but a longer term measure based on the value of assets at the start of the year taking into account movements in assets during the year and an expected return factor.

Actuarial gains and losses arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

The most significant changes between 2015/16 and 2016/17 arise in the Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement. In 2015/16 the total re-measurement recognised in Other Comprehensive Income and Expenditure in the CIES was a net gain of £82.883m and in 2016/17 it is a net charge of £238.602m. This is a decrease of £321.485m.

These changes to the Council’s net pensions liabilities arise because events have not coincided with assumptions made at the last actuarial valuation or because of updated assumptions. The results also incorporate the outcomes of the 2016 actuarial valuation, and so include the impact of experience factors over the period 2013-2016 that were not allowed for in the accounting figures (such as actual pay increases, member movements, etc.). These factors can be positive or negative and can significantly impact the deficit and projected pensions cost.

The current economic climate, financial assumptions, and in particular the effect of bond yields on the discount rate used by the Actuaries can have a significant impact on the estimated net pension liabilities.

Bond yields are a fundamental building block in setting the discount rate applied to the estimated pension liabilities to reflect the ‘time value of money’ i.e. £1 now is worth more than £1 in the future (assuming no deflation in the future). The lower the discount rate the higher the pension liability. Due to the long timeframes involved in pensions liabilities (70 years plus), a small change in the discount rate can lead to large changes in the estimated promised retirement benefits.

39. Defined Benefit Pension Schemes continued

The sensitivity analysis (on page 144) provided by the Actuary indicates that a 0.1% decrease in the discount rate would lead to a £38.888m increase in the net pension liability. In 2016/17 the discount rate decreased from 3.6% at the start of the year to 2.5% at the end of the year.

This increase in the net liability is offset by an increase in asset values as a result of significant gains seen in the investment markets during 2016/17. The scale of the increase is dependent on the asset split and performance of the fund.

39.1 Transactions Relating to Retirement Benefits – 2015/16

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

39. Defined Benefit Pension Schemes continued

39.2 Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Pensions Assets and Liabilities	Total 2015/16 £000	Total 2016/17 £000
Present Value of Funded Liabilities - CLGPS	(1,513,297)	(1,925,271)
Present Value of Unfunded Liabilities - Firefighters	(214,589)	(266,820)
Present Value of Unfunded Liabilities – Teachers	(36,814)	(37,494)
Total Present Value of Liabilities	**(1,764,700)**	**(2,229,585)**
Fair value of Employer Assets	1,194,836	1,392,427
Net Liability Arising from Defined Benefit Obligation	**(569,864)**	**(837,158)**

39.3 Reconciliation of Present Value of Scheme Liabilities

	LGPS		Firefighters		Teachers		Total	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening Present Value of Scheme Liabilities	(1,537,778)	(1,513,297)	(218,615)	(214,589)	(40,760)	(36,814)	(1,797,153)	(1,764,700)
Adjustment of opening balance	(2,911)	0	0	0	0	0	(2,911)	0
Current Service Cost	(38,978)	(34,603)	(3,806)	(3,216)	0	0	(42,784)	(37,819)
Interest Cost	(50,735)	(54,106)	(6,874)	(7,392)	(1,212)	(1,268)	(58,821)	(62,766)
Contributions by Scheme Participants	(9,737)	(9,571)	(1,740)	(1,048)	0	0	(11,477)	(10,619)
Remeasurement Gains / (Losses):								
Actuarial Gain / (Loss) - Experience	0	48,073	0	0	0	1,164	0	49,237
Actuarial Gain / (Loss) - financial assumptions	86,763	(411,773)	11,212	(46,951)	1,842	(4,039)	99,817	(462,763)
Actuarial Gain / (Loss) - demographic assumptions	0	14,883	0	0	0	270	0	15,153
Benefits Paid	46,509	50,114	9,343	7,875	3,316	3,193	59,168	61,182
Past Service Cost	(1,866)	(1,221)	(4,109)	(1,499)	0	0	(5,975)	(2,720)
Curtailments - Liabilities	(2,394)	(4,923)	0	0	0	0	(2,394)	(4,923)
Settlements - Liabilities	8,442	1,634	0	0	0	0	8,442	1,634
Lump sum deficit repayment	(10,612)	(10,481)	0	0	0	0	(10,612)	(10,481)
Closing Present Value of Scheme Liabilities	**(1,513,297)**	**(1,925,271)**	**(214,589)**	**(266,820)**	**(36,814)**	**(37,494)**	**(1,764,700)**	**(2,229,585)**

39. Defined Benefit Pension Schemes continued

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

Fair Value of CLGPS Scheme Assets	**2015/16 £000**	**2016/17 £000**
Opening Fair Value of Scheme Assets	1,175,383	1,194,836
Adjustment of opening balance	1,771	0
Interest Income	38,770	43,128
Remeasurement Gain/ Loss:		
Return on Scheme Assets, excluding the amount included in the net interest expense	(16,934)	159,771
Employer Contributions	36,468	36,883
Contributions by Scheme Participants	9,737	9,571
Benefits Paid	(46,509)	(50,114)
Administration Expenses	(789)	(927)
Settlements	(3,061)	(721)
Closing Fair Value of Scheme Assets	**1,194,836**	**1,392,427**

Local Government Pension Scheme Assets comprised:

	2015/16 £000	**2016/17 £000**
Cash and Cash Equivalents	**38,235**	**44,557**
Equity Instruments:		
UK Quoted	157,718	179,624
Global Quoted	224,629	279,878
UK Equity Pooled	41,819	13,924
Overseas Equity Pooled	197,148	233,928
Sub Total Equity	**621,314**	**707,354**
Bonds:		
UK Corporate Bonds	82,444	87,723
Overseas Corporate Bonds	4,779	4,177
UK Government Indexed Pooled	213,876	271,523
Sub Total Bonds	**301,099**	**363,423**
Property:		
UK	92,002	97,470
Property Funds	43,014	43,165
Sub Total Property	**135,016**	**140,635**
Other Investment Funds:		
Private Debt Funds	0	6,962
Private Equity Funds	25,092	34,811
Infrastructure Funds	65,716	82,153
Real Estate Debt Funds	8,364	12,532
Sub Total Other Investment Funds	**99,172**	**136,458**
Total Assets	**1,194,836**	**1,392,427**

39. Defined Benefit Pension Schemes continued

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities for Local Government Pension Scheme, Firefighters' Pension Schemes and the Teachers Discretionary Benefits have been assessed by Mercer Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the full valuation of the scheme as at 31st March 2016.

The principal assumptions used by the actuary have been:

	LGPS		Firefighters Scheme		Teachers	
	31st March 2016	31st March 2017	31st March 2016	31st March 2017	31st March 2016	31st March 2017
Mortality Assumptions:						
Longevity at 60 for current pensioners:						
Men	-	-	28.2	28.4	-	-
Women	-	-	30.8	30.9	-	-
Longevity at 60 for future pensioners:						
Men	-	-	30.7	30.8	-	-
Women	-	-	33.2	33.3	-	-
Longevity at 65 for current pensioners:						
Men	23.1	23.1	-	-	-	-
Women	25.7	25.7	-	-	-	-
Longevity at 65 for future pensioners:						
Men	25.9	25.4	-	-	-	-
Women	28.9	28.4	-	-	-	-
Longevity at 75 for current pensioners:						
Men	-	-	-	-	14.2	14.2
Women	-	-	-	-	16.3	16.3
Rate of CPI inflation	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%
Rate of increase in salaries**	3.5%	3.8%	3.5%	3.8%	-	-
Rate of increase in pensions	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%
Rate for discounting scheme liabilities	3.6%	2.5%	3.5%	2.5%	3.6%	2.5%

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

The estimate of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analyses have followed the Accounting Policies for the Scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

39. Defined Benefit Pension Schemes continued

Sensitivity Analysis

All Pension Schemes	Liabilities £000	Assets £000	Net Deficit at 31st March 2017 £000	Projected Service Cost for Next Year £000	Projected Net Interest Cost for Next Year £000
As at 31st March 2017	(2,229,585)	1,392,427	(837,158)	57,628	20,373
Effect of increase in discount rate of 0.1% pa	38,888	0	38,888	(1,721)	(194)
Effect of increase in inflation of 0.1% pa	(39,590)	0	(39,590)	1,792	1,015
Effect of increase in pay growth of 0.1% pa	(7,491)	0	(7,491)	37	212
Effect of increase in life expectancy of 1 year	(48,372)	0	(48,372)	1,274	1,233

Impact on the Council's Cash Flows

One of the objectives of CLGPS is to keep employers' contributions at as constant a rate as possible. As part of the 2013 valuation the Fund agreed a strategy with the Fund's Actuary to achieve a funding level of 100% over 19 years from 1st April 2014. The resultant contribution rates from this valuation were effective from 1st April 2014 to 31st March 2017. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31st March 2016 with calculated contributions rates for employers being effective from 1st April 2017 to 31st March 2020.

The pension contributions expected to be made by the Council in the year to 31st March 2018 are:

- Local Government Pension Scheme £34.664m.
- Local Government Pension Scheme 3 year prepayment from 2017/18 to 2019/20 £29.331m
- Teachers Discretionary Benefits Scheme £3.195m.
- Firefighters Pension Scheme £6.691m.

40. Related Parties

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

Government

The Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from Government departments are set out in Note 4.1 on expenditure and income analysed by nature and by segment. Grant receipts in advance at 31st March 2017 are shown in Notes 33 and 35.

40. Related Parties continued

Members

Members of the Council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2016/17 is shown in Note 12. Members declare any transactions that they, their families or organisations in which they have a controlling interest have undertaken with the Council outside of their roles as elected councillors. Contracts were entered into in full compliance with the Council's standing orders. During 2016/17 the following significant amounts were paid:

- Works and services to the value of £15,000 were commissioned from Westmorland Fire & Security in which a family member of Councillor C Feeny-Johnson has an interest, there was a £283 owed to the company at 31st March 2017.

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

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

Officers

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

- A Jones – A family member is a Director of AB Fire Safety Ltd, payments of £19,280 were made for services during the year and there was a £800 balance owed to the company at 31st March 2017.

Other Public Bodies

Pooled Funds

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

40. Related Parties continued

Other Public Bodies continued

NW FiReControl Limited

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

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW Fire Control Ltd. The cost of the service is charged out to the four FRAs on an agreed pro rata basis agreed by a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. There have also been contributions to the project from the four FRAs. From 8th May 2017 Greater Manchester Fire and Rescue Service transferred into the Greater Manchester Combined Authority and the ownership of NW Fire Control Ltd therefore also transfers.

A detailed assessment for Group Accounting requirements has taken place during 2016/17 in respect of NW Fire Control Ltd. in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control as unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement. However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2016/17.

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

Accounts Information	Year-Ended 2015/16 £000	Year-Ended 2016/17 £000
Total Assets Less Current Liabilities	239	263
Net Assets	(822)	(2,831)
Profits Before Taxation	(240)	(99)
Profits After Taxation	(246)	(105)
Balance owed to CCC	0	0
Balance owed by CCC	0	(86)
Invoices Raised By NW Fire Control to CCC	330	343
Invoices Raised by CCC to NW Fire Control	0	0

The Companies Financial Statements can be obtained from Companies House with the deadline for submission as 31st December 2017 for the final audited 2016/17 accounts.

40. Related Parties continued

Entities Controlled or Significantly Influenced by the Council

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

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

In some instances, the Council has taken a direct investment in companies such as Cumbria County Holdings Ltd. The results of Cumbria County Holdings Ltd and its subsidiaries have been consolidated within the group accounts. Copies of the accounts can be obtained from The Company Secretary, Unit 5A, Wavell Drive, Rosehill Estate, Carlisle, CA1 2ST.

			2015/16		2016/17	
Company Name	**Nature of Business**	**Shareholding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Cumbria County Holdings Ltd	Holding Co	100%	1,977	3,685	1,496	3,681
Cumbria Waste Management Ltd	Waste disposal service	100%	2,467	7,105	1,348	6,706
Lakeland Waste Management Ltd	Waste disposal service	100%	130	1,605	127	1,732
Trotters Dry Waste Ltd	Waste disposal service	100%	161	(253)	221	(32)
Cumbria Waste Recycling Service	Waste disposal service	100%	712	2,681	1,292	3,223
Lakeland Minerals Ltd	Waste disposal service	50%	134	511	156	567
ECR Recycling Ltd	Waste disposal service	100%	84	132	1	133
Orian Solutions Ltd	Catering / Cleaning Services	100%	121	1,143	361	1,073
SLS (Cumbria) Ltd	Cleaning	100%	0	0	7	(39)
		Total	**5,786**	**16,609**	**5,009**	**17,044**

40. Related Parties continued

In 2016/17 Cumbria County Holdings Ltd paid a dividend of £1.500m to the Council (2015/16 £1.500m).

The Council has the following direct investments in limited companies. Each year consideration is given to whether an entity should be included in the group accounts. On the basis of materiality it has been determined that the companies below should not be consolidated into the group accounts. Copies of the accounts can be obtained from the Assistant Director - Finance, Cumbria House, 117 Botchergate, Carlisle, Cumbria CA1 1RD.

				2015/16		2016/17	
Company Name	**Nature of Business**		**Share holding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Traveline Cumbria Ltd (Note 1)	Travel enquiry call centre	Company limited by guarantee	49%	(13)	55	1	56

Note 1 – The financial year end for Traveline is 19th July. The majority shareholder is Stagecoach Ltd.

In addition to direct shareholdings on the previous page the Council is also a member of, and has voting rights in, Energy Coast West Cumbria Ltd (ECWC). As it is a partnership with a number of other parties with decisions covered by majority voting, where the Council is a minority partner, it is not appropriate for the Council to consolidate ECWC in the group accounts.

ECWC aims to support new business initiatives and to promote economic development. West Cumbria is facing significant losses of employment opportunities following the decommissioning of the Sellafield nuclear facility. The Board membership comprises:

Nuclear Decommissioning Agency	3 nominated members (1 from Nuclear Decommissioning Authority, 1 from Nuclear Management Partners and 1 from Sellafield Limited).
Cumbria County Council	1 nominated member
Copeland Borough Council	1 nominated member
Allerdale Borough Council	1 nominated member
Independent board members	6 selected by Nolan Principles. One of the independent members is elected as Chair.

40. Related Parties continued

The Chief Fire Officer and Chief Executive of Cheshire Fire Authority took up the post of Chief Fire Officer in Cumbria in a joint arrangement with Cheshire Fire Authority on 5th April 2016. The Council paid Cheshire Fire Authority a contribution of £60,000 in 2016/17 as part of this arrangement. Total net payments of £94,905 were made for services during the year and there was a £10,650 balance owed to the Authority at 31st March 2017.

During 2016/17 the Council paid the following sums to companies in which it has an interest.

Organisation	Commercial Transactions £000	Creditor Outstanding £000	Debtor Outstanding £000
Cumbria Waste Management Ltd	893	277	195
Lakeland Waste Management Ltd	46	63	0
Cumbria Waste Recycling	334	33	0
Trotters Dry Waste Ltd	0	2	0
Orian Solutions Ltd	8,313	694	7
SLS (Cumbria) Ltd	181	16	0
Traveline Cumbria Ltd	9	0	0
Energy Coast West Cumbria Ltd	1	0	0
	9,777	**1,085**	**202**

41. Events After the Balance Sheet Date

The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 25th September 2017 in respect of the audited Statement of Accounts for 2016/17.

Following the General Election on 8th June 2017, there is no material impact on the Accounts as presented for issue.

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

42. Contingent Liabilities

Accountable Body Status

The Council is the Accountable Body for a number of organisations. As Accountable Body, the Council underwrites that grants have been properly applied for and expended. To the extent that this is not the position, the Council is exposed, as guarantor, to grant repayments if the conditions on which grant funding was given are not met.

Local Government Pension Scheme

The Council is the Administering Body for the Cumbria Local Government Pension Scheme. Staff in a number of organisations in Cumbria are eligible to join this pension scheme. However, the Council would be exposed to cover pension contributions if the employing organisations for these staff were unable to pay the necessary contributions. In these cases, the Council receives indemnity bonds, where appropriate, that are calculated by the Scheme Actuary. Nevertheless, these bonds do not necessarily fully discharge any future liabilities that could occur.

42. Contingent Liabilities continued

Landfill Sites - Gas/Leachates

Note 2 - Critical Judgements in Applying Accounting Policies sets out the Council's approach to closed landfill sites. No provision has been made in the accounts for any legal liability that may arise as a result of gas and leachate from closed landfill sites, most of which, after restoration, have been either returned to the original owner or sold.

Background to the Sites

The Council has responsibility for 34 closed landfill sites (26 for non inert waste and 8 for inert waste). The sites are spread throughout the County and are relatively small scale in nature. The 8 sites that have inert waste landfilled were closed between 1970 and 1995 and monitoring is subject to a schedule agreed with the Environment Agency.

All the sites vary considerably in size and the nature of the waste landfilled. However all of the 26 sites that contain non inert waste were closed a number of years ago (between 18 and 40+ years ago). This means they predate current site engineering methods.

The Council spends in the region of £0.400m per annum monitoring and routinely maintaining sites.

Site Management

The Council has a planned monitoring regime with the work currently contracted to Cumbria Waste Management Ltd until 31st March 2018. Despite this, much of the work that is carried out by the Waste Management team is still reactive, adapting to conditions on the ground. Monitoring could for example, pick up a site with a leachate outbreak. This would be extremely difficult to predict and could occur at a site which had previously had no problems. The cost of any remedy would depend on the site, the problem that had occurred and the possible solutions available to remedy the issue and could vary considerably. Therefore any future investment that may be required for the sites is unquantifiable, planned monitoring is about environmental protection on a risk assessed basis and is a revenue running cost and any unplanned maintenance is extremely difficult to predict.

The Council continues to monitor for landfill gas on those sites that are felt to be most at risk. This is an extremely complex exposure to compute with very uncertain timescales. It is also an issue that impacts on many other Local Authorities. Nevertheless, exposures may be considerable and may not be met from the Council's own reserves. Cumbria Waste Management Ltd has a provision for aftercare costs post closure of the landfill sites, this currently stands at £10.109m (2015/16 £8.065m).

In addition, a review has found that there are another 33 closed landfill sites that the Council may be responsible for. These are sites that the Council does not own, was not previously aware of and historically have not been subject to monitoring. The Council is in the process of collating the information held on these sites with the aim of assessing the Council's liabilities.

42. Contingent Liabilities continued

Municipal Mutual Insurance Ltd

On 30th September 1992, the Council's insurers, Municipal Mutual Insurance Ltd (MMI), announced that it had ceased taking new business or issuing renewals and had placed a moratorium on claims payments.

On 6th October 1992, MMI resumed the full payment of claims and has continued to do so since that date. MMI was only able to do this following an agreement with Local Authorities that they would underwrite their respective exposures to the extent that MMI was unable to meet the claims in full. The Council elected to participate in this Scheme of Arrangements. MMI's business was then purchased by a new insurer, Zurich Municipal, who is triple 'A' rated so far as claims payment is concerned. However, this does not guarantee claims which arose up to 31st March 1993 which will be dealt with by the MMI 'rump' company.

In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years). An initial 15% 'clawback' levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicate that the situation continues to worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. In 2016/17 this equated to a provision of £0.197m (2015/16 £0.625m including £0.509m for the increase in the levy paid during 2016/17).

Business Rates

The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements came into effect on 1st April 2013. The Council, acting as agent on behalf of the major preceptors, central government and themselves, is required to make provision for refunding ratepayers who successfully appeal to the Valuation Office Agency against the rateable value of their properties on the rating list. The overall provision for appeals outstanding at 31st March 2017 has been assessed as £7.921m (2015/16 £9.570m), of which the Council share is £0.792m (2015/16 £0.957m). Local businesses can only appeal against the Rateable Value on the 2010 Rating List in very limited circumstances, although they can now make an appeal against the new 2017 Rating List. It is difficult to estimate the likelihood of businesses both submitting and being successful for an appeal that is yet to be made and therefore the Council has made no provision in its accounts for future appeals.

43. Trust Funds and Accountable Body Funds

The Council acts as trustee for a number of legacies by former inhabitants of Cumbria and is responsible for the administration. The funds are not owned by the Council and are used in accordance with the aims of the trusts. The Council also acts as the Accountable Body for a number of projects. The Trust Funds and Accountable Bodies are not included in either the Council's single entity or the group accounts as the Council acts as an agent for these transactions.

43.1 Trust Funds

The Holehird Trust, created under the bequest of Henry Leigh Groves, includes the Holehird estate near Windermere. The balances held by the trust funds are invested in gilt edged and equity securities in accordance with the regulations contained in the Trustee Investment Acts. The income of the trust funds is distributed in accordance with the terms of the trust deeds. The various trust funds can be broadly categorised as follows:

Trust Funds	Balance at 1st April 2016 £000	Receipts £000	Payments £000	Balance at 31st March 2017 £000
Holehird Trust	619	100	(41)	678
Archives Trusts	531	4	(8)	527
Education Trusts	493	16	(3)	506
Social Services Trusts	8	0	0	8
	1,651	**120**	**(52)**	**1,719**

43.2 Accountable Body Funds

The Council is the Accountable Body for a number of projects; the largest are Copeland Community Fund and Growing Places Fund.

<u>Copeland Community Fund</u>

The Nuclear Decommissioning Agency (NDA) established the Copeland Community Fund in January 2008 to recognise the unique role Copeland plays in hosting a low level nuclear waste storage facility on behalf of the nation.

The Council acts as Treasurer for the Fund, but it is administered by a Project Board of seven members, of which two are Cumbria County Council Councillors, two Copeland Borough Council Councillors, one independent member, one member from the NDA and one from the Low Level Waste Repository (LLWR). Disbursements from the Fund are considered and approved by the Project Board, in accordance with the unilateral undertaking entered into between the NDA, the County Council and Copeland Borough Council at the inception of the Fund. The Fund is to be spent on schemes and initiatives that are consistent with the NDA's socio-economic policy including employment, education and skills and economic and social infrastructure.

43. Trust Funds and Accountable Body Funds continued

43.2 Accountable Body Funds continued

The cash balance of the fund at 31st March 2017 is £11.678m. Income is received from the NDA each year to top up the fund, and from the Council in respect of interest due for funds invested. The table below shows a summary of the transactions for the past two years.

Balance at 1/4/15 £000	2015/16 Receipts £000	2015/16 Payments £000	Balance at 31/3/16 £000	2016/17 Receipts £000	2016/17 Payments £000	Balance at 31/3/17 £000
12,558	1,656	(2,608)	11,606	1,736	(1,664)	11,678

Growing Places Fund

The Growing Places Fund was announced by government in November 2011. Renamed locally as the Cumbria Infrastructure Fund (CIF), the total allocation for Cumbria was £6,667,772 split between Capital £6,162,467 and Revenue £505,305.

The CIF is identified to help create jobs and homes in Cumbria, through support for infrastructure projects to unlock housing and workspace developments and for capital projects within businesses. The CIF is managed as a revolving fund and support to projects is primarily in the form of loans, as a minimum providing a return of the funds invested and in most cases with interest added, however in some cases support has been in the form of non-repayable grants. Returns to the fund are recycled to support further developments.

The Council holds the funding as the Accountable Body for the CIF and the Cumbria LEP Board agree the fund priorities. As Accountable Body, the Council enters into formal agreements with the applicants (and if required the relevant District Councils) before the CIF is invested to ensure that projects are delivered within the agreed timescales or against agreed milestones and loan funding is repaid.

Currently there are 9 ‘live’ CIF projects in the delivery or repayment phases (2 Large Infrastructure Loans and 7 Small Business Development Loans). 2 Small Business Development Loans and one Large Infrastructure Loan have been repaid during 2016/17. Income received in 2016/17 relates to the interest (revenue) and principal (capital) repayments received during the year from loans. Both revenue and capital returns are available to the LEP for reinvestment.

	Balance at 1/4/15 £000	2015/16 Receipts £000	2015/16 Payments £000	Balance at 31/3/16 £000	2016/17 Receipts £000	2016/17 Payments £000	Balance at 31/3/17 £000
Revenue	365	100	(20)	445	37	(4)	478
Capital	4,010	1,125	(137)	4,998	549	(259)	5,288
Total	**4,375**	**1,225**	**(157)**	**5,443**	**586**	**(263)**	**5,766**

43. Trust Funds and Accountable Body Funds continued

43.2 Accountable Body Funds continued

The Council is also Accountable Body for the following:

- Rural Growth Network Pilot – balance at 31st March 2017 £0.013m (31st March 2016 £0.457m).
- Local Enterprise Partnership Core and Strategic Funding – balance at 31st March 2017 £0.142m (31st March 2016 £0.315m).
- Growth Hub – balance at 31st March 2017 £0.012m (31st March 2016 £0.260m).
- Enterprise Advisor Network – balance as at 31st March 2017 £0.019m (31st March 2016 nil balance)

44. Prior Period Restatement

<u>Change in presentation of income and expenditure in Comprehensive Income and Expenditure Statement</u>

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income and Expenditure Statement in accordance with the 2016/17 CIPFA Code on Local Authority Accounting in the UK. The 2016/17 Code requires authorities to present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the Council's internal management reporting structure. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice (SeRCOP).

The table below shows how the gross expenditure and income and the net expenditure have been restated for 2015/16.

44. Prior Period Restatement continued

SeRCOP Service Line:	As reported in the Comprehensive Income & Expenditure Statement 2015/16 £000	Adjustments Between SeRCOP classifications and internal reporting classifications £000	Comprehensive Income & Expenditure Statement as restated for 2015/16 £000	Directorate:
Gross Expenditure				**Gross Expenditure**
Central Services to the Public	2,828	(2,828)	0	
Cultural and Related Services	9,755	(9,755)	0	
Environmental and Regulatory Services	38,790	(38,790)	0	
Planning Services	25,230	(25,230)	0	
Highways and Transport Services	64,475	68,810	133,285	Economy and Highways Services
	0	8,068	8,068	Local Committees
Education and Children's Services	420,613	(37,615)	382,998	Children and Families Services
Adult Social Care	183,102	7,476	190,578	Health, Care and Community Services
Fire & Rescue Services	17,740	(4,107)	13,633	Fire & Rescue Service
Public Health	13,030	(13,030)	0	
		35,924	35,924	Resources and Transformation
Corporate and Democratic Core	6,821	(6,821)	0	
Non Distributed Costs	11,430	0	11,430	Non Distributed Costs
	0	15,923	15,923	Other Corporate Items
	0	7,157	7,157	Flood Costs
Cost of Services	**793,814**	**5,182**	**798,996**	**Cost of Services**
Gross Income				**Gross Income**
Central Services to the Public	(1,525)	1,525	0	
Cultural and Related Services	(509)	509	0	
Environmental and Regulatory Services	(975)	975	0	
Planning Services	(19,331)	19,331	0	
Highways and Transport Services	(6,682)	(23,882)	(30,564)	Economy and Highways Services
	0	(226)	(226)	Local Committees
Education and Children's Services	(295,417)	6,458	(288,959)	Children and Families Services
Adult Social Care	(46,229)	(18,875)	(65,104)	Health, Care and Community Services
Fire & Rescue Services	(170)	(248)	(418)	Fire & Rescue Service
Public Health	(15,649)	15,649	0	
	0	(6,582)	(6,582)	Resources and Transformation
Corporate and Democratic Core	(4,356)	4,356	0	
Non Distributed Costs	(8,442)	0	(8,442)	Non Distributed Costs
	0	(1,840)	(1,840)	Other Corporate Items
	0	(2,332)	(2,332)	Flood Costs
Cost of Services	**(399,285)**	**(5,182)**	**(404,467)**	**Cost of Services**
Net Expenditure				**Net Expenditure**
Central Services to the Public	1,303	(1,303)	0	
Cultural and Related Services	9,246	(9,246)	0	
Environmental and Regulatory Services	37,815	(37,815)	0	
Planning Services	5,899	(5,899)	0	
Highways and Transport Services	57,793	44,928	102,721	Economy and Highways Services
	0	7,842	7,842	Local Committees
Education and Children's Services	125,196	(31,157)	94,039	Children and Families Services
Adult Social Care	136,873	(11,399)	125,474	Health, Care and Community Services
Fire & Rescue Services	17,570	(4,355)	13,215	Fire & Rescue Service
Public Health	(2,619)	2,619	0	
	0	29,342	29,342	Resources and Transformation
Corporate and Democratic Core	2,465	(2,465)	0	
Non Distributed Costs	2,988	0	2,988	Non Distributed Costs
		14,083	14,083	Other Corporate Items
	0	4,825	4,825	Flood Costs
Cost of Services	**394,529**	**0**	**394,529**	**Cost of Services**

44. Prior Period Restatement continued

The 2016/17 Code also requires the total General Reserves to be presented. In previous years it was recommended that Earmarked Reserves be presented separately. The 2015/16 Movement in Reserves Statement has been restated to include an additional column to show the total General Reserves in addition to the General Fund Balance and Earmarked Reserves.

	General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000
Balance at 31st March 2015	15,221	92,823	5,330	113,374
Adjustment to opening balance (note 36.3)				
Movement in Reserves during 2015/16				
Total Comprehensive Income and Expenditure	(33,390)			(33,390)
Adjustments between accounting basis and funding basis under regulations	17,847			17,847
Net Increase/(Decrease) in 2015/16	**(15,543)**	**0**	**0**	**(15,543)**
Transfers (to) Earmarked Reserves	(18,885)	18,885	0	0
Transfers from Earmarked Reserves	33,507	(30,901)	(2,606)	0
Net Transfer (to)/from Earmarked Reserves	**14,622**	**(12,016)**	**(2,606)**	**0**
Balance at 31st March 2016	**14,300**	**80,807**	**2,724**	**97,831**

<u>Reclassification of Cash Equivalent to Short Term Investment as at 31st March 2016</u>

The Council's accounting policy xvi states that cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition.The Council held an investment of £15m as at 31st March 2016 in a 100 days notice account which was incorrectly classified as a cash and cash equivalent at that date as it exceeded the three months threshold.

In June 2016 the terms of the investment changed, the call period was amended to 95 days rather than 100. The balance as at 31st March 2017 was £10m and was correctly classified as a short term investment as it still exceeded the 3 months threshold.

The error is within 2015/16 accounts as it was incorrectly categorised in that year. The 2015/16 accounts were audited and approved without this issue being identified.

Consequently the Cash and Cash Equivalents at 31st March 2016 was overstated by £15m and Short Term Investments was understated by £15m. Total Current Assets remained unchanged. The following are the relevant extracted lines from the 31st March 2016 Balance Sheet:

44. Prior Period Restatement continued

Effect on the Balance Sheet 31st March 2016

	Originally Stated 31st March 2016 £000	Restated 31st March 2016 £000	Re-classification £000
Current Assets			
Current Assets Held for Sale	1,048	1,048	
Inventories	1,040	1,040	
Short Term Debtors and Prepayments	62,153	62,153	
Short Term Investments	85,201	100,201	15,000
Cash and Cash Equivalents	131,451	116,451	(15,000)
Total Current Assets	**280,893**	**280,893**	

The following are the relevant extracted lines from the Cash Flow Statement as at 31st March 2016.

Effect on the Cash Flow Statement as at 31st March 2016.

	Originally Stated 31st March 2016 £000	Restated 31st March 2016 £000	Restatement £000
Net Cash Flows from investing Activities			
Purchase of short term and long term investments	(144,914)	(159,914)	(15,000)
Total net cash flows from investing activities	**71,249**	**56,249**	**(15,000)**
Cash and Cash Equivalents at the End of the Reporting Period	**120,712**	**105,712**	**(15,000)**

The above re-classification is reflected in the restatement of the 2015/16 Balance Sheet, note 29 Financial Instruments and note 30 Cash and Cash Equivalents There was no impact on any other financial statements.

7.1 Introduction

The Group Accounting Statements have been prepared on the basis of a full consolidation of the financial transactions of the Council and its subsidiary companies. The subsidiary companies have all prepared their accounts to 31st March 2017. Cumbria County Holdings Ltd have then produced their own consolidated group accounts for 2016/17 and these have been used to produce the Cumbria County Council Group Accounts. Where balances are materially different from the Council's Accounting Statements the Group notes have been included.

The Council has restated the 2015/16 Statement of Accounts. Although this primarily is a change to the single entity accounts, consequently it does then impact on the Group Statement of Accounts.

Note 44 of the Council's single entity financial statements sets out the details of the prior period adjustment. The change in presentation for the Comprehensive Income and Expenditure Statement has an additional impact on the Group Income and Expenditure, the group is now presented on a single line in the CIES as Cumbria County Holdings Ltd Group.

7.2 Group Boundary

During 2016/17 the group boundary (i.e. what should be included within the Council's group accounts) was re-examined to determine whether the existing members of the group were still appropriate and in addition whether there were any other bodies that should be included. This review took account of the materiality of the bodies in terms of value and the nature of their relationships.

In 2016/17 the Group accounts included Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd.

CWM has the subsidiaries - Cumbria Waste Recycling Ltd (CWR) and Trotters Dry Waste Ltd and Lakeland Waste Management Ltd which it wholly owned and a subsidiary Lakeland Minerals Ltd, which is 50% owned and is run as a joint venture with Norman Harrison.

Orian Solutions established a wholly owned subsidiary SLS (Cumbria) Ltd (SLS). On 1st March 2016 SLS acquired the trade and assets of South Lakes Services and commenced trading. The first accounts for the 13 month period ending 31st March 2017 have been included in the consolidated accounts.

The results of the companies are summarised in Note 40 on page 149.

The Council also has an interest in the following companies - Traveline Ltd and NW FiReControl Ltd. These are relatively small and do not materially alter the group accounting statements if they are either included or excluded. So, on the grounds of materiality they are not included in the group accounts but are still included in the related parties note to the accounts including their results for the year (Note 40).

7.2 Group Boundary continued

The other entities within the group are limited companies, which are separate distinct legal entities. This restricts the Council's risk to potential financial loss to the value of the initial shareholding and the costs associated with any continuity of the services they provide to the Council.

7.3 Joint Ventures

During 2015/16 the wholly owned LWM acquired a 50% share of Lakeland Minerals Ltd. This is classified as a joint venture as there is a contractual agreement to share control and the joint venturers have the right to the net assets of the arrangement. The Code of Practice requires that this is incorporated into the group accounts using the equity method, adjusting the original cost of investment for any post acquisition change in its share of net assets, and including any share of profit or loss into the Group Comprehensive Income and Expenditure Statement.

7.4 Statement of Accounting Policies

The majority of the accounting policies adopted to produce the group accounts complement those used to prepare the Council's own accounts. However, additional policies and departures have occurred in order to meet IFRS requirements for the preparation of Group Accounts. These policies are:

i. Non Current Assets

Profits and losses on disposal are treated as a charge to the cost of services. Significant profits and losses on disposal are shown as exceptional items. Other subsidiaries do not hold interests in land & buildings. Their non current assets are held at cost with depreciation charged over their estimated useful lives.

The Cumbria Waste Management group completes a revaluation to reflect the cost and associated liabilities of managing landfill sites. In order to accommodate the estimated future costs of restoration and aftercare on these sites, restoration and aftercare costs are capitalised and a provision created. The total cost of non current assets are amortised and charges to the Group Comprehensive Income & Expenditure are based on the overall proportion of void space consumed during the accounting period. The total provision created by Cumbria Waste Management Ltd in 2016/17 is £10.109m (2015/16 £8.065m). The Council has treated this exposure as a contingent liability (Section 6, note 42).

Trades between the Council and its subsidiaries are eliminated on consolidation.

7.5 GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT FOR THE YEAR TO 31st MARCH 2017

2015/16 Restated					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Service	Note to the Accounts	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			Services:				
375,743	(288,959)	86,784	Children and Families Services		364,175	(282,037)	82,138
190,008	(65,104)	124,904	Health, Care and Community Services		193,615	(62,760)	130,855
130,872	(30,564)	100,308	Economy and Highways Services		140,104	(28,587)	111,517
13,571	(418)	13,153	Fire & Rescue Service		13,902	(459)	13,443
8,068	(226)	7,842	Local Committees		8,786	(311)	8,475
35,924	(6,582)	29,342	Resources and Transformation		33,790	(6,868)	26,922
7,157	(2,332)	4,825	Flood Costs		0	0	0
15,923	(1,840)	14,083	Other Corporate Items		20,584	(1,563)	19,021
11,430	(8,442)	2,988	Non Distributed Costs		8,364	(1,634)	6,730
32,296	(24,477)	7,819	Cumbria County Holdings Group		37,993	(31,019)	6,974
820,992	(428,944)	392,048	**Net Expenditure of Continuing Operations**	7.10.	821,313	(415,238)	406,075
8,680	0	8,680	Other Operating Expenditure		2,909	0	2,909
86,071	(4,651)	81,420	Financing and Investment Income and Expenditure		56,068	(5,596)	50,472
0	(449,381)	(449,381)	Taxation and Non Specific Grant Income		0	(460,673)	(460,673)
915,743	(882,976)	**32,767**	**(Surplus) / Deficit on Provision of Services**		880,290	(881,507)	**(1,217)**
		(67)	Share of Surplus or Deficit on the Provision of Services of Joint Ventures				(37)
		739	Taxation of Subsidiaries				515
		33,439	**Group (Surplus) / Deficit**				**(739)**
		(6,415)	(Surplus) or Deficit on Revaluation of Non Current Assets Property, Plant and Equipment Assets				(8,842)
		636	Impairment Losses on Non-current Assets Charged to the Revaluation Reserve				0
		(13)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				(14)
		(83,667)	Remeasurement of net defined benefit liability / (asset)				239,474
		(89,459)	**Other Comprehensive Income and Expenditure**				**230,618**
		(56,020)	**Total Comprehensive Income and Expenditure**				**229,879**

7.6 GROUP MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Earmarked Reserves £000	Earmarked Capital Reserves £000	Total General Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Long term investment reserve £000	Total Usable Reserves £000	Total Unusable reserves £000	Total Authority's Reserves £000	Authority's share of reserves of subsidiaries £000	Minority Interest £000	Total Reserves £000
Balance at 31st March 2015	15,221	92,823	5,330	113,374	10,823	1,824	2,813	128,834	(140,636)	(11,802)	9,262	(385)	(2,925)
Adjustment to opening balance (note 37.3)									(1,140)	(1,140)			(1,140)
Movement in Reserves during 2015/16													
Total Comprehensive Income and Expenditure	(24,590)	0	0	(24,590)	0	0	0	(24,590)	88,675	64,085	(8,450)	385	56,020
Adjustments between Group Accounts and authority accounts	(8,800)	0	0	(8,800)	0	0	0	(8,800)	0	(8,800)	8,800	0	0
Adjustments between accounting basis and funding basis under regulations	17,847	0	0	17,847	884	(507)	0	18,224	(18,224)	0			0
Net Increase/(Decrease) in 2015/16	**(15,543)**	**0**	**0**	**(15,543)**	**884**	**(507)**	**0**	**(15,166)**	**70,451**	**55,285**	**350**	**385**	**56,020**
Transfers (to) Earmarked Reserves	(18,885)	18,885	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	33,507	(30,901)	(2,606)	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves	**14,622**	**(12,016)**	**(2,606)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance at 31st March 2016	**14,300**	**80,807**	**2,724**	**97,831**	**11,707**	**1,317**	**2,813**	**113,668**	**(71,325)**	**42,343**	**9,612**	**0**	**51,955**
Movement in Reserves during 2016/17													
Total Comprehensive Income and Expenditure	8,361	0	0	8,361	0	0	0	8,361	(229,746)	(221,385)	(8,494)	0	(229,879)
Adjustments between Group Accounts and authority accounts	(8,155)	0	0	(8,155)	0	0	0	(8,155)	0	(8,155)	8,155	0	0
Adjustments between accounting basis and funding basis under regulations	(27,657)	0	0	(27,657)	(801)	653	0	(27,805)	27,805	0	0	0	0
Net Increase/(Decrease) in 2016/17	**(27,451)**	**0**	**0**	**(27,451)**	**(801)**	**653**	**0**	**(27,599)**	**(201,941)**	**(229,540)**	**(339)**	**0**	**(229,879)**
Transfers (to) Earmarked Reserves	(18,459)	18,459	0	0	0	0	0	0	0	0	0	0	0
Transfers from Earmarked Reserves	41,027	(38,826)	(2,201)	0	0	0	0	0	0	0	0	0	0
Net Transfer (to)/from Earmarked Reserves	**22,568**	**(20,367)**	**(2,201)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance at 31st March 2017	**9,417**	**60,440**	**523**	**70,380**	**10,906**	**1,970**	**2,813**	**86,069**	**(273,266)**	**(187,197)**	**9,273**	**0**	**(177,924)**

7.7 GROUP BALANCE SHEET as at 31st March 2017

Restated 31st March 2016 £000		Notes to the Accounts	31st March 2017 £000
	Long Term Assets:		
	Property, Plant and Equipment		
464,713	Other Land and Buildings		489,943
31,170	Vehicles, Plant, Furniture and Equipment		38,864
478,101	Infrastructure		525,078
54	Community Assets		53
15,881	Assets Under Construction		4,480
14,564	Surplus Properties Not Held For Sale		15,433
1,004,483	**Total Property, Plant and Equipment**	7.11.	1,073,851
543	Heritage Assets		563
2,285	Investment Properties		4,655
833	Intangible Assets		372
0	Assets Held for Sale		548
881	Investments in Joint Ventures		781
7,491	Long Term Debtors		4,731
1,016,516	**Total Long Term Assets**		1,085,501
	Current Assets:		
1,048	Current Assets Held for Sale		1,623
1,084	Inventories		1,271
70,735	Short Term Debtors and Prepayments	7.12.	69,307
102,201	Short Term Investments	7.13.	129,447
125,362	Cash and Cash Equivalents	7.14.	47,557
300,430	**Total Current Assets**		249,205
	Current Liabilities:		
(11,938)	Short Term Borrowings		(11,822)
(517)	Short Term PFI Liability		(523)
(86,276)	Short Term Creditors	7.15.	(85,764)
(10,847)	Revenue Grants Receipts in Advance		(8,214)
(4,650)	Short Term Provisions	7.16.	(5,355)
(10,739)	Bank Overdraft		(4,568)
(124,967)	**Total Current Liabilities**		(116,246)
	Long Term Liabilities:		
(295,361)	Long Term Borrowings		(287,835)
(4,674)	Long Term Creditors		(5,478)
(778)	Long Term Finance Lease Liability		(1,101)
(117,184)	Long Term PFI Liability		(116,623)
(134,375)	Capital Grants Receipts in Advance		(127,930)
(16,085)	Long Term Provisions	7.16.	(17,435)
(571,567)	Net Pensions Liability		(839,982)
(1,140,024)	**Total Long Term Liabilities**		(1,396,384)
51,955	**Net Assets / (Liabilities)**		**(177,924)**
	Usable Reserves		
14,300	General Fund Balance		9,417
9,612	Profit and Loss Reserve		9,273
80,807	Earmarked Reserves		60,440
2,724	Earmarked Capital Reserve		523
11,707	Usable Capital Receipts Reserve		10,906
1,317	Capital Grants & Contributions Unapplied Reserve		1,970
2,813	Long Term Investment Reserve		2,813
123,280			95,342
	Unusable Reserves		
95,929	Revaluation Reserve		101,318
416,185	Capital Adjustment Account		468,480
(580,345)	Pensions Reserve		(837,158)
(494)	Financial Instruments Adjustment Account		(480)
3,821	Collection Fund Adjustment Account		3,438
(6,421)	Accumulated Absences Account		(8,864)
(71,325)			(273,266)
51,955	**Total Reserves**	7.17.	**(177,924)**

7.8 ADJUSTMENTS BETWEEN GROUP ACCOUNTS AND COUNCIL ACCOUNTS

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund Balance back to the statutory balance with the balancing adjustment against the Council's share of the subsidiary reserves.

Adjustment	General Fund Balance £000	Authorities share of reserves of subsidiaries £000	Total Impact on Group Reserves £000
Dividends received from subsidiaries	1,500	(1,500)	0
Purchase of goods and services from subsidiaries	(9,655)	9,655	0
Total adjustments between Group accounts and Council accounts for 2016/17	**(8,155)**	**8,155**	0

7.9 GROUP CASH FLOW STATEMENT

Restated 2015/16			2016/17	
£000	£000		£000	£000
	(33,439)	Net Surplus/(Deficit) on the Provision of Services		739
		Adjust net surplus or (deficit) on provision of services for non cash movements		
32,058		Depreciation and impairments	32,296	
331		Amortisation	281	
11,635		Net Revaluations downwards	11,915	
(13)		Adjustments for effective interest rates	(14)	
(173)		Increase/(Decrease) in Interest Creditors	(116)	
(4,825)		Increase/(Decrease) in Creditors	220	
37		Increase/(Decrease) in Interest and Dividend Debtors	(110)	
4,534		(Increase)/Decrease in Debtors	33	
58		(Increase)/Decrease in Inventories	(187)	
30,642		Pension Liability	29,412	
(785)		Contributions to Provisions	2,055	
(732)		Movement in Investment Property values	(2,128)	
45,466		Carrying Amount of non current assets sold	9,576	
(67)		Other Non Cash Items	0	
	118,166			83,233
		Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing or financing activities		
(56,797)		Capital grants credited to surplus or (deficit) on the provision of services	(78,390)	
(5,128)		Proceeds from the sale of property, plant and equipment, investment properties or intangible assets	(3,136)	
	(61,925)			(81,526)
	22,802	**Net Cashflows from Operating Activities *****		2,446
		Net Cashflows from Investing Activities		
(75,202)		Purchase of PPE, Investment property and intangible assets	(118,113)	
(162,478)		Purchase of short term and long term investments	(255,050)	
5,128		Proceeds from the sale of PPE, Investment property and intangible assets	3,136	
137,178		Proceeds from short term and long term investments	227,914	
148,932		Other receipts from investing activities	76,100	
	53,558			(66,013)
		Net Cashflows from Financing Activities		
(716)		Payments for the reduction on PFI liability	(555)	
(5,512)		Payment for the reduction of long term borrowing	(7,512)	
	(6,228)			(8,067)
	70,132	**Net Increase or (Decrease) in Cash and Cash Equivalents**		(71,634)
	44,491	Cash and Cash Equivalents at the Beginning of the Reporting Period		114,623
	114,623	**Cash and Cash Equivalents at the End of the Reporting Period**		**42,989**

*** The Net Cashflows from Operating Activities in 2016/17 include interest received of £1.423m (2015/16 £1.260m), Corporation Tax paid of £0.515m (2015/16 Corporation Tax paid of £0.739m), interest paid of £28.679m (2015/16 £28.886m) and dividends paid of £0m (2015/16 £0.200m).

NOTES TO THE GROUP ACCOUNTS

7.10.1 GROUP SUBJECTIVE ANALYSIS 2016/17

2016/17 Expenditure and Income Analysed by Nature and Segment	Childrens & Families Services £000	Health, Care and Community Services £000	Economy & Highways Services £000	Fire & Rescue Service £000	Local Committees £000	Resources & Transformation £000	Other Corporate Items £000	Flooding £000	Non Distributed Costs £000	Cumbria County Holdings Group £000	Other Income and Expenditure £000	Total £000
Fees and charges	(16,431)	(36,321)	(10,084)	(92)	(85)	(1,810)	(956)	0	0	(31,019)	(1,480)	(98,278)
Other income	(4,785)	(5,424)	(3,785)	(367)	(188)	(1,093)	0	0	(1,634)	0	0	(17,276)
Interest & Investment Income	0	0	0	0	0	0	0	0	0	0	(4,115)	(4,115)
Income from Council Tax	0	0	0	0	0	0	0	0	0	0	(205,381)	(205,381)
Government Grants and Contributions	(260,821)	(21,015)	(14,718)	0	(38)	(3,965)	(607)	0	0	0	(255,293)	(556,457)
Total Income	**(282,037)**	**(62,760)**	**(28,587)**	**(459)**	**(311)**	**(6,868)**	**(1,563)**	**0**	**(1,634)**	**(31,019)**	**(466,269)**	**(881,507)**
Employee costs	169,859	56,723	24,718	10,449	3,544	26,064	3,167	0	0	16,678	654	311,856
Employee Costs of Voluntary Aided and Foundation Schools	64,778	0	0	0	0	0	0	0	0	0	0	64,778
Other Service Expenses less Internal Income	123,705	132,953	85,540	2,531	5,231	7,422	16,293	0	8,364	19,502	997	402,538
Depreciation, Amortisation and Impairment	7,492	1,616	18,666	1,464	11	304	50	0	0	1,813	1,161	32,577
Gains/ (Losses) on Revaluation of Non Current Assets	(1,659)	2,323	11,180	(542)	0	0	1,074	0	0	0	(460)	11,916
(Gains) / Losses on Disposal of Non Current Assets	0	0	0	0	0	0	0	0	0	0	6,439	6,439
Interest Payable	0	0	0	0	0	0	0	0	0	0	48,447	48,447
Precepts Paid	0	0	0	0	0	0	0	0	0	0	812	812
IAS19 Administration Expenses	0	0	0	0	0	0	0	0	0	0	927	927
Total Expenditure	**364,175**	**193,615**	**140,104**	**13,902**	**8,786**	**33,790**	**20,584**	**0**	**8,364**	**37,993**	**58,977**	**880,290**
(Surplus)/Deficit on Provision of Services	**82,138**	**130,855**	**111,517**	**13,443**	**8,475**	**26,922**	**19,021**	**0**	**6,730**	**6,974**	**(407,292)**	**(1,217)**

7.10.2 GROUP SUBJECTIVE ANALYSIS 2015/16

2015/16 Expenditure and Income Analysed by Nature and Segment	Childrens & Families Services £000	Health, Care and Community Services £000	Economy & Highways Services £000	Fire & Rescue Service £000	Local Committees £000	Resources & Transformation £000	Other Corporate Items £000	Flooding £000	Non Distributed Costs £000	Cumbria County Holdings Group £000	Other Income and Expenditure £000	Total £000
Fees and charges	(14,547)	(40,144)	(7,799)	(62)	(103)	(2,313)	(349)	0	0	(24,477)	(2,413)	(92,207)
Other income	(4,493)	(3,538)	(3,461)	(356)	(10)	(934)	(60)	0	(8,442)		0	(21,294)
Interest & Investment Income	0	0	0	0	0	0	0	0	0		(2,238)	(2,238)
Income from Council Tax	0	0	0	0	0	0	0	0	0		(195,874)	(195,874)
Government Grants and Contributions	(269,919)	(21,422)	(19,304)	0	(113)	(3,335)	(1,431)	(2,332)	0		(253,507)	(571,363)
Total Income	**(288,959)**	**(65,104)**	**(30,564)**	**(418)**	**(226)**	**(6,582)**	**(1,840)**	**(2,332)**	**(8,442)**	**(24,477)**	**(454,032)**	**(882,976)**
Employee costs	170,824	61,264	24,720	10,241	3,012	26,212	3,368	1,109	0	14,107	731	315,588
Employee Costs of Voluntary Aided and Foundation Schools	62,064	0	0	0	0	0	0	0	0	0	0	62,064
Other Service Expenses less Internal Income	123,306	128,039	89,087	2,370	5,046	9,381	9,798	6,048	11,430	16,462	1,849	402,816
Depreciation, Amortisation and Impairment	8,800	1,754	17,417	1,339	10	331	92	0	0	1,727	918	32,388
Gains/ (Losses) on Revaluation of Non Current Assets	10,749	(1,049)	(352)	(379)	0	0	2,665	0	0	0	0	11,634
(Gains) / Losses on Disposal of Non Current Assets	0	0	0	0	0	0	0	0	0	0	40,340	40,340
Interest Payable	0	0	0	0	0	0	0	0	0	0	49,325	49,325
Precepts Paid	0	0	0	0	0	0	0	0	0	0	799	799
IAS19 Administration Expenses	0	0	0	0	0	0	0	0	0	0	789	789
Total Expenditure	**375,743**	**190,008**	**130,872**	**13,571**	**8,068**	**35,924**	**15,923**	**7,157**	**11,430**	**32,296**	**94,751**	**915,743**
(Surplus)/Deficit on Provision of Services	**86,784**	**124,904**	**100,308**	**13,153**	**7,842**	**29,342**	**14,083**	**4,825**	**2,988**	**7,819**	**(359,281)**	**32,767**

7.11 Non Current Assets

7.11.1 Group Non Current Assets

	Operational Assets				Non - Operational Assets			
Group	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Properties Not Held for Sale £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or Valuation								
At 1st April 2016	504,299	81,462	589,612	54	15,881	14,564	1,205,872	114,299
Correction of opening balance	(6,522)	(90)					(6,612)	
Additions	20,143	13,605	71,042	0	9,917	870	115,577	0
Disposals	(8,816)	(976)	0	0	0	(1,265)	(11,057)	0
Reclassifications	25,849	402	(11,370)	(1)	(21,318)	6,193	(245)	0
Revaluations	(11,279)	(2,205)	0	0	0	(3,589)	(17,073)	(2,786)
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	(1,318)	(1,318)	0
At 31st March 2017	**523,674**	**92,198**	**649,284**	**53**	**4,480**	**15,455**	**1,285,144**	**111,513**
Accumulated Depreciation & Impairment								
At 1st April 2016	(39,586)	(50,292)	(111,511)	0	0	0	(201,389)	(8,185)
Correction of opening balance	6,522	223					6,745	
Depreciation	(12,011)	(5,633)	(14,502)	0	0	(150)	(32,296)	(3,422)
Disposals	876	862	1	0	0	5	1,744	0
Reclassifications	(1,238)	(62)	1,806	0	0	(498)	8	0
Revaluations	11,706	1,568	0	0	0	621	13,895	3,057
At 31st March 2017	**(33,731)**	**(53,334)**	**(124,206)**	**0**	**0**	**(22)**	**(211,293)**	**(8,550)**
Balance Sheet Amount at 31st March 2017	**489,943**	**38,864**	**525,078**	**53**	**4,480**	**15,433**	**1,073,851**	**102,963**
Balance Sheet amount at 31st March 2016	**464,713**	**31,170**	**478,101**	**54**	**15,881**	**14,564**	**1,004,483**	**106,114**

For details of the Council's Property, Plant and Equipment see note 21.1.

7.12 Group Debtors

	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000
	Authority		Subsidiaries		Total	
Debtors:						
Central Government	18,780	13,360	76	126	18,856	13,486
NHS	1,530	2,105	28	14	1,558	2,119
Other Local Authorities	9,477	6,282	393	152	9,870	6,434
Other Entities & Individuals	27,495	30,655	6,692	6,351	34,187	37,006
Less: Provision for Bad Debts	(7,632)	(7,709)	0	0	(7,632)	(7,709)
	49,650	44,693	7,189	6,643	56,839	51,336
Prepayments:						
Central Government	0	1,738	0	0	0	1,738
Public Corporations	0	516	0	0	0	516
Other Local Authorities	19	0	0	0	19	0
Other Entities & Individuals	11,694	13,582	2,183	2,135	13,877	15,717
	11,713	15,836	2,183	2,135	13,896	17,971
	61,363	60,529	9,372	8,778	70,735	69,307

7.13 Group Short Term Investments

	Restated 31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000	Restated 31st March 2016 £000	31st March 2017 £000
	Authority		Subsidiaries		Total	
Short Term Investments						
Deposits with banks and other financial institutions	100,201	125,447	2,000	4,000	102,201	129,447
	100,201	125,447	2,000	4,000	102,201	129,447

7.14 Group Cash and Cash Equivalents

	Restated 31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000	Restated 31st March 2016 £000	31st March 2017 £000
	Authority		Subsidiaries		Total	
Cash and Cash Equivalents						
Bank Current Accounts	9,589	8,912	8,911	9,964	18,500	18,876
Short Term Deposits	106,862	28,681	0	0	106,862	28,681
Cash and Cash Equivalents	116,451	37,593	8,911	9,964	125,362	47,557
Bank Overdraft	(10,739)	(4,568)	0	0	(10,739)	(4,568)
	105,712	33,025	8,911	9,964	114,623	42,989

7.15 Group Creditors

	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000
	Authority		Subsidiaries		Total	
Creditors:						
Central Government	18,049	8,687	3,707	3,765	21,756	12,452
Public Corporations	15	49	0	0	15	49
NHS	5,343	1,258	0	0	5,343	1,258
Other Local Authorities	2,871	3,644	838	717	3,709	4,361
Other Entities & Individuals	51,413	62,163	2,123	3,609	53,536	65,772
	77,691	75,801	6,668	8,091	84,359	83,892
Income in advance:						
Other Entities & Individuals	0	0	1,917	1,872	1,917	1,872
	0	0	1,917	1,872	1,917	1,872
	77,691	75,801	8,585	9,963	86,276	85,764

7.16 Group Provisions (Short and Long Term)

	Balance at 1st April 2015 £000	Additions £000	Releases/ Expenditure £000	Balance at 31st March 2016 £000	Balance at 1st April 2016 £000	Additions £000	Releases/ Expenditure £000	Balance at 31st March 2017 £000
Authority								
Insurance Fund	7,821	554	(545)	7,830	7,830	64	(947)	**6,947**
Business Rates	4,122	957	(4,122)	957	957	792	(957)	**792**
Equal Pay/Voluntary Redundancy	1,431	477	(1,431)	477	477	1,362	(321)	**1,518**
Other Provisions	94	3,380	(94)	3,380	3,380	207	(179)	**3,408**
	13,468	**5,368**	**(6,192)**	**12,644**	**12,644**	**2,425**	**(2,404)**	**12,665**
Subsidiaries								
Restoration and aftercare of Landfill Sites	8,015	0	50	8,065	8,065	1,963	81	**10,109**
Deferred Taxation	37	0	(11)	26	26	0	(10)	**16**
	8,052	**0**	**39**	**8,091**	**8,091**	**1,963**	**71**	**10,125**
Total Group	**21,520**	**5,368**	**(6,153)**	**20,735**	**20,735**	**4,388**	**(2,333)**	**22,790**

7.17 Group Summary of Group Reserves

	Cumbria County Council £000	Cumbria County Holdings Group £000	Inter Group Transactions £000	TOTAL £000
Reserves				
Earmarked Capital Reserve	523	0	0	523
Usable Capital Receipts Reserve	10,906	0	0	10,906
Capital Grants & Contributions Unapplied Reserve	1,970	0	0	1,970
Long Term Investment Reserve	2,813	0	0	2,813
Revenue - Earmarked	60,440	0	0	60,440
Revenue - General	9,417	9,273	0	18,690
Share Capital	0	3,183	(3,183)	0
Revaluation Reserve	101,318	0	0	101,318
Capital Adjustment Account	468,480	0	0	468,480
Financial Instruments Adjustment Account	(480)	0	0	(480)
Collection Fund Adjustment Account	3,438	0	0	3,438
Pensions	(837,158)	0	0	(837,158)
Accumlated Absences Account	(8,864)	0	0	(8,864)
TOTAL FUNDS	**(187,197)**	**12,456**	**(3,183)**	**(177,924)**

THE FIREFIGHTERS' PENSION SCHEME ACCOUNTS 2016/17

2015/16			2016/17	
£000	£000		£000	£000
		FUND ACCOUNT		
		Contributions Receivable		
(1,486)		From Employer Normal	(1,423)	
(1,770)		From Members	(1,188)	
	(3,256)			(2,611)
		Transfers In		
0		Other	(487)	
	0			(487)
	(3,256)	**Total income**		(3,098)
		Benefits Payable		
4,338		Pensions	4,390	
1,428		Ill Health and Injury	1,350	
1,783		Lump Sums	1,471	
428		Lump Sum Death Benefits & Widows Pensions	493	
	7,977			7,704
		Payments to and on account of leavers		
382		Individual transfers out of the Schemes	0	
	382			0
	8,359	**Total Expenditure**		**7,704**
	5,103	**Net amount receivable/payable before top-up from Government**		**4,606**
	5,103	**Top-up receivable/(payable) from Government**		**4,606**
	0	**Net amount receivable/(payable) for the year**		**0**
		GAD v Milne		
844		Redress payments in respect of GAD v Milne	0	
(845)		GAD v Milne Grant	0	
	(1)	**Net amount receivable/(payable) for the year**		**0**
		92 Scheme Contributions holiday		
0		Redress Payments	138	
0		Contributions Holiday funding	(136)	
	0	**Net amount receivable/(payable) for the year**		**2**
		NET ASSETS STATEMENT		
		Current Assets		
2		Contributions due from Employee	(1)	
1,853		Pension top-up receivable from Government	642	
13		Injury Payment receivable from CCC	0	
514		Prepaid Pensions	427	
	2,381			1,069
		Current Liabilities		
(4)		Modified Scheme 1415 overclaim	0	
(1)		GAD v Milne grant repayable to Government	0	
(2,376)		Other current assets and liabilities	(1,069)	
	(2,381)			(1,069)
	0			0

Notes to the Firefighters' Pension Scheme Financial Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the scheme and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting Policies

The principal accounting policies are as follows:

<u>Contributions</u>
Contributions represent the total amounts receivable from the Council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighters' Pension Scheme and for the Modified Scheme, 11.9% for the 2006 Scheme, and 14.3% for the 2015 Scheme. The Council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is made in the accounts for employees' and employers' contributions relating to sums due on pay awards not yet settled.

<u>Benefits and Refunds</u>
Benefits and refunds are accounted for in the year in which they become due for payment.

<u>Transfer Values</u>
Transfer values are those sums paid to, or received from, other pension schemes and the Firefighters' Pension Scheme outside England, for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

3. Fund's Operation

All the Firefighters' Schemes are statutory, unfunded pension schemes. The benefits for both schemes are defined and guaranteed in law. Both schemes are contracted out of the State Second Pension (S2P) and must provide benefits at least as good as most members would have received had they been members of S2P. Benefits provided include a guaranteed pension based on final salary upon retirement and an option to commute pension in favour of a tax free lump sum.

Notes to the Firefighters' Pension Scheme Financial Statements continued

3. Fund's Operation continued

The Council administers and pays firefighters' pensions from a separate local firefighters' pension fund. Employee contributions, employer's contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top up grant or by paying the surplus back to Central Government. The underlying principle is that the employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

Following a legal challenge by the Fire Brigades Union (FBU), the Government introduced an employee contributions holiday on 30th September 2016 for 1992 scheme members who have accrued the maximum 30 years pensionable service prior to age 50, which applies from the point of accruing maximum pensionable service in the Scheme until the member's 50th birthday. The change has been applied retrospectively to 1st December 2006. As the change was applied retrospectively, current and former 1992 Scheme members who were entitled to a contributions holiday during the period 1st December 2006 to 29th September 2016 were identified in order to refund contributions, associated interest, and amounts due to HMRC in respect of any tax liability relating to the payment. The Home Office made funding available in 2016/17 to meet these costs, and payments to current and former members of the 1992 Scheme were made during March 2017.

The fund has no investment assets.

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The long term pensions obligations is included in the Council's pensions liability (and pensions reserve) in the Balance Sheet. The liability for the Firefighters pensions scheme at 31st March 2017 was £266.820m (31st March 2016 £214.589m) Further details can be found in notes 38 and 39 to the Council's Statement of Accounts.

Academy
A publicly funded school that is directly funded by the Department for Education and is independent of local authority control.

Accounting Policies
The policies, concepts and conventions used in the preparation of the accounts.

Accruals
Sums included in the accounts to cover income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31st March.

Actuarial Gains and losses
Employees of the Council are members of defined benefit pension schemes. Actuarial gains and losses arise because events have not coincided with actuarial assumptions made in the previous valuation or because the actuarial assumptions have changed.

Budget
A statement of the Council's policy expressed in financial terms. This includes both revenue and capital.

Business Rates (Previously known as Non Domestic Rates)
A tax collected locally by District Councils from commercial undertakings and paid to Central Government. It is then redistributed to county, unitary, borough and district councils on the basis of the resident population.

Capital Adjustment Account
The movements on the Capital Adjustment Account reflects the financing of capital expenditure from revenue and capital resources together with the reversal of amounts included in the Comprehensive Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year.

Capital Expenditure
Expenditure on the acquisition of a non current asset or expenditure which adds to and not merely maintains the service potential or value of an existing non current asset.

Capital Financing Costs
The costs of financing non current assets, being the interest costs of external loans and monies used to repay debt.

Capital Receipts
Income received from the sale of non current assets. Capital receipts can only be used to repay outstanding debt on non current assets or finance capital expenditure within rules set by government. Capital receipts however, cannot be used to finance revenue expenditure.

Cash Equivalent
Cash equivalents are investments that mature within 3 months of the date of acquisition and have no penalties for early redemption. For the Council this will include only money market deposits of less then 3 month duration.

Community School
A local authority maintained and funded school. The local authority employs the school's staff, is responsible for the school's admissions and owns the school's estate.

Component Accounting
In some cases there are significant elements of an asset that will not last as long as the rest of the asset e.g. a flat roof of a building in comparison to the life of the rest of the building. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

Contingent Asset
A contingent asset is a possible asset which could arise following the occurrence of a future event outside the Council's control.

Contingent Liability
A contingent liability is a possible liability which could arise following the occurrence of a future event outside the Council's control or is a present obligation where it is not possible to measure the outcome with sufficient reliability.

Council Tax Precept
A property based tax that is set by the Council and administered by District, Borough and Unitary Councils, alongside the share of Council Tax levied by other Local Authorities in Cumbria.

Creditors
Amounts owed by the Council for work done, goods received or services provided, but for which payment has not been made by the 31st March.

Current Assets / Liabilities
Assets and/ or Liabilities that are likely to be realised within 12 months of the Balance Sheet date.

Current Service Cost
The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.

Curtailment
The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees Within the defined benefit schemes impacting on the financial results of the Council, curtailment will arise if an event occurs reducing the expected future service of employees. Normally, this arises from redundancy or early retirement or if there is an amendment to terms impacting on current employees. Curtailments are debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Debtors
Debtors represent amounts due to the Council which are unpaid at 31st March.

Defined Benefit Scheme
Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Depreciation
Depreciation is the fall in value of an asset, as recorded in the financial records, due to wear and tear, age and obsolescence.

Depreciated Replacement Cost
The method employed in valuing land and buildings where a market value basis is not readily available.

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

Expected Rate of Return on Pensions Assets
The expected rate of return on pensions' assets is the average return expected during the remaining period of pension obligations.

Employee Benefit Accrual
Accrual calculated to take account of annual leave, flexi time and Time off in Lieu (TOIL) that has not been taken by staff by 31st March. This is included in the cost of service for that financial year.

Fair Value
Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In some circumstances this can be at existing use value and for others market value

Finance Leases
This is where substantially all the risks and rewards incidental to ownership of the asset transfer from the leasing company to the Council. Annual payments are a combination of interest and the purchase of the asset.

Foundation School
A local authority maintained and funded school in which the governing body has greater freedom in the running of the school than in community schools. Foundation schools were set up under the School Standards and Framework Act 1998 to replace grant-maintained schools. The governing body employs the staff and has responsibility for admissions to the school, subject to rules imposed by central government.

General Fund Balance
The account that summarises the revenue costs of providing services that are met by the Council's demand on collection fund, government grants and other income. The balance is difference between the total of income over expenditure over the year.

The General Fund Balance is set aside to meet general future revenue expenditure and to protect the Council against exposure to unexpected events. The level of General Fund Balance is considered in relation to the risks and uncertainties facing the Council when it is setting its annual budget.

General Reserves
The term given to the sum of General Fund Balance and Earmarked Reserves.

Heritage Assets
Heritage assets are tangible assets with historical, artistic, scientific, technological or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. This includes archives, paintings and civic regalia.

IAS19 Administration Expenses
The costs of running the LGPS pension fund that is attributable to the Council as an employer. It does not include any investment management expenses which are allowed for under "re-measurements".

Impairment
A reduction in value of a non current asset below its carrying amount in the Balance Sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

Imprest Account
Petty Cash Bank Accounts used for small items of expenditure.

Intangible Assets
Intangible assets are assets without physical substance such as software, licences etc.

Inventories
Assets that are held as stock as part of the delivery of services by the Council.

LOBO - Lender Option Borrower Option
A financial instrument which is typically very long term - for example 40 to 60 years. The initial interest rate is fixed, but the lender has the option to nominate a revised rate at periodic reset dates. The reset dates are nominated at the time the loan is taken out. The borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

Minimum Revenue Provision
The amount set aside to repay external debt related to capital expenditure.

Net Current Replacement Cost
The cost of replacing an asset in its existing condition and existing use.

Non Current Assets / Liabilities
Assets and/ or Liabilities that are likely to be realised after 12 months of the Balance Sheet date.

Non Current Assets
Non current assets are tangible assets (i.e. assets with physical substance) intended to be used during more than one period.

Non Operational Assets
These are non current assets held by the Council which are not specifically used in the provision of services. Normally, this applies to investment properties or properties held for resale.

Operational Assets
These are non current assets held by the Council required to support the provision of services.

Operating Leases
This is where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the Comprehensive Income & Expenditure Statement.

Outturn
Actual Income and Expenditure for a financial year.

Past Service Costs
Where pension scheme members receive enhanced or new benefits, the increase in the present value of future liabilities will be accounted for as past service costs. The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Pension Interest Cost
The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Pension Contributions Paid
Contributions to the various schemes – cash paid as employer's contributions to the pension funds.

Pension Actuarial gains and losses
Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.

Pension Gains/Losses on Settlements
The result of actions to relieve the Council of liabilities or events (such as the transfer of staff to schools converting to academy status) that reduce the expected future service or accrual of benefits of employees – debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as an Exceptional Item.

Property, Plant and Equipment (PPE)
PPE are tangible non current assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions
These are sums set aside to meet liabilities or losses that are likely to be or will be incurred, but the dates on which they will arise are not fully known at the date that the Statement of Accounts is approved.

Pupil Referral Unit (PRU)
An establishment maintained and funded by the local authority, which is specifically organised to provide education for children who are excluded, sick, or otherwise unable to attend a mainstream or special maintained school.

Revenue Contributions to Capital Expenditure
The amount of capital expenditure financed directly from the annual revenue budget. Also known as capital expenditure charged to General Fund Balance.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)
Expenditure incurred that may be capitalised under statutory provisions but that does not result in the creation of a non current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Revenue Support Grant (RSG)
A general Central Government grant paid to the Council in support of annual revenue expenditure.

The "Code"
The Code of Practice on Local Authority Accounting in the UK 2016/17. The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council.

Voluntary Aided School
(VA school) is a local authority maintained and funded school in which a foundation or trust (usually a religious organisation), contributes to building costs and has a substantial influence in the running of the school. The governing body employs the staff and has responsibility for admissions to the school, subject to rules imposed by central government.

Voluntary Controlled School
(VC school) is a local authority maintained and funded school in which a foundation or trust (usually a Christian denomination) has some formal influence in the running of the school. Such schools have less autonomy than voluntary aided schools**,** in which the foundation pays part of any building costs. The local authority employs the staff and has responsibility for admissions to the school.

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10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS
10.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2017

		2015/16		2016/17	
	Notes	£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		60,048		65,764
Transfers in from other pension funds	4		4,883		3,385
			64,931		**69,149**
Benefits	5		(77,477)		(81,548)
Payments to and on account of leavers / employer exit	6		(4,185)		(3,957)
Net additions / (deductions) from members			**(16,731)**		**(16,356)**
Management expenses	7 & 8		(8,679)		(10,199)
Net additions / (deductions) including fund management expenses			**(25,410)**		**(26,555)**
Returns on investments					
Investment Income		41,863		50,196	
Taxes on Income		(177)		(192)	
Net investment income	9	41,686		50,004	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	3,217		353,068	
Net return on investments			**44,903**		**403,072**
Net increase in the net assets available for benefits during the year			**19,493**		**376,517**
Net assets at the start of the year			**2,027,316**		**2,046,809**
Net assets at the end of the year			**2,046,809**		**2,423,326**

NET ASSETS STATEMENT AS AT 31st MARCH 2017

	Notes	31 March 2016 £'000	31 March 2017 £'000
Investment assets	10	2,040,205	2,422,518
Investment liabilities	10	(6,143)	(5,783)
Total net investment assets		**2,034,062**	**2,416,735**
Long term assets	12a	1,314	986
Current assets	12b	14,397	8,231
Long term liabilities	13a	(237)	(167)
Current liabilities	13b	(2,727)	(2,459)
Net assets of the Fund available to fund benefits at the period end		**2,046,809**	**2,423,326**

10.2 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 (a): DESCRIPTION OF THE FUND AND BASIS OF PREPARATION

The Cumbria Local Government Pension Scheme (Cumbria LGPS) is a contributory defined benefit scheme administered by Cumbria County Council to provide pensions and other benefits for all members of the Fund.

The Purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income;

- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Through balancing the strategic investment of the Fund's assets to the liability profile of the membership, the aims of the Cumbria LGPS are to:-

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;

- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes;

- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Membership to the Cumbria LGPS is open to:-

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers);

- other eligible employees of admitted employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

All eligible local government employees are automatically entered into the scheme. Employees may choose to opt out at any point in time.

As at 31st March 2017 the total membership of the Fund was approximately 56,000 (2015/16: 54,500) and consisted of approximately: 16,100 contributors/actives (2015/16: 16,300); 24,500 deferred members (2015/16: 23,300) and 15,400 pensioners (2015/16: 14,900).

At 31st March 2017 there were 132 (2015/16: 126) employer bodies in the Cumbria LGPS (for the full list see Note 25). This increase reflects the continued growth in academies and outsourcing of local government services to other providers. This growth in employer body numbers is expected to continue over the coming years.

Basis of Preparation:

The Statement of Accounts for the Cumbria Local Government Pension Scheme (LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council is the Administering Authority, the Fund covers both County Council employees and those of other scheduled, resolution and admitted bodies. These Accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2016/17 and the position at the year-end date, 31st March 2017. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in Note 23 'Actuarial Position of the Fund'.

In accordance with the CIPFA Code guidance the main presentational change for the 2016/17 Accounts is the extension of the fair value disclosures. This is the first year that these disclosure notes have been presented in the Funds accounts as an extra disclosure. The additional disclosures have been included in Note 10 (tables 10 (h) and 10 (i)) which in the 2016/17 accounts is solely concerned with items at fair value, and therefore includes directly held property investments. Note 11 is solely concerned with financial instruments, which excludes directly held property investments as these are accounted for under 'Investment Property'.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2015/16 comparatives.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2016/17

In 2016/17, the Fund experienced volatility across many asset classes as a result of turbulence in the markets resulting from the EU referendum. However, following an initial flight to assets perceived as "safe haven assets" by investors, volatility eased and investor confidence returned. For the twelve month period to March 2017, all markets in which the Fund holds investments showed positive returns, and ongoing weakness in sterling added an additional boost to returns for UK based investors, particularly in overseas equities.

The **Global Equities** markets have risen in 2016/17, although there were variations by sector and geography. Asia Pacific markets showed the strongest performance with North America, Japan and the UK also providing strong returns.

UK index-linked gilts had a significantly higher return than 2015/16. The strong performance of Government bonds in the first six months of the year to September 2016 was due to the flight to safe haven assets in the first quarter, followed by the announcement of an extension to the programme of quantitative easing in an effort to restore confidence post EU referendum. Continuing the trend from earlier in the year, index-linked gilt values grew further as sterling weakness and high commodity prices bolstered inflation forecasts.

Property provided positive returns over the year as a whole after one quarter of negative performance following the EU referendum which was recouped later in the year.

For further information on Investment Performance refer to Section 4.5 of the Annual Report.

NOTE 1 (c): FUND PERFORMANCE 2016/17

During the year to 31st March 2017 the Cumbria LGPS value increased by £376.517m from £2,046.809m (31/03/16) to £2,423.326m (31/03/17). The Fund returned 19.2% (net of fees) for the year which was an outperformance of 1.6% on the Fund's bespoke index performance benchmark for the year of 17.6%. This outperformance equates to additional growth of approximately £33m and was primarily attributable to the performance of property and alternative assets such as infrastructure and private equity.

The Fund performed well over the medium to longer term with the three-year return of 11.9% (net of fees) outperforming the bespoke hedged benchmark of 9.9% (per year) by 2.0%. The five year Fund return was 11.3% (net of fees), 1.6% above the benchmark of 9.7% (per year). The ten year Fund return was 7.4% (net of fees), 0.6% above the benchmark of 6.8% (per year).

Whilst the Investment Strategy continues to perform well, it undergoes review annually as is good practice. The targeted investment asset allocation is specified in the Fund's Investment Strategy Statement, which has been agreed by the Pensions Committee, includes a section detailing the Fund's Investment Beliefs.

The process of implementing changes in asset allocation to enable the Fund to reach its allocation targets has progressed steadily, with the following changes being made this year:-

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 8.1% in infrastructure and 7.2% in opportunistic. This was done by the selection of suitable investments with commitments made to SL Capital Infrastructure Fund I, and Unigestion Secondary Opportunities Fund IV;

- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;

- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with commitments made to Babson Global Private Loan Fund II of £25.0m, and to Partners Group Multi-Asset Credit 2016 Fund of £25.0m;

- The liquidation of the BlackRock alternatives portfolio has continued, along with valuation rises (£29.8m at 31/03/16 to £31.8m at 31/03/17) as funds are released for investment into infrastructure and opportunistic products.

Following completion of the three-yearly Actuarial Valuation, the Fund has engaged investment consultants to undertake a review of the Investment Strategy during 2017/18. This will consider key risks specific to Cumbria due to both asset and liability profile, potential mitigations, the continuing maturity of the Fund and cash flows, and giving challenge to the Fund on its macro-economic and investment / liability risk assumptions.

NOTE 1 (d): BUSINESS PLAN ACHIEVEMENTS AND LOOKING FORWARD

The majority of work plan objectives in the 2016/17 Business Plan have either been achieved or are in progress of completion and these have been delivered within the approved budget. Further to the continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned for 2016/17 were:-

- **Completion of the 2016 triennial valuation of the Fund and associated activity**.

  The valuation calculated that, at 31 March 2016, there was a shortfall of £210m against the Fund’s solvency funding target. An alternative way of expressing the position is that the Fund’s assets were sufficient to cover 91% of its liabilities. At the previous valuation at 31 March 2013 the shortfall was £457m, equivalent to a solvency funding level of 78%.

  On the advice of the Actuary the Pensions Committee agreed the parameters for the actuarial valuation including the aim to eliminate the deficit within the Fund over 16 years (a reduction from 19 years at the 2013 valuation). This would result in the deficit being eliminated by 2033.

  The Actuarial Valuation Report including the rates and adjustments certificate were approved by the actuary on 31st March 2017. Employer contribution rates from this valuation are effective from 1st April 2017 to 31st March 2020.

- **Progressing to formal acceptance of a suitable pooling option**.

  Border to Coast Pensions Partnership (BCPP) proposal for pooling pension fund assets was submitted to Government in July 2016. The Minister for Local Government – Marcus Jones gave his support for these proposals in December 2016.

  Council approved BCPP Ltd as Cumbria’s approved vehicle for pooling of pension fund assets in February 2017.

The 12 partner LGPS Funds of BCPP are progressing with further development of the pool with the company expected to be ready to accept assets in June 2018.

- **Embedding the Pension Board into "business as usual".**

  The Cumbria LGPS Local Pension Board is responsible for assisting the Administering Authority of the Cumbria Local Government Pension Scheme to secure compliance with relevant regulations and legislation and the requirements of the Pensions Regulator in relation to the Local Government Pension Scheme (LGPS) and to ensure the effective and efficient governance and administration of the LGPS.

  The Board's membership equally represents the employers and employees of the Fund and has met twice yearly since its inception in July 2015.

  The Board is now well established, operating effectively and reports to the Cumbria Pensions Committee on a regular basis.

- **Gross Minimum Pension Reconciliation**.

  Following the cessation of National Insurance contracting out, all Public Sector pension funds have been required by Government to undertake a Scheme Gross Minimum Pension (GMP) reconciliation and implement corrective action accordingly.

  Good progress continues to be made on the Cumbria Fund reconciliation exercise (GMP reconciliation) with regular reporting on progress presented to the Pensions Committee. Where underpayments have been identified, these have been immediately rectified in line with Government guidance. Where overpayments have been identified, on-going monthly payments have been amended. The Fund is awaiting further national guidance in respect of the treatment of the accrued overpayments to date.

Looking forward to 2017/18, the proposed key deliverables in 2017/18 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Administration:

- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.

- Continue to monitor and improve employer communication and employer data submission issues. The Pensions Regulator Code of Practice sets out the importance of complete and accurate records and states that Administering Authorities must ensure that member data across all membership categories is complete and accurate.

- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator to ensure that the Fund receives the information required in a timely manner.

- Completion of the 2016/17 Cumbria LGPS Annual Report and Accounts incorporating any new regulatory/technical changes to meet guidance issued by CIPFA, the Pensions Regulator, HMRC, or the Local Government Association (LGA).

- Continuation of the Scheme reconciliation, GMP (Guaranteed Minimum Pension), to comply with guidance issued by the Pensions Regulator, HMRC, or the Local Government Association (LGA), and avoid erroneous liabilities being assigned to the Cumbria Fund.

Investment Management:

- Continue to progress infrastructure and opportunistic investment options. Additional infrastructure and opportunistic investment options are required within the fund to increase its proportions of the Fund to that stated within the Investment Strategy Statement.

- Preparation for transition of assets from the management by external Investment Managers to BCPP Ltd. It is expected that BCPP Ltd will be ready to commence the transitioning of assets from June 2018. Due to the scale and complexity of the assets currently managed by external Investment Managers on behalf of the Partner Funds within BCPP the transitioning of investments into the new arrangements with BCPP Ltd will be undertaken over a period of time, with the majority of assets expected to be transitioned within three years.

- Actively review the cash flow position (at a contribution level) of the Fund. Currently the Fund is cash positive overall (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.356m in 2016/17 (£16.731m in 2015/16). This amount was anticipated due to the volume of workforce restructuring across the Fund’s major employers. On advice from the Fund’s Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review.

Oversight & Governance:

- Review and update of Fund risks, policies and strategies to ensure that Scheme policy documents including the Risk Register are up to date, appropriate and accessible to all stakeholders.

- Support and influence the development of BCPP Ltd including the availability of appropriate sub funds to ensure that its assets are appropriately governed and managed following transition into the pool.

- Assess the impact of and respond to government consultations that will have an impact on the structure and performance of the Fund. The outcome of these consultations could have significant implications for employers of the Cumbria LGPS therefore it is important that timely, clear and well thought out responses are made by the Fund.

- Annual review of governance arrangements in response to financial, regulatory and structural changes to ensure they are up to date and appropriate.

- Following completion of the triennial valuation, undertake an Investment Strategy review and consider the resultant recommendations to ensure the strategy is appropriate and fit for purpose.

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund's performance, management structure and investment news. The Annual Report and Accounts 2016/17 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2017) at: www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp, where the previous year's report is also available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2016/17. However, additional clarity has been provided as to the Fund's treatment of gains/losses on transfers of investments within the portfolio of an individual manager. This is set out in section 2.3(e).

<u>Fund account – revenue recognition</u>

2.1. Contribution Income

Normal contributions, both from the members and from the employers within the Fund, are accounted for on an accruals basis at the rate recommended by the Fund actuary for the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors. Where an employer leaves the scheme, any contribution required on closure is accrued for in the year of departure. (See Note 3 for further details).

2.2. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year. These are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 4 and 6).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see 2.15) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see Note 4).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

2.3. Investment income (Note 9)

a) ***Interest income***: is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

b) ***Dividend income***: is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

c) ***Distributions from pooled funds***: are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

d) ***Property-related income***: consists primarily of rental income. This is recognised on an accruals basis.

e) ***Movements in the net market value of investments***: changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised gains/losses during the year. Realised gains/losses have been classified where a purchase or sale of investments has occurred. Gains/losses on transfers of investments within the portfolio of an individual manager have been classified as unrealised gains/losses (ie. where no cash transactions have taken place). (See Note 10(d)).

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

The Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises, and is shown on the Fund Account as ‘Taxes on income’.

2.6. Administrative expenses (Note 7)

All administrative expenses are accounted for on an accruals basis. All staff costs of the County Council’s Pensions Finance team are charged direct to the Fund, with management, accommodation and other overheads apportioned to the Fund in accordance with general Council practices. Staff and on-costs related to administration are apportioned to this heading.

2.7. Investment management expenses (Note 7)

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

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

Transaction costs and pooled fund fees/expenses are also included as investment management expenses. No employees are currently employed solely on in-house investment management.

2.8. Oversight and Governance costs (Note 7)

All oversight and governance costs are accounted for on an accruals basis. All staff costs of the County Council’s Pensions Finance team are charged direct to the Fund. Staff and on-costs apportioned to this activity are charged as oversight and governance expenses.

The cost of Elected Members expenses (e.g. training and travel) relating to Pension Fund activities and obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, as are transition management costs, actuarial fees, legal fees and shareholder voting services.

Net assets statement

2.9. Financial Assets

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

Investment Assets

State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.

c) Unquoted pooled investments: The fair value of investments for which market quotations are not readily available is determined as follows:

    - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There was no such investment at 31st March 2017.

    - Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See Note 14).

    - Investments in private equity funds and unquoted limited partnerships (Note 14) are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2017. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).

f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2017 by an independent valuer, CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards UK January 2014 (revised April 2015).

- The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

- Each valuation has been prepared on the basis of "Fair Value", which is defined as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in International Financial Reporting Standard (IFRS) 13.

- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP (FRS 102), is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."

- The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.

  i. No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal.

  ii. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in "lots" or as a whole.

  iii. Acquisition costs have not been included in the valuation.

  iv. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges.

  v. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

For further detail on Investment Properties see Note 10(b).

g) Loans and receivables: these are non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market. Investment Assets represented by loans and receivables are carried in the Net Assets Statement at amortised cost basis i.e. principal amount adjusted for any interest payable / receivable at the year-end date.

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31st March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound.

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2017.

2.11. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not currently hold derivatives for speculative purposes.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forward foreign exchange rates.

Fair value of Exchange Traded Futures contracts is determined based on market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract. Derivatives are covered in more detail in Note 10(c).

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

2.13. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

2.14. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 26 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 23).

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business.

Employees / contributors AVCs are paid over to one of the three providers by the Fund employers. These contributions are specifically for the purpose of providing additional benefits for individual contributors. Each AVC contributor receives an annual statement (from their provider) showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 15).

2.16. Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

2.17. Stock Lending

Securities on loan at the 31st March are included in the net assets statement to reflect the Fund's continuing economic interest in the securities.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct material errors.

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

Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Assistant Director – Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Assistant Director – Finance (Section 151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2016/17 accounts.

NOTE 3: CONTRIBUTIONS

Benefits (see Note 5) are funded by contributions and investment earnings. Contributions are received both from active members and employers of the Fund. Contributions from active members are made in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) while individual employers' contribution rates are based on triennial actuarial funding valuations (see Note 23).

Contribution rates for 2016/17 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.

- Employers - range from 3.6% to 27.4% of pensionable pay, plus a lump sum payment for deficit recovery contributions. Individual employer rates are set by the actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances. This includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

The following table analyses the amount of total contributions receivable in the year, by category and by employer type:

By Category	**2015/16 £'000**	**2016/17 £'000**
Employee contributions to the fund	16,509	16,389
Employer contributions to the fund:		
Normal contributions	38,321	41,744
Deficit recovery contributions	5,218	7,631
	43,539	49,375
	60,048	**65,764**
By Employer Type	**2015/16 £'000**	**2016/17 £'000**
Administering Authority	32,119	33,901
Other Scheduled bodies	24,901	28,812
Admitted bodies	3,028	3,051
	60,048	**65,764**

As shown in the above table the administering authority contributions (Cumbria County Council) were £33.901m (£32.119m 2015/16).

In February 2017, the Cumbria Constabulary and the Cumbria Office of the Police & Crime Commissioner paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20. These additional payments explain the increase in the deficit recovery contributions for 2016/17 in the table above.

In addition to normal contributions and capital payments from employers, the contributions figure also includes the costs of pension strain arising from non-ill-health early retirements and, where applicable, ill-health early retirements:

Non ill-health early retirements: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). These contributions are recognised in line with the agreement with the employer if there is no agreement, when the Fund receives them.

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted to make an additional employer contribution. The rate as determined by the Actuary includes an element to compensate the Fund for delayed receipt of monies. The additional employer contribution from the County Council was used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in Local Authority budgets. The additional contribution from Cumbria County Council funded an allowance of up to £7.312m for non-ill-health early retirements which had been fully utilised by 31st March 2017.

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this and all other Cumbria LGPS employer policies that are relevant to the 2016/17 financial year are contained in the full Actuarial Valuation Report as at 31st March 2013, available on the County Council's website, at www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

Transfers in to the Fund have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension.

	2015/16 £'000	2016/17 £'000
Individual transfers	4,883	3,385
	4,883	**3,385**

2015/16 saw an unusually high value of transfers into the Fund due to a number of staff for an Admitted Body where combined transfers in were £1.095m. There were no such exceptional transfers into the Fund in 2016/17, and therefore the individual transfers in 2016/17 are less than that for 2015/16 and are at a more normal level.

NOTE 5: BENEFITS

Pension benefits under the LGPS are based on final pensionable pay or career average, and length of pensionable service. Members have access to the schemes depending upon the period their active membership in the LGPS covers, i.e. whether their employment was previous to 1st April 2008, during the period 1st April 2008 to 31st March 2014, and employed post 1st April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service 1.04.08 to 31.03.14	Service Post 1 April 2014
Basis	Final salary	Final Salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked accrues 1/49th x pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The following table analyses the amount of total benefits paid in the year, by category and by employer type:

By Category	**2015/16 £'000**	**2016/17 £'000**
Net pensions paid	62,748	65,032
Net lump sum on retirement	13,114	14,449
Net lump sum on death	1,615	2,067
	77,477	**81,548**
By Employer Type	**2015/16 £'000**	**2016/17 £'000**
Administering Authority	44,254	45,637
Scheduled bodies	27,163	29,192
Admitted bodies	6,060	6,719
	77,477	**81,548**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2016/17 were £45.637m (£44.254m 2015/16).

The increase in benefits paid of £4.071m reflects the amount of restructuring that has taken place in recent years, as most Fund employers within the LGPS seek to address reductions in funding. Many employers within the Fund have chosen to offer voluntary redundancy programmes which, by their nature, tend to appeal to individuals who are aged over 55 and are therefore entitled (at a cost to their employer) to access their unreduced pension immediately.

NOTE 6: PAYMENTS TO AND ON ACCOUNT OF LEAVERS / EMPLOYER EXIT

	2015/16 £'000	2016/17 £'000
Refund of contributions	178	158
Individual transfers out to other Schemes	3,355	3,799
Group transfer out to other Schemes	652	-
	4,185	**3,957**

NOTE 7: MANAGEMENT EXPENSES

Officers employed by the County Council undertake the day to day management and administration of the Fund. Employee time spent working on the Fund and their associated costs e.g. office space and information technology are charged to the Fund. In addition the cost of maintaining the employee and employer contribution records, paying benefits and provision of other pension's administration services, provided by delegation of function to Lancashire County Council, Your Pension Service (YPS), are charged to the Fund. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of management expenses are as follows:

	2015/16 £'000	2016/17 £'000
Administrative costs	1,074	1,196
Investment management costs	7,121	8,358
Oversight and governance costs	484	645
	8,679	**10,199**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted in 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2016/17 is provided for information in the next note.

Administration costs were £0.122m higher in 2016/17 than the previous year. This was largely due to planned benefits administration costs related to the Guaranteed Minimum Pension reconciliation.

Investment management costs were £1.237m higher in 2016/17 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.161m higher in 2016/17 than the previous year, for further details refer to Note 8.

NOTE 8: MANAGEMENT EXPENSES ADDITIONAL INFORMATION

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2016/17 is provided below.

	2015/16 £'000	2016/17 £'000
Administrative costs:		
Pensions Administration	897	1,016
Employee costs	152	169
Legal advice	25	11
	1,074	1,196
Investment Management costs:		
Fund management fees	3,138	3,266
Custody fees	140	96
Pooled fund costs including entry fees*	3,609	4,651
Transaction costs	234	345
	7,121	8,358
Oversight and governance costs:		
Employee costs	213	347
Pension fund committee	26	18
Pension Board	15	4
Investment consultancy fees	73	94
Performance monitoring service	23	22
Shareholder voting service	16	16
Actuarial fees	37	79
Audit fees	27	27
Legal and tax advice	36	22
Other (including bank charges)	18	16
	484	645
	8,679	**10,199**

*Pooled fund costs including entry fees shown above are not invoiced costs, instead they are charged to the individual pooled fund, as such these costs have been estimated when required and adjusted from the change in market value and net income.

Variations on spend between years include:-

- Pensions Administration – the budget for pensions administration has increased in line with inflation and to reflect the increasing membership numbers of the Fund. In addition, following the cessation of National Insurance contracting out; the Fund along with all other public sector pension schemes are currently working through a full scheme reconciliation to HMRC data (Gross Minimum Pension Reconciliation). Some of this work has been undertaken by Your Pension Service on behalf of the Fund which has resulted in additional costs.

- Employee costs (including staff training and travel) – in 2015/16 the Pensions Committee approved an increase in the cost for internal staffing in response to increasing Scheme complexity, regulatory oversight and initiatives to deliver efficiencies through internalisation of asset manager selection. The full year effect of these additional resources materialised in 2016/17. In addition, there have been costs incurred due to increased travel costs related to responding to the national LGPS Pooling agenda.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio. As the Fund's investments have returned 19.2% growth (net of fees) in 2016/17, the fees paid in 2016/17 have increased from the fees paid in 2015/16. However, this cost has been partially offset by a negotiated reduction during the year to the fee rate paid.

- Pooled fund costs and entry fees – the objective of the strategy to select a portfolio of alternative pooled funds of growth assets is to aid cash flow and increase diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.966m in 2016/17 (£2.696m 2015/16) and the result of the positive investment returns has required the accrual of performance fees of £1.051m in 2016/17 (£0.769m 2015/16). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2016/17 entry costs of £0.634m were incurred (£0.144m 2015/16), but as the valuation of the investment at March 2017 exceeds the price paid, the costs of entry have been recouped within a matter of months. These funds are viewed as long-term illiquid investments.

- Transaction costs – these costs are variable depending on investment manager purchases and sales and were higher in 2016/17 in line with increased volume of investment transactions.

- Legal costs – the need for professional legal advice on ad-hoc employer and pensioner/employee issues is variable year on year dependent upon the throughput of work which was lower in 2016/17 than in 2015/16.

- Investment consultancy fees – there has been a need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda i.e. backfill and advice.

- Actuarial fees – in line with regulation an Actuarial Valuation is undertaken on the Fund once every three years. During 2016/17 the Fund incurred the costs of the 2016 valuation resulting in the increase in cost from 2015/16.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £50.004m (2015/16 £41.686m), net of £0.192m (2015/16: £0.177m) irrecoverable tax on dividends, and including stock lending income of £0.057m (2015/16: 0.056m), can be analysed as follows:

	2015/16 £'000	2016/17 £'000
Interest from fixed interest securities (corporate bonds)	7,182	7,161
UK equities dividends	10,768	12,308
Overseas equities dividends	6,747	8,833
Distributions from pooled investment vehicles	8,639	13,506
Net rental income from investment properties (see note 10(b)	8,154	7,937
Interest on cash deposits	196	259
	41,686	**50,004**

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of factors (including size and stability of dividend payment); the Fund benefitted in 2016/17 from companies paying some unusually high UK dividends.

The Fund is increasing its investment into infrastructure and other alternatives with the objective of both long term stable and inflation protected income streams. As shown above 'Distributions from pooled investment vehicles' in 2016/17, income of £13.506m was earned from the alternative investments; infrastructure (£5.006m), pooled property funds (£3.069m), private loan fund (£0.628m), opportunistic investments (£4.623m) and other pooled investments (£0.180m).

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2016			31 March 2017		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		250,079	397,206	**647,285**	304,023	493,020	**797,043**
		250,079	397,206	**647,285**	304,023	493,020	**797,043**
Fixed interest securities							
Corporate bonds - quoted		140,751	7,960	**148,711**	151,892	6,850	**158,742**
		140,751	7,960	**148,711**	151,892	6,850	**158,742**
Pooled investment vehicles							
Pooled investments - quoted		4,734	4,069	**8,803**	5,733	4,680	**10,413**
Pooled investments - unquoted		521,993	497,138	**1,019,131**	634,226	572,292	**1,206,518**
	10(a)	526,727	501,207	**1,027,934**	639,959	576,972	**1,216,931**
Investment properties							
Freehold		126,525	-	**126,525**	135,940	-	**135,940**
Long leasehold		30,315	-	**30,315**	25,250	-	**25,250**
	10(b)	156,840	-	**156,840**	161,190	-	**161,190**
Derivative contracts	10(c)	365	-	**365**	8,284		**8,284**
Cash Deposits		20,198	30,628	**50,826**	38,456	33,827	**72,283**
Amounts receivable for sales *		1,881	-	**1,881**	2,382		**2,382**
Investment income accrued *		5,290	-	**5,290**	5,044		**5,044**
Property rental debtors *		1,073	-	**1,073**	619		**619**
		28,807	30,628	**59,435**	54,785	33,827	**88,612**
Subtotal investment assets		1,103,204	937,001	**2,040,205**	1,311,849	1,110,669	**2,422,518**
Investment liabilities							
Derivative contracts	10(c)	(1,788)	-	**(1,788)**	(261)		**(261)**
Amounts payable for purchases *		(1,333)	-	**(1,333)**	(2,754)		**(2,754)**
Property creditors *		(3,022)	-	**(3,022)**	(2,768)		**(2,768)**
Subtotal investment liabilities		(6,143)	-	**(6,143)**	(5,783)	-	**(5,783)**
Total Net Investments		1,097,061	937,001	**2,034,062**	1,306,066	1,110,669	**2,416,735**

* These current and long term assets / liabilities are not valued at 'Fair Value through profit and loss' and are therefore excluded from Note 10(h) - Fair Value Hierarchy.

Note 10(a) details the pooled investments including index-tracking funds, unit trusts and alternatives funds.

Note 10(b) details the Fund's property portfolio.

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2017.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £880.426m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

The investment managers may also choose to invest in managed funds such as unit trusts as a preferred method of investing in smaller asset classes or less easily accessed markets.

	2015/16 £'000	2016/17 £'000
Unitised insurance policies - unquoted		
UK equities	46,871	26,727
Overseas equities	337,477	359,131
UK index-linked securities	380,759	464,562
UK sterling liquidity fund	-	30,006
	765,107	**880,426**
Unit trusts		
UK - quoted	4,734	5,733
Overseas - quoted	2,790	3,226
	7,524	**8,959**
Other Managed funds		
Pooled property REIT's - quoted	1,279	1,454
Pooled property funds - unquoted	72,304	73,380
Other managed funds - unquoted	181,720	252,712
	255,303	**327,546**
Total	**1,027,934**	**1,216,931**

The Fund is increasing its investment into infrastructure and other alternatives (unquoted pooled investments) with the objective of generating diversification and more stable and / or inflation protected income streams. These investments are included in the Other Managed Funds category in the table above.

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2017 the portfolio valued at £161.190m included 26 properties ranging from £2.200m to £15.650m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland; the intention of this spread is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in note 11(a) ‘Valuation of Financial Instruments carried at fair value’. However as these assets are illiquid and prices are not readily quantifiable; in this regard they are level 3 assets in the Fair Value analysis in Notes 10(g) to (i).

‘Net rental income from investment property’ has been accounted for in the Fund Account under ‘Net Investment Income’ and is analysed as follows:

	2015/16 £'000	2016/17 £'000
Rental income from investment property	8,508	8,427
Direct operating expenses arising from investment property	(354)	(491)
	8,154	**7,936**

There are no restrictions on the Fund’s ability to realise the value inherent in its investment property or on the Fund’s right to the remittance of income and the proceeds of disposal. The properties are held by a wholly-owned nominee company on behalf of the Fund and the Fund is entitled to all income and capital proceeds. The Fund has no contractual obligation to purchase, construct or develop, and the Fund has its normal obligations in respect of repairing and maintaining properties where the costs are generally passed onto the tenants where a lease is in place.

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

	2015/16 £'000	2016/17 £'000
Balance at the start of the year	**145,475**	**156,840**
Additions:		
Purchases	7,000	4,965
Subsequent expenditure	1,353	93
Disposals	(6,962)	(7,532)
Net gains/(losses) from fair value adjustments	9,974	6,824
Balance at the end of the year	**156,840**	**161,190**

The Fund's property investments are commercial leased out properties, all of which are operating leases. The future minimum lease payments receivable under non-cancellable leases for these land and buildings in future years are shown as follows:

	2015/16 £'000	2016/17 £'000
Not later than one year	7,942	8,181
Later than one year and not later than five years	28,947	29,416
Later than five years	35,217	31,389
Total future lease payments due under existing contracts	**72,106**	**68,986**

NOTE 10(c): DERIVATIVES

One way for pension funds to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. As open funds with a long term focus it is common for investors in LGPS to hedge 50% of their foreign currency exposure. This mitigates the worst effect that any adverse currency movements would have at the time of the realisation of the investment.

Cumbria LGPS has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay programme. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

The corporate bond mandate managed by Standard Life also uses derivatives in the form of exchange traded futures contracts to hedge overseas duration risk, in particular US$. Futures could also be used to manage the overall duration of the portfolio to ensure it stays within the limits set out in the Guidelines of the mandate. The economic exposure represents the notional value of stock purchased under future contracts and is therefore subject to market movements.

The derivatives can be summarised as follows:

	31 March 2017		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	8,095	(253)	**7,842**
Futures	189	(8)	**181**
Derivative Contracts Gain/(Loss)	**8,284**	**(261)**	**8,023**

The open forward foreign exchange contracts can be summarised as follows:

Currency Bought		Currency Sold		2016/17	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
EUR	1,619	GBP	1,385	-	-
GBP	3,860	EUR	4,451	51	-
GBP	4,581	USD	5,646	69	-
USD	144	GBP	118	-	(3)
Settlement one to six months					
GBP	68,918	EUR	78,887	1,318	-
GBP	40,719	JPY	5,701,627	-	(250)
GBP	309,264	USD	379,112	6,657	-
				8,095	**(253)**
Net forward currency contracts at 31 March 2017				**7,842**	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2016 £'000	Economic exposure	Market Value at 31 March 2017 £'000
Assets					
UK Fixed Interest	Less than one year	3,606	23	11,865	189
Overseas Fixed Interest	Less than one year	8,849	27	-	-
			50		**189**
Liabilities					
Overseas Fixed Interest	Less than one year	-	-	(3,783)	(8)
			0		**(8)**
			50		**181**

NOTE 10(d): PROFIT AND LOSSES ON DISPOSAL OF INVESTMENTS AND CHANGES IN THE MARKET VALUE OF INVESTMENTS

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments if appropriate, and cash transfers from and to the Administering Authority.

The table below reconciles the movements in investments and derivatives ('Total net investments') for the current year.

2016/17:

Asset Class	Value at 1 April 2016 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2017 £'000
Fixed interest securities (Corporate Bonds)	148,711	14,699	(14,117)	(611)	10,060	158,742
Equities						
UK equities	250,079	47,583	(34,636)	8,450	32,547	304,023
Overseas equities	397,206	206,783	(214,017)	36,137	66,911	493,020
	647,285	254,366	(248,653)	44,587	99,458	797,043
Pooled investment vehicles	765,107	30,000	(114,935)	14,375	185,879	880,426
Unit Trusts	7,524	18	-	-	1,417	8,959
Managed funds	255,303	52,272	(15,001)	4,872	30,100	327,546
Property (See Note 10b)	156,840	5,058	(7,532)	(1,021)	7,845	161,190
Derivatives (forward foreign exchange contracts, futures)	(1,423)	86,685	(29,358)	(57,327)	9,446	8,023
	1,979,347	**443,098**	**(429,596)**	**4,875**	**344,205**	**2,341,929**
Cash	50,826			2,398	1,590	72,283
Amounts receivable for sales	1,881					2,382
Investment income accrued	5,290					5,044
Property rental debtors	1,073					619
Amounts payable for purchases	(1,333)					(2,754)
Property creditors	(3,022)					(2,768)
Total Net Investments	**2,034,062**			7,273	345,795	**2,416,735**

Analysis of gains/(losses) for the year	**2016/17 £'000**
Realised - Profit and losses on disposal of investments	7,273
Unrealised - Changes in the market value of investments	345,795
	353,068

The following table reconciles the movements in investments and derivatives for the previous year.

2015/16:

Asset Class	Value at 1 April 2015 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2016 £'000
Fixed interest securities (Corporate Bonds)	148,261	15,010	(9,211)	(28)	(5,321)	148,711
Equities						
UK equities	271,094	39,426	(36,814)	648	(24,275)	250,079
Overseas equities	366,523	142,329	(126,940)	12,016	3,278	397,206
	637,617	181,755	(163,754)	12,664	(20,997)	647,285
Pooled investment vehicles	797,005	13,269	(50,998)	32,578	(26,747)	765,107
Unit Trusts	21,507	2	(14,076)	1,549	(1,458)	7,524
Managed funds	217,971	39,556	(16,861)	7,527	7,110	255,303
Property (See Note 10b)	145,475	8,353	(6,962)	(3,097)	13,071	156,840
Derivatives (forward foreign exchange contracts, futures)	1,063	49,197	(36,441)	(12,756)	(2,486)	(1,423)
	1,968,899	**307,142**	**(298,303)**	**38,437**	**(36,828)**	**1,979,347**
Cash	35,885			(1,041)	2,649	50,826
Amounts receivable for sales	4,871					1,881
Investment income accrued	4,791					5,290
Property rental debtors	1,196					1,073
Amounts payable for purchases	(5,154)					(1,333)
Property creditors	(2,501)					(3,022)
Total Net Investments	**2,007,987**			37,396	(34,179)	**2,034,062**

Analysis of gains/(losses) for the year	**2015/16 £'000**
Realised - Profit and losses on disposal of investments	37,396
Unrealised - Changes in the market value of investments	(34,179)
	3,217

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2016		31 March 2017	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities, bonds, cash	316,329	15.5%	379,669	15.7%
Legal & General Policy No. 2	Index-linked bonds	309,492	15.2%	377,610	15.6%
Legal & General Policy No. 3	Global equities	139,286	6.8%	123,147	5.1%
Legal & General Passive Currency	Currency overlay	(1,359)	-0.1%	7,725	0.3%
Schroders Investment Management	UK equities	248,796	12.2%	291,671	12.1%
Nordea	Global equities	217,010	10.7%	272,733	11.3%
Loomis Sayles	Global equities	200,772	9.9%	258,744	10.7%
Standard Life	UK corporate bonds	153,156	7.5%	169,769	7.0%
Aberdeen Asset Management	Direct property	161,298	7.9%	169,677	7.0%
JP Morgan	Infrastructure	84,449	4.2%	94,285	3.9%
Partners Group	Infrastructure	31,593	1.6%	46,727	1.9%
M&G	Property Fund	36,449	1.8%	36,840	1.5%
Aviva	Property Fund	34,539	1.7%	35,400	1.5%
Strategic cash allocation	Cash	31,648	1.6%	34,768	1.5%
BlackRock	Alternatives	29,841	1.5%	31,792	1.3%
Unigestion	Secondary Funds	10,370	0.5%	24,670	1.0%
M&G	Real Estate Debt	17,125	0.8%	20,287	0.8%
Barings	Private Loan Fund	6,250	0.3%	16,067	0.7%
SL Capital	Infrastructure	-	0.0%	13,417	0.6%
SL Capital	Secondary Funds	5,551	0.3%	10,154	0.4%
Aberdeen Asset Management	Indirect property	1,316	0.1%	1,140	0.1%
Healthcare Royalty Partners	Royalties Fund	119	0.0%	433	0.0%
Transition residual	Overseas equities	32	0.0%	10	0.0%
Total Net Investments		**2,034,062**	**100.0%**	**2,416,735**	**100.0%**

Recent actions to implement agreed changes to the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams. To fund these investments during 2016/17, the portfolio was rebalanced in line with its strategic allocation by withdrawing funds from the Legal & General passive holdings.

As the Fund moves towards a more negative cash flow position, there has become an increased need for a strategic allocation to cash and along with providing funding for new assets and working capital, this also gives the Fund strategic downside protection.

NOTE 10(f): INVESTMENTS REPRESENTING MORE THAN 5% OF THE NET ASSETS OF THE FUND

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient liquid method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

Holding	31 March 2016 £'000	% of Total Net Investments	31 March 2017 £'000	% of Total Net Investments
Policy 1 Legal and General North America Index	138,361	6.8%	157,197	6.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	71,267	3.5%	86,952	3.6%
Policy 1 Legal and General UK Equity Index	46,871	2.3%	26,727	1.1%
Policy 1 Legal and General Europe(Ex UK)Equity Index	28,994	1.4%	37,130	1.5%
Policy 1 Legal and General Japan Index	16,998	0.8%	22,594	0.9%
Policy 1 Legal and General Other Pacific Basin Index	13,838	0.7%	19,063	0.8%
Policy 1 Legal and General Sterling Liquidity Fund	-	0.0%	30,006	1.2%
Policy 1 Total	316,329	15.5%	379,669	15.7%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	309,492	15.2%	377,610	15.6%
Policy 3 Legal and General FTSE World Equity Index	139,286	6.8%	123,147	5.1%
	765,107	**37.5%**	**880,426**	**36.4%**

Investments managed by external investment managers shown in Table 10(e) that exceed 5% and are not shown above, relate to segregated mandates where no one underlying holding is in excess of 5% of the total net assets of the fund.

NOTE 10(g): FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value.

Description of Asset/Liability	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are values at a market value based on current yields	Not required	Not required
Futures and options in UK bonds*	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occuring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Niall Thoburn, MRICS of independent valuers CBRE Ltd in accordance with the *RICS Valuation Standards* (revised April 2015)	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices
Private/Unquoted equity (Pooled funds in Alternative Assets)	Level 3	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund’s share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occuring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

* Both Futures and Derivatives can be either Assets or Liabilities

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2017.

Sensitivity of Assets valued at level 3

	Assessed valuation range (+/-)	Value at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
Pooled funds in Alternative Assets	10%	326,092	358,701	293,483
Freehold and leasehold property	9%	161,190	175,697	146,683
Total		**487,282**	**534,398**	**440,166**

NOTE 10(h): FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

To show the liquidity of the assets the Fund holds, under IFRS the valuation of investments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The aim being to show how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity assessment is subjective. As with any assessed additional investment risk investors should expect to be rewarded for illiquidity through higher investment returns.

The actuarial valuation of the Fund projects that liabilities exceed assets (note 23), therefore there is a need to generate excess returns on investments at an acceptable level of risk. To do this the Fund diversifies across asset classes, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the benefit of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 43% of Total Investments (2015/16: 42%)
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities, quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

These are considered the most reliably quantifiable and easily liquidated i.e. converted into cash, assets carrying the lowest valuation and liquidity risk.

Level 2: 37% of Total Investments (2015/16: 38%)
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the techniques used are based significantly on observable market data.

While these assets are not usually convertible into cash immediately they are still considered to be relatively liquid with easily verified and relatively certain asset pricing of the underlying stocks if not the pooled fund itself.

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 20% of Total Investments (2015/16: 20%)
Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

For many of these assets prices are not readily quantifiable and they often prove to be the most illiquid. As such they hold both the highest liquidity and valuation risk.

Such investments include unquoted equity investments, limited partnerships and property, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9 (c), (d) and (f). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. Those current & long term assets/liabilities detailed in Note 10 - Investment Assets which are not measured at ‘fair value through profit and loss’ have not been included in this or the following table.

	31 March 2016				31 March 2017			
	Quoted market price	Using observable inputs	With significant unobservable inputs		Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss								
Equities - quoted	647,285			647,285	797,043			797,043
Fixed interest securities-Corporate bonds - quoted	148,711			148,711	158,742			158,742
Pooled investments - quoted	8,803			8,803	10,413			10,413
Pooled investments - unquoted		765,107	254,024	1,019,131		880,426	326,092	1,206,518
Derivative contracts		365		365		8,284		8,284
Cash Deposits	59,152			59,152	73,933			73,933
Total Financial assets at fair value through profit and loss	**863,951**	**765,472**	**254,024**	**1,883,447**	**1,040,131**	**888,710**	**326,092**	**2,254,933**
Investment properties (Non-financial assets) at fair value through profit and loss			156,840	156,840			161,190	161,190
Financial liabilities (Derivative contracts) at fair value through profit and loss		(1,788)		(1,788)		(261)		(261)
Total Investments at Fair Value	**863,951**	**763,684**	**410,864**	**2,038,499**	**1,040,131**	**888,449**	**487,282**	**2,415,862**
Percentage of Total Investments	**42%**	**38%**	**20%**	**100%**	**43%**	**37%**	**20%**	**100%**

*In accordance with CIPFA Code guidance, 2016/17 is the first year that these tables have been presented in the Fund's accounts as an extra disclosure, with 2015/16 shown as prior year comparator.

NOTE 10(i): RECONCILIATION OF FAIR VALUE MEASUREMENT WITHIN LEVEL 3

The following table sets out the reasons for movement in the valuations within the Fund's assets categorised at level 3. More information regarding transfers is provided below the table as appropriate. Unrealised and realised gains and losses are recognised in the 'profit and losses on disposal and changes in market value of investments' line of the Fund Account.

Period 2016/17	**Market value 1 April 2016 £'000**	**Transfers into level 3 £'000**	**Transfers out of level 3 £'000**	**Purchases during the year and derivatives payments £'000**	**Sales during the year and derivatives receipts £'000**	**Realised gains/(losses) £'000**	**Unrealised gains/(losses) £'000**	**Market value 31 March 2017 £'000**
Private/Unquoted equity (Pooled funds in Alternative Assets)	**254,024**	-	-	51,136	(13,897)	4,806	30,023	**326,092**
Investment Properties	**156,840**	-	-	5,058	(7,532)	(1,021)	7,845	**161,190**
	410,864	**-**	**-**	**56,194**	**(21,429)**	**3,785**	**37,868**	**487,282**

NOTE 11: FINANCIAL INSTRUMENTS

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Fund can be classified as Financial Instruments and Investment Property as follows:

	31 March 2016 £'000	31 March 2017 £'000
Financial Instruments	1,884,401	2,256,152
Statutory debts / liabilities & provisions	5,568	5,984
Investment Property	156,840	161,190
Net Assets of the Fund	**2,046,809**	**2,423,326**

NOTE 11(a): CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2017.

	31 March 2016				31 March 2017			
	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	647,285			647,285	797,043			797,043
Fixed interest securities (corporate bonds)	148,711	-	-	148,711	158,742	-	-	158,742
Pooled investment vehicles	1,027,934	-	-	1,027,934	1,216,931	-	-	1,216,931
Derivative contracts	365	-	-	365	8,284	-	-	8,284
Cash deposits	-	59,152	-	59,152	-	73,933	-	73,933
Investment receivables/debtors		8,244		8,244		8,045		8,045
Current & long-term assets	-	883	-	883	-	717	-	717
	1,824,295	**68,279**	**-**	**1,892,574**	**2,181,000**	**82,695**	**-**	**2,263,695**
Financial Liabilities								
Derivative contracts	(1,788)	-	-	(1,788)	(261)	-	-	(261)
Investment payables/creditors	-	-	(4,355)	(4,355)	-	-	(5,522)	(5,522)
Current/long-term liabilities			(2,030)	(2,030)			(1,760)	(1,760)
Total Financial Instruments	**1,822,507**	**68,279**	**(6,385)**	**1,884,401**	**2,180,739**	**82,695**	**(7,282)**	**2,256,152**
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	(4,969)	-	-	(4,969)	346,505	-	-	346,505
Financial Liabilities	(1,788)	-	-	(1,788)	(261)	-	-	(261)
Total Net Gains/(Losses)				(6,757)				346,244

The values shown in the above table for 'Loans and receivables' and 'Financial liabilities at amortised cost' are equivalent to the fair value.

NOTE 12(a): LONG TERM ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2016 £'000	31 March 2017 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,314	986
Total Long Term Assets	**1,314**	**986**
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	1,314	986
Other entities and individuals	-	-
Total Long Term Assets	**1,314**	**986**

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £0.986m shown above as 'Long Term Debtors – Employer exit'.

NOTE 12(b): CURRENT ASSETS

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2016 £'000	31 March 2017 £'000
Cash balances	**8,326**	**1,650**
Current Debtors		
Contributions due	4,453	5,098
Employer exit from scheme due < 1 year	329	329
Miscellaneous	1,289	1,154
Total Current Debtors	**6,071**	**6,581**
Total Current Assets	**14,397**	**8,231**
Current Debtors relating to (per IFRS headings):		
Central Government bodies	776	799
Other local authorities	4,362	4,617
Other entities and individuals	933	1,165
Total Current Debtors	**6,071**	**6,581**

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments. Cash balances held at 31st March 2016 reflected payments due out in April 2016, no significant cash payments were planned for April 2017 which allowed a lower level of cash to be held.

Contributions due at 31st March vary from year to year, depending on the actual dates that payments are made by employers in respect of contributions and in settlement of invoices.

NOTE 13(a): LONG TERM LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2016 £'000	31 March 2017 £'000
Long term Creditors		
Interest provision on long-term debt	237	167
Total Long term Liabilities	**237**	**167**
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	237	167
Total Long term Liabilities	**237**	**167**

NOTE 13(b): CURRENT LIABILITIES

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2016 £'000	31 March 2017 £'000
Current Creditors		
Investment Managers fees	1,032	951
Tax payable	636	629
Interest provision on long-term debt	61	70
Miscellaneous	998	809
Total Current Liabilities	**2,727**	**2,459**
Current Creditors relating to (per IFRS headings):		
Central government bodies	636	699
Other local authorities	851	686
Other entities and individuals	1,240	1,074
Total Current Liabilities	**2,727**	**2,459**

NOTE 14: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk. These risks are a function of investing and cannot be completely avoided. They are however closely monitored and where possible appropriate mitigation methods are used to limit the Fund's exposure.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016[1] and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line at www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.

With regards to investing, to minimise risks in this area the Administering Authority's risk management procedures focus on the unpredictability of financial markets; implementing operating restrictions on managers and diversification across the managers and asset classes within the portfolio.

[1] Implemented in November 2016 to update the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009.

The Fund annually reviews its policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. These are detailed in the Fund's Investment Strategy Statement which replaced the Statement of Investments Principles during 2016/17.

The Investment Strategy Statement (ISS) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line at: www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy should be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years. Completion and implementation of the outcomes of the 2012 review are expected to be finalised during 2017/18.

Following completion of the 2016 Triennial Actuarial Valuation the Fund has appointed external consultants to undertake an asset strategy review. In September 2017 Members, Officers and Independent Advisors are due to consider the resultant observations and recommendations from the review and make any changes considered advantageous to ensure the strategy is appropriate and fit for purpose going forward

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers' performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 4 years it has been in place. The process continues to evolve and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

As a further control, a substantial amount of due diligence is performed at the appointment stage both by Officers and the Fund's independent investment advisors and / or consultants to ascertain managers' risk control, audit and monitoring procedures.

Credit Risk

Credit Risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. In essence the Fund's entire investment portfolio is exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing. Consequently the risk of loss is implicitly provided for in the carrying values of the Fund's financial assets and liabilities. In addition to this, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund has had no experience of default or uncollectable deposits over recent years.

Through review of annual internal control reports from the Fund's external Investment Managers the Fund monitors its exposure to credit and counterparty risk. This review is aimed at ensuring that Managers exercise reasonable care and due diligence in its activities on behalf of the Fund.

All derivative transactions incorporate a degree of credit risk. The longer the term of a transaction, the greater the potential for change in market value, and the greater the credit risk. In relation to forward currency contracts and the stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31st March 2017 were £1.650m (2015/16: £8.326m) within current assets (see Note 12(b)), £72.283m (2015/16: £50.826m) shown as cash within investments (see Note 10), and a further £3.226m shown as unit trusts in Note 10a (2015/16: £2.790m) where BlackRock invest in their in-house Money Market Fund as part of their portfolio. In addition to this, in 2016/17 £30.006m of the Funds holding in unitised insurance policies shown in Note 10 under pooled investments, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments for the in-house alternative asset portfolio which were planned for and executed in early April. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2017	Balances as at 31 March 2016 £'000	Balances as at 31 March 2017 £'000
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	12,023	19,627
SSGA EUR Liquidity Fund	AAA	3,044	1,621
SSGA USD Liquidity Fund	AAA	26,204	29,431
Legal & General Sterling Liquidity Fund	AAA	-	30,006
BlackRock Institutional Cash USD	AAA	2,790	3,226
Ignis Sterling Liquidity Fund	AAA	5,403	-
Goldman Sachs Sterling Reserves Fund	AAA	1,801	-
Standard Life Euro Liquidity Fund	AAA	-	11
Bank deposit accounts			
National Westminster Bank	BBB+	1,122	1,650
Bank current accounts			
State Street Bank & Trust	AA-	1,572	3,946
Barclays Bank	A	6,407	10,636
Short Term Deposit			
Deutsche Bank Cash Collateral	A-	150	(11)
Bank of New York call account	AA	1,426	7,022
Total		**61,942**	**107,165**

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk reflects interest rate risk, currency risk and other price risks.

The Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund's assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term.

To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. Details can be found in the Fund's Investment Strategy Statement (ISS). The Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic / political regions within each asset class.

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the 2012 Investment Strategy Review introduced some new asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. Following completion of the 2016 Triennial Actuarial Valuation the Fund is undertaking a review of the Investment Strategy Statement.

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and the Consumer Price Index (CPI) (which affect the value placed on the Fund's liabilities). It should be noted that, the valuation of liabilities was based on a CPI+ model in the 2016 actuarial valuation. Prior to this, projected bond yield was used to assess the value of the Fund's liabilities.

Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2016/17 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	336,483	7.9%	363,166	309,800
Overseas Equities	853,605	8.8%	928,466	778,744
Fixed interest securities (corporate bonds)	158,742	6.5%	169,044	148,440
Index Linked Gilts	464,562	12.7%	523,329	405,795
Alternatives	326,092	7.5%	350,451	301,733
Property	161,190	1.9%	164,285	158,095
Cash	107,165	0.0%	107,176	107,154
	2,407,839		**2,605,917**	**2,209,761**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2017, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,076.842m and £33.827m cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £55.533m, or 2.3% of the Fund's total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), it is considered that a 5% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange - Sensitivity Analysis	2016/17 £'000	% Change	Value on Increase	Value on Decrease
US Dollar denominated assets	766,467	5.0%	804,790	728,144
European currency denominated assets	210,178	5.0%	220,687	199,669
Other currency denominated assets	134,024	5.0%	140,725	127,323
	1,110,669		**1,166,202**	**1,055,136**

Foreign Exchange – Derivative Contracts

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is common for LGPS's to hedge 50% of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset.

The Cumbria Fund, in line with common practice across the LGPS, has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2017, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates have been stable for many months and are currently at record low levels, the real interest rate risk is that rates will rise, causing the value of bonds and bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2017 and 31st March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	2015/16 £'000	2016/17 £'000
Fixed interest securities (including pooled investments)	529,470	623,304
Cash and cash equivalents	10,677	23,243
Money market funds and pooled cash vehicles	51,265	83,922
	591,412	**730,469**

Liquidity Risk

Liquidity Risk is the risk that the Fund will not be able to meet its financial obligations when they fall due.

The main liquidity risk for the Fund is not having monies available to meet commitments to make pension payments to members as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered.

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.356m in 2016/17 (£16.731m in 2015/16). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. There was no requirement to liquidate assets ahead of previous plans as the value was anticipated and therefore easily accommodated within the Fund's cash reserves.

On advice from the Fund's Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review.

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2017 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,928.580m, i.e. 80% of net assets (31st March 2016 £1,627.635m, 80%). The value of the illiquid assets including investment properties was £487.282m which represented 20% of net assets (31st March 2016 £410.864m, 20%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

A maturity analysis for investment liabilities (all of which are derivatives) is shown in Note 10(c). The current liabilities of the Fund (see Note 13(b)) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see Note 13(a)) consist of the interest provision on the long term debtor – employer exit. This matures as outlined in the table below:

Maturity Risk - Long term liabilities	31 March 2016 £'000	31 March 2017 £'000
Due 1 to 2 years	70	79
Due 2 to 5 years	167	88
Due 5 to 10 years	-	-
Total Long term liabilities	**237**	**167**

Counterparty Risk

The principal mitigation of the counterparty risk on a foreign currency trade is the rigour of the counterparty selection and monitoring process. Trades are only executed with approved counterparties, who have satisfied requirements in terms of market capability and credit standing. The list of potential counterparties is subject to approval and monitoring by the managers' as part of their oversight of risks. Subject to overriding requirements as our fiduciary agent to demonstrate best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

- previous dealing experience of the counterparty,
- level of confidence in the counterparty's ability to absorb a trade of that size, based on ongoing research into the capabilities of the main counterparty banks,
- the bank's position in the market for sourcing PFI, corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager nor any of its related companies would act as counterparty.

As part of the managers credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis. In addition, more formal review takes place via quarterly meetings which can be convened at very short notice to meet any particular demands (as was the case, for example, in the Lehman crisis, when it met daily).

Settlement Risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £8.023m gain at 31st March 2017.

As currency movements can be quite volatile positions can change from day to day quite significantly. It is difficult to approximate the size of the risk using historical currency movements, as these cannot be relied upon as a guide to future movements.

Unquoted Investments

The Fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient liquid method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. As indicated in Note 9 the Fund is increasing its allocation to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan fund, opportunistic investments and other pooled investments . These provide an efficient method of accessing exposure to these assets for a fund of Cumbria's size.

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. The valuations are audited for each investment manager by their respective auditors and reported to the Fund as clients.

The unquoted investments held at 31st March 2017 are as follows:

Asset Class	2015/16 £'000	2016/17 £'000	Manager	Holding Details
Pooled investment vehicles				
Unitised insurance policies	765,107	880,426	Legal and General	Index tracking funds.
Other managed funds	84,450	94,285	JP Morgan	Infrastructure fund.
	31,593	46,727	Partners Grp	Infrastructure fund.
	36,449	36,840	M&G	Long-lease property fund.
	34,539	35,400	Aviva	Long-lease property fund.
	26,263	26,672	BlackRock	Alternative funds - hedge funds, private equity. BlackRock in-house funds.
	10,370	24,670	Unigestion	Secondary private equity funds
	17,125	20,287	M&G	Real estate debt funds.
	6,250	16,067	Barings	Global private loan fund.
	-	13,417	SL Capital	Infrastructure fund.
	5,551	10,154	SL Capital	Secondary private equity funds
	1,316	1,140	Aberdeen	Overseas property funds (ex-BlackRock).
	118	433	HRP	Healthcare Royalties Partners Fund.
	1,019,131	**1,206,518**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the transactions are treated separately to the Fund's accounts and therefore do not form part of these accounts.

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund gives no guarantee of investment performance of the providers and makes no contribution to the employees' funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped accepting new business. The values of the three schemes for Cumbria LGPS, along with the value of Equitable Life, are shown below:

	2015/16 £'000	2016/17 £'000
Standard Life	958	1,037
Scottish Widows	1,085	1,085
Equitable Life	817	793
Prudential	176	523
Total AVCs	**3,036**	**3,438**

AVC contributions of £0.473m were paid directly from employees pay to the providers during the year (2015/16: £0.293m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of contributions paid by a member is the securing of a pension at retirement, usually by buying an annuity or transferring the investment into the main Scheme. The investment could be realisable earlier in the event of a member's death before retirement.

NOTE 16: RELATED PARTY TRANSACTIONS

In day-to-day operations the Fund has many transactions with Cumbria County Council as the Administering Authority of the Fund, including the pension contributions as an employer, payments on the Fund's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The Fund has not for example invested in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

There are normal transactions with all the employers who have members in the Fund, who may be regarded as related parties, predominantly relating to employee and employer contributions. These transactions are reported as part of the income and expenditure statements.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2016/17 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been exceeded in 2016/17.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2016/17 (see Note 13 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected Members who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

Notes on below table

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2016/17 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2016/17.

- Employer's Future Service Rate – LGPS 13.0% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2016/17 on Cumbria LGPS specific work.

- During 2016/17, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, two officers (1FTE) (2015/16:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of the Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

- Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

-

2016/17 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Assistant Director – Finance (s.151 Officer)	11,590	11,590	1,506	13,096
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	47,443	47,443	6,167	53,610
	59,033	**59,033**	**7,673**	**66,706**

2015/16 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Assistant Director – Finance (s.151 Officer)	11,475	11,475	1,492	12,967
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	46,973	46,973	6,106	53,079
	58,448	**58,448**	**7,598**	**66,046**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding contractual commitments at 31st March 2017.

NOTE 18: CONTINGENT ASSETS

Tax Reclaims

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2016/17. The estimated value of claims still outstanding is £3.999m (value in GBP at 31st March 2017, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2016/17 and progress has slowed for both Fokus Bank (withholding tax) claims in France and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. The total claim value is in excess of £0.914m, although no accrual has been put in the accounts as the outcome is uncertain.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.445m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class Actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2016/17 are considered to be recoverable with no further impairment beyond the existing provision for bad and doubtful debts.

There were no impairments of investments during 2016/17.

Financial Assets That Are Past Due As At 31st March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.064m of debtors aged between two and six months (£0.009m 2015/16). Debtors aged greater than six months totalled £0.035m as at 31st March 2017 (£0.040m 2015/16).

NOTE 20: STOCK LENDING

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). A programme is in place through the custodian, State Street Bank and Trust, to earn additional income for the Fund from stock lending. The limit on amounts to be loaned was increased from 25% to 33% from January 2015.

Securities on loan at the 31st March 2017 of £47.006m (2015/16: £46.428m) are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £40.717m UK equities and £6.289m overseas equities (2015/16: £45.791m UK equities and £0.637m overseas equities). The related collateral totalled £49.688m (2015/16: £49.060m), consisting £22.856m overseas bonds and £26.832m UK equities (2015/16: £23.181m overseas bonds and £25.879m UK equities).

For the year to 31st March 2017, the Fund earned income of £0.057m (2015/16 £0.056m) through stock lending of the various assets (as detailed in Note 9).

NOTE 21: POST BALANCE SHEET EVENTS

Following the General Election on 8th June 2017, there is no material impact on the Accounts as drafted and presented for issue.

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

The Fund's Investment Strategy is more defensive than the average in the LGPS and is positioned to absorb downside risk as well as being targeted at achieving long-term stability and asset growth. This is achieved by diversification across the portfolio (e.g. between asset classes, sectors, risk appetite and geographic regions).

NOTE 22: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND THE USE OF ESTIMATES AND UNCERTAINTIES

In applying the policies, the Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in Note 14).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies, and Fair Value narrative in notes 10(g) and 10 (h).

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

Item	**Uncertainties**	**Effect if actual differs from assumptions**
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible. Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	For every 1% increase in market value, the value of the Fund will increase by approx. £24.2m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons; for each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £53m increase in deficit shortfall

		(i.e. £210m to £263m). The Actuarial Valuation at March 2016 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Bad Debt Provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. A similar valuation was carried out as at 31 March 2017 and the value is presented in the table below.

Assets and Liabilities of the Fund based on assumptions adopted for the valuation

	31 March 2016 £'000	31 March 2017 £'000
Present value of past service liabilities	(2,257)	(2,554)
Net assets of the Fund	2,047	2,423
Net liability	**(210)**	**(131)**

Below is shown a statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended). This statement shows both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26. The full Actuarial Valuation Report as at 31st March 2016 is available on the County Council's website, at:
www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.

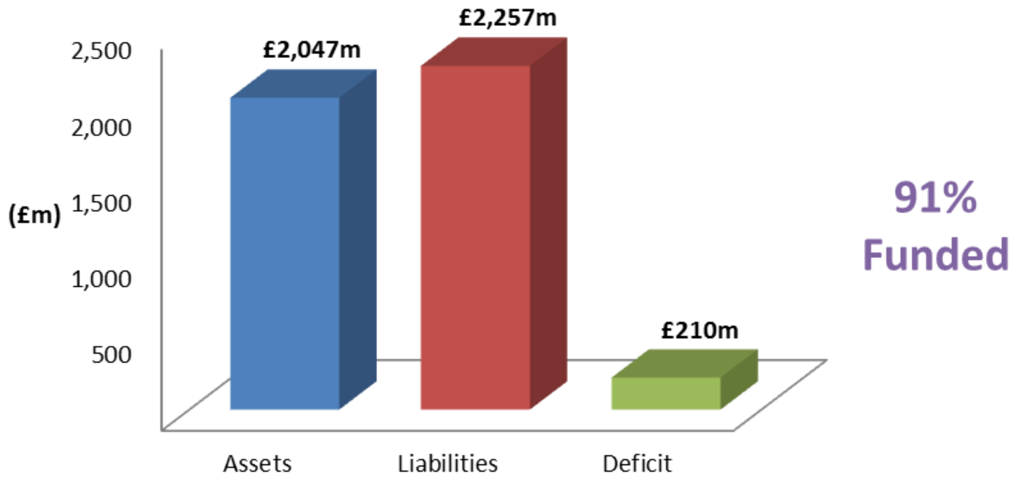
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £2,047 million represented 91% of the Fund's past service liabilities of £2,257 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £210 million.



The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 15 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £16.1 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.2% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £2,584 million. Interest over the year increased the liabilities by c£93 million, and allowing for net benefits accrued/paid over the period also increased them by c£1 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £584 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £3,262 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2017

NOTE 24: ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There have been no such changes in accounting standards issued that would materially impact on the 2016/17 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE SCHEME

As at 31st March 2017 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2017 (total 132)		
Scheme Employers:	**Scheduled Bodies - Academies (cont)**	**Admitted Bodies (36)**
Cumbria County Council	Inspired Learning MAT (one employer):	1st Eclipse (New)
District Councils (6)	Parkside GGI Academy	Carlisle Leisure Allerdale
Allerdale Borough Council	Victoria Primary Academy	Carlisle Leisure Ltd
Barrow Borough Council	Yarlside Primary Academy	Carlisle Mencap - Huntley Ave (New)
Carlisle City Council	The Good Shepherd MAT (one employer):	Carlisle Mencap - Hart St (New)
Copeland Borough Council	Ambleside Primary Academy	Caterlink - W/Lakes (New)
Eden District Council	Braithwaite Primary Academy	Caterlink - WHT (New)
South Lakeland District Council	Heversham St Peter's Academy	Commission for Social Care Inspection
Scheduled Bodies - Academies (52)	Lazonby Academy	Creative Management Support
(number of employers 42)	Lorton Academy (New)	Cumbria Cerebral Palsy
Appleby Grammar Academy	Cumbria Education Trust (one employer)	Cumbria Deaf Vision
Arnside National CofE Academy	Longtown Academy (New)	Cumbria Tourism
Broughton Primary Academy	The Workington Academy	Eden Housing Association
Burton Morewood Primary Academy	William Howard Academy	FCC Environment
Caldew Academy	Yewdale Academy	Glenmore Trust
Cartmel Priory Academy	**Scheduled Bodies - Other (21)**	Harraby Community Centre
Castle Carrock Academy	Aspatria Town Council (New)	Higham Hall
Chetwynd School Academy	Carlisle College	Home Group (Copeland)
Cockermouth Academy	Cleator Moor Town Council	Kendal Brewery Arts Centre Trust Ltd
Crosby on Eden Academy	Cockermouth Town Council	Longtown Memorial Hall Community Centre
Dallam Academy	Cumbria Chief Constable	Mellors Catering - Appleby
Dearham Primary Academy	Cumbria Police & Crime Commissioner	Mellors Catering - Kirkby Stephen
Eaglesfield Paddle Academy	Cumbria Waste Management	Mellors Catering Services - Rockcliffe
Energy Coast UTC	Egremont Town Council (New)	Morton Community Centre
Fairfield Primary Academy	Furness College	North Country Leisure (Copeland)
Furness Academy	Grange Town Council (New)	North Country Leisure (South Lakes)
George Hastwell School Academy	Kendal College Further Educ	Oaklea Trust
Ghyllside Academy	Kendal Town Council	People First
Gilsland Academy	Keswick Town Council	Riverside Housing
Great Corby Academy	Lake District National Park Authority	SLS (Cumbria) Ltd - QK
Kendal MAT - Castle Park Academy (New)	Lakes College (West Cumbria)	SLS (Cumbria) Ltd - StH
Keswick Academy	Maryport Town Council	Soundwave
Kirkbie Kendal Academy	Orian Solutions	South Lakes Housing
Kirkby Stephen Academy	Penrith Town Council	Tullie House Trust
Northside Academy (New)	Ulverston Town Council	West House
Penny Bridge Academy	Wigton Town Council	Wigton Joint Burial Committee
Queen Elizabeth Academy	Workington Town Council	**Admitted Bodies No Actives (14)**
Queen Elizabeth Grammar Academy	**Scheduled Bodies No Actives (12)**	Cumbria Training Partnership
Richard Rose Academies	Brampton Parish Council	Direct Training Services
Seaton Academy	Charlotte Mason College	Egremont & District Pool Trust
Settlebeck High Academy	Cumbria Institute of the Arts	Henry Lonsdale Trust
Stanwix School Academy	Cumbria Primary Teacher Training	Kendal Citizens Advice
Stramongate Academy	Cumbria Sea Fisheries	Lake District Cheshire Homes
The Queen Katherine School Academy	Dept Constit Affairs (Cumbria Magistrates)	Lakeland Arts Trust
Trinity Academy	Health Authority	Mellors Catering - Southfield (Leaving)
Walney Academy	Millom Town Council	Mellors Catering - Whitehaven (Leaving)
West Lakes Academy	Port of Workington	NRCS Ltd (Neighbourhood Revitalisation)
Whitehaven Academy	Practical Alternatives to Custody (Ltd)	People First 2 (Leaving)
Building Futures MAT (one employer):	Seaton Parish Council	Project Homeless
Tebay Primary Academy	Water Authority	South Lakes Services (Leaving)
Yanwath Primary Academy		Troutbeck Bridge Swim Pool Ltd

10.3 GLOSSARY

Active Management – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. *(Also see Passive Management).*

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Actuarial Valuation – An actuary formally reviews the assets and liabilities of the pension fund and produces a report on the fund's financial position.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

Alternatives –Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

Bid price – Price at which a security or unit in a pooled fund can be sold.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Career Average Revalued Earnings (CARE) Scheme – the pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy**.**

Class Action – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Counterparty - the other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government.

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG (Environmental, Social and Corporate Governance) - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF) - Fund that tracks an index, but can be traded like a stock.

Fiduciary Duty - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

Fixed Interest Securities – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

Futures Contract – a contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value – The price at which an investment can be bought or sold at a given date.

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

OTC - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation.

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS.

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right to vote on matters of ‘corporate policy’ at the underlying company’s AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes ;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted ‘by proxy’. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

<u>Resolutions which are voted upon include</u>:-
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors
Approve dividend
Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing – an investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Stewardship - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

We have audited the pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension scheme financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director Finance (s151 Officer) and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director Finance (s151 Officer) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension scheme financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension scheme financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension scheme financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director Finance (s151 officer); and the overall presentation of the pension scheme financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension scheme financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension scheme financial statements

In our opinion:

- the pension scheme financial statements present a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2017 and of the amount and disposition at that date of the scheme's assets and liabilities, and
- the pension scheme financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension scheme financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension scheme financial statements.

Gareth Kelly

Gareth Kelly

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

110 Queen Street
Glasgow
G1 3 BX

26 September 2017