

# Statement of Accounts 2010/11





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# Foreword to the Accounts

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## 1. Revenue Expenditure

### 1.1 Introduction

2010/11 was a challenging financial year for the Council, particularly following the loss of grant funding as a result of the first Coalition Government's budget. All services, the Children's and Education services in particular, responded positively to this challenging environment, to adjust their spending plans. However, in addition to these actions, it was necessary to make some use of reserves and balances to partly mitigate budget pressures. In particular, the Council utilised **£17.2m** of the earmarked revenue reserve it had established to mitigate future increases in the costs of waste disposal (see note 10, which commences on page 72), but plans to replenish this reserve over the course of the next few financial years, to bring it back up to the previously assessed level.

### 1.2 Background to the 2010/11 Budget

The Council's 2010/11 Revenue Budget was built to reflect the priorities of the people of Essex and to meet our statutory obligations; our goal was to deliver the best quality of life in Britain. We aimed to achieve this by using our resources to support the people in Essex to live life to their full potential in education, business and leisure; and to support families and neighbourhoods by providing them with the services required for an excellent quality of life.

Each year we set out our priority policies, coupled with measurable objectives that demonstrate our progress with delivering improved quality of life in Essex. In doing so, we aim to respond to the concerns and priorities of our residents and other stakeholders – this response is our vision 'EssexWorks', so called as we think this reflects the work ethic and characteristic pragmatism of the people of Essex.

EssexWorks is based on three delivery programmes, designed to help us achieve our medium term goals:

- **Our people** - policies which enable people to reach their potential and enhance residents' quality of life.
- **Our Economy** - policies that invest in key services, provide better value for money for the County's taxpayers and enhance the County's infrastructure.
- **Our World** - policies which specifically promote sustainability and ensure that the County's physical environment is protected.

We made nine pledges to the Essex public, with at least one against each priority in each delivery programme. These pledges represent the most important initiatives and reflect the priorities of our citizens. Meeting the pledges each year will be a step towards achieving the longer term ambitions outlined in our 'EssexWorks' vision. The nine pledges for 2010/11 were to:

- Increase our sponsorship of new apprenticeships in Essex.

# Foreword to the Accounts

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- Increase opportunities for residents to adopt a healthier diet and to undertake more physical activity, in partnership with the NHS and District and Borough Councils.
- Recruit more foster carers and improve the support we offer them.
- Promote rural access and community transport throughout the County.
- Expand Universal Broadband throughout Essex.
- Promote the establishment of a new generation of community orchards and allotments in Essex.
- Expand the delivery of sustainable energy advice throughout Essex.
- Support and promote initiatives to rehabilitate offenders and provide payback to communities.
- Keep next year's council tax increase below the level of inflation.

As part of our integrated service and financial planning process, we reviewed our budgets to ensure that we had resources available to invest in our priorities and spend public money as effectively as possible.

We set a budget for 2010/11 that provided **£904.094m** for delivery of our EssexWorks priorities. This budget was financed from general government grants (**£113.312m**), non domestic rates (**£215.423m**) and local taxpayers (**£575.359m**). This budget allowed for inflationary pressures of **£20.176m** and provided for new investment of **£106.588m**. As a consequence of the review process, savings and efficiencies of **£88.315m** were identified to allow us to re-direct resources to our priorities and **£19.558m** was withdrawn from reserves.

The Council Tax for band D amounted to **£1,086.75**. This represented an increase of **1.9%** over that for 2009/10.

## 1.3 Outturn position

The Revenue Budget was identified against the Council's Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet. Cabinet Members monitored actual spending against their approved budgets throughout the year, and Cabinet reviewed the overall position on a quarterly basis.

Approved total net expenditure was increased from **£904.094m** to **£985.697m** during the year to take account of unspent budget brought forward from 2009/10, which was funded from the General Fund Balance, and additional general and capital grant funding (i.e. net of the grant losses announced in June 2010 as part of the first Coalition Government's budget).

The end of year position is set out within the following table, which compares actual net expenditure with the finally approved budget for the Cabinet Members' portfolios, and shows how net expenditure was financed.

# Foreword to the Accounts

Revenue Outturn	2010/11 Budget		Actual net expenditure £000	(Under) / Over spend	
	Original £000	Final Estimate £000		£000	%
<b>Controllable Net Expenditure</b>					
Adults, Health and Community Wellbeing	375,808	376,556	374,497	(2,059)	(0.55%)
Children's Services	145,597	139,349	145,504	6,155	4.42%
Education and 2012 Games	56,149	62,771	63,938	1,167	1.86%
Highways and Transportation	73,987	84,303	82,401	(1,902)	(2.26%)
Environment and Waste	64,333	64,022	62,889	(1,133)	(1.77%)
Heritage, Culture and the Arts	21,517	22,042	22,417	375	1.70%
Leader	17,365	15,431	14,836	(595)	(3.86%)
Communities and Planning	5,001	5,511	5,029	(482)	(8.75%)
Major Projects and Commercial Services	1,882	1,685	1,759	74	4.39%
Finance and Transformation	2,676	2,260	2,723	463	20.49%
Recharged strategic support services	68,988	95,433	84,315	(11,118)	(11.65%)
Building Maintenance	2,652	3,402	2,689	(713)	(20.96%)
Operating costs					
Interest payable	20,395	16,264	15,455	(809)	(4.97%)
Other operating costs	47,744	96,668	113,018	16,350	16.91%
<b>Total net expenditure</b>	<b>904,094</b>	<b>985,697</b>	<b>991,470</b>	<b>5,773</b>	<b>0.59%</b>
<b>Financed by</b>					
General government grant	(113,312)	(195,233)	(199,608)	(4,375)	2.24%
National non-domestic rates	(215,423)	(215,423)	(215,423)	-	-
Council taxpayers	(575,359)	(575,359)	(575,359)	-	-
<b>Total financing</b>	<b>(904,094)</b>	<b>(986,015)</b>	<b>(990,390)</b>	<b>(4,375)</b>	<b>0.44%</b>
<b>Deficit / (surplus) for the year</b>	<b>-</b>	<b>(318)</b>	<b>1,080</b>	<b>1,398</b>	<b>(439.62%)</b>

The outturn position shows a net deficit of **£1.080m**, which is a variance of **£1.398m** from the budgeted position. This variance reflects an under spend of **£16.934m** and the appropriation of **£18.332m** into earmarked revenue reserves.

The net under spend of **£16.934m** reflects:

- A net under spend by services of **£9.769m**;
- The receipt of additional general government grant at the year end, amounting to **£4.375m**;
- A small under spend of **£646,000** on interest and capital financing; and
- Unspent contingencies of **£2.144m**.

The appropriation of **£18.332m** into earmarked revenue reserves reflects the setting aside of funds for specific policy purposes, as detailed within Note 10 to the Accounts, which commences on page 72.

The net deficit of **£1.080m** has been financed from the General Fund Balance.

The presentation of services' expenditure differs from that provided in the Comprehensive Income and Expenditure Statement, which is shown according to the mandatory service headings specified by the CIPFA Best Value Accounting Code of Practice 2010 (see note 37 to the accounts, which commences on page 118, for further details).

# Foreword to the Accounts

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## 2. Capital Expenditure

### 2.1 Background to the Budget

Capital expenditure was originally estimated to amount to **£383.921m** in 2010/11; this sum included **£238.178m** for specific schemes. Each major capital project was subject to the Council's programme management governance process, which tracks projects through the phases of development.

The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence and sustainability of that borrowing. The Council determined that it would borrow up to **£144.077m** for capital financing purposes in 2010/11. The remainder of the capital programme was to be financed from grants and contributions (**£238.178m**) and earmarked reserves (**£1.666m**).

### 2.2 Outturn position

Capital payment guidelines were reduced to **£301.784m** during the year, primarily to take account of slippage in schemes into 2011/12. In comparison, actual expenditure amounted to **£248.132m**, giving rise to an under spend of **£53.652m**.

The end of year position is set out in the following table, which compares actual capital expenditure, and revenue expenditure funded from capital under statute, with the finally approved budget by portfolio, and shows how the expenditure has been financed.



# Foreword to the Accounts

	Approved expenditure £000	Actual expenditure			Variance over / (under) £000
		Capital Payments £000	Revenue Expenditure funded from Capital £000	Total expenditure £000	
<b>Capital payments</b>					-
Adults, Health & Community Wellbeing	740	130	-	130	(610)
Children's Services	36,037	12,760	15,083	27,843	(8,194)
Education and 2012 Games	110,182	28,644	67,904	96,548	(13,634)
Highways and Transportation	127,533	109,899	673	110,572	(16,961)
Chief Whip, Environment & Waste	6,853	2,985	494	3,479	(3,374)
Heritage, Culture and the Arts	4,070	354	1,503	1,857	(2,213)
Leader	2,208	329	493	822	(1,386)
Communities and Planning	1,655	40	1,500	1,540	(115)
Major Projects and Commercial Services	2,161	378	(46)	332	(1,829)
Deputy Leader, Finance and Transformation	10,345	4,891	118	5,009	(5,336)
<b>Total of capital payments financed</b>	<b>301,784</b>	<b>160,410</b>	<b>87,722</b>	<b>248,132</b>	<b>(53,652)</b>
<b>Financed by</b>					-
Borrowing	(51,545)	(30,253)	(21,292)	(51,545)	-
Unsupported Borrowing	(67,757)	(59,985)	(6,098)	(66,083)	(1,674)
Government grants and contributions	(179,951)	(66,850)	(55,925)	(122,775)	(57,176)
Capital receipts	(2,531)	(3,322)	(3,467)	(6,789)	4,258
Earmarked reserves applied	-	-	(940)	(940)	940
<b>Total financing</b>	<b>(301,784)</b>	<b>(160,410)</b>	<b>(87,722)</b>	<b>(248,132)</b>	<b>(53,652)</b>

The under spend largely results from slippage in capital projects. **£51.832m** of the under spend will therefore be carried forward to meet the costs of these projects in 2011/12.

## 2.3 Capital projects undertaken

The most significant of the capital projects undertaken during 2010/11 were as follows:

Major schemes	Capital payments (£000)
▪ Academy schools	34,447
▪ Sadlers Farm junction	26,965
▪ Formula capital grant allocated to fund schools' projects	21,767
▪ Early years provision	18,803
▪ Harlow Passmores School	13,438
▪ Highways maintenance initiative programme	9,432
▪ Roscommon Way (Canvey Island)	8,330
▪ A12 – Junction 28 (Colchester)	7,697
▪ A414 dualling – Junction 7 (Harlow)	6,517

# Foreword to the Accounts

Major schemes	Capital payments (£000)
▪ Basildon Enterprise corridor (A127, A130, A1245)	6,249

## 2.4 Significant disposals

The most significant asset disposals during 2010/11 are as follows:

Significant disposals	Capital receipts (£000)
Former Fryerns School (part disposal)	5,505
Land at Pioneer School (Moat House campus)	1,927
Former Laindon School playing field	3,985
Dunmow Infants School	2,235
Other receipts	419



**Margaret Lee**  
**Executive Director for Finance**  
**23 September 2011**

# Explanatory Foreword

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## 1. Accounting statements

The following paragraphs provide an introduction to the Statement of Accounts and an overview of the Council's financial performance and position.

The Council's accounting statements for 2010/11, are set out on pages 20 to 25, and comprise:

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

Supplementary information is set out within the notes to the accounts (see pages 26 to 140) to aid interpretation of these financial statements, and to provide further information on the financial performance of the Council during 2010/11.

## 2. Group Accounts

The Council owns all of the ordinary shares of the Essex Cares Ltd group which are vested with the Council as a corporate share holder. Essex Cares Ltd is a local authority trading company that provides adult social care services.

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and Essex Cares Ltd have been consolidated. The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

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

These statements, together with explanatory notes and accounting policies, are set out on pages 141 to 151.

## 3. Pension Fund

The Essex County Council Pension Fund provides pensions and other benefits to employees of the Council, district, borough and unitary councils and other scheduled and admitted bodies. An annual report and accounts is published for the Fund. However, the accounting statements of the Fund are also included within this Statement of Accounts.

# Explanatory Foreword

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They comprise:

- **Fund Account**

This statement summarises the financial transactions of the Pension Fund for the year.

- **Net Assets Statement**

This statement summarises the net assets relating to the provision of pensions and other benefits payable to former employees of the Council and other admitted bodies.

Further information is provided in the notes to the Pension Fund accounts (see pages 152 to 178).

## 4. Borrowing

### 4.1 Long term borrowing

The Council undertakes long term borrowing, for periods of in excess of one year, in order to finance capital spending. The Council secured **£40m** of new loans during 2010/11; these loans were taken from the Public Works Loan Board (PWLB).

Further details of long term borrowing activities are provided within Note 24, which commences on page 99.

### 4.2 Short term borrowing

The Council undertook short term borrowing during 2010/11 in accordance with its agreement to temporarily borrow the surplus cash balances of the Essex Probation Board, Essex Cares Ltd and Library Services Slough Ltd and to cover temporary shortfalls of cash arising as a consequence of timing differences between receipts and payments.

Further details of short term borrowing activities are provided within Note 24, which commences on page 99.

## 5. Investments

The Council's surplus cash balances were invested in accordance with guidance issued by the Government. The primary objectives were:

- Firstly, to safeguard the principal sums invested;
- Secondly, to ensure adequate liquidity; and
- Lastly, to consider investment returns or yield.

Surplus cash balances were mainly invested on a short term basis (up to a maximum period of 364 days), until the funds were next required. Funds were invested with the UK Government, other local authorities, money market funds and bodies with high credit ratings.

# Explanatory Foreword

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The Council also lent funds to Essex Cares Ltd during 2010/11, as part of its agreement to provide treasury management support to the company. Interest was charged on amounts lent to Essex Cares Ltd, in accordance with the terms of a formal agreement between the two parties.

Further details of investment activities are provided within Note 24, which commences on page 99.

## 6. Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual payments will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2010, the Council's net pensions' deficit amounted to **£800.806m**. In comparison, the deficit amounts to **£673.278m** at 31 March 2011. The reduction in the Council's pension liabilities in 2010/11 largely results from now being required to link future pension increases to the Consumer Prices Index (CPI) rather than to the Retail Prices Index (RPI). Statutory requirements for funding the remaining deficit mean that the financial position of the Council remains healthy.

Note 2.7.3, on page 34, explains the basis on which the Council accounts for retirement benefits, and the change to the pension liability in 2010/11 is analysed in note 33.5 to the accounts, which commences on page 114.

## 7. Accounting policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves.

All of the accounting policies adopted, that are material in the context of the Council's 2010/11 financial statements, are described in the Statement of Accounting Policies, which is set out in Note 2, which commences on page 29.

# Explanatory Foreword

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In the 2010/11 Statement of Accounts, the Council has adopted a number of changes to its accounting policies as a result of the move from preparing its accounts under UK Generally Accepted Accounting Practice (UK GAAP) to an International Financial Reporting Standards (IFRS) basis. This move was made in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK. As a result, the 2009/10 comparative figures have been restated in compliance with these new accounting policies.

The accounting policies which are new / have changed under IFRS are:

- **Short term accumulating compensated absences**

The Council is now required to accrue for benefits received by employees through their contract of employment, entitlement to which is built up as they provide service to the Council. The most significant such benefit is holiday entitlement earned but not yet taken. Under previous accounting arrangements no accrual was required.

- **Property Plant and Equipment**

From 1 April 2010, the Council is required to separately depreciate significant components of items of property, plant and equipment which have a useful economic life that is different to the remainder of the asset.

Where material decreases are identified to the value of items of property, plant and equipment, the impairment loss is written down against the Revaluation Reserve (i.e. up to the amount of any previously accumulated gains) and thereafter to the Comprehensive Income and Expenditure Statement.

- **Investment properties**

The Council is required to separately disclose investment properties. In order to qualify as an investment property the asset must be held solely for capital appreciation purposes or for rental income.

- **Assets held for sale**

Set specified criteria must be met before an item of property, plant and equipment can be classified as an asset held for sale. Once classified as an asset held for sale, the value of the asset must be reviewed and depreciation is no longer charged on the asset.

- **Government Grants**

Government grants and third party contributions are recognised in the Comprehensive Income and Expenditure Statement when the conditions entitling the Council to the income have been satisfied.

Capital grants are then reversed out of the General Fund Balance in the Movement in Reserves Statement and are either transferred to the Capital Adjustment Account or to the Capital Grants Unapplied Account (i.e. depending on whether the grant has been applied to finance capital expenditure). Previously, capital grants and contributions were recognised in the Comprehensive Income and Expenditure Statement over the life of the assets which they were used to fund.

# Explanatory Foreword

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Where a grant or condition has been received, but the conditions are not satisfied, the amount is carried in the Balance Sheet as a 'Receipt in Advance'.

The Council's accounting policies, which are set out in note 2 to the accounts, and note 6 provide further details of these changes, including the reasons for the changes, the impact on the accounts and the detailed effects of the prior period adjustments on the 2009/10 comparative figures.

## 8. Considerations for 2011/12

### 8.1 Revenue investment plans

The budget requirement for 2011/12 is estimated at **£864.245m**. A like-for-like comparison between the budget requirements for 2010/11 and 2011/12 is a reduction of **£35m** (3.9% reduction). This is the net result of:

- Increases relating to new investment and other pressures (**£85m**), pay and price inflation (**£24m**) and a contribution to reserves (**£8m**); and
- Decreases relating to efficiencies and savings (**£98m**) and reductions in grant funding (**£54m**).

Further details of the Council's revenue investment plans are published in our 2011/12 Corporate Business Plan, which is published on the Council's web site.

### 8.2 Capital investment plans

Overall, the capital programme for 2011/12 has been set at **£221.045m**. It is intended to finance the capital programme from a combination of borrowing (**£43.388m**), grants and contributions (**£171,659m**) and capital receipts (**£5.998m**). Each major scheme will be subject to the Council's programme management governance process.

# Explanatory Foreword

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## 9. Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 194 to 199.

A handwritten signature in black ink that reads "Margaret Lee". The signature is written in a cursive style and is positioned in the center of a rectangular box.

**Margaret Lee**  
**Executive Director for Finance**  
**23 September 2011**

Note:

*These financial statements replace the unaudited financial statements certified by the Executive Director for Finance on 30th June 2011.*



# Statement of Responsibilities

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## 1. 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 responsibility for the administration of those affairs. At Essex County Council, that officer is the Executive Director for Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts. The Council has delegated this responsibility to the Audit Committee.

## 2. Executive Director for Finance's responsibilities

The Executive Director for Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out within the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice'). In preparing this Statement of Accounts, the Executive Director for Finance has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates which were reasonable and prudent.
- Complied with the local authority Code.
- Kept proper accounting records that were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## 3. Executive Director for Finance's certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents a true and fair view of the financial position of the Council at 31 March 2011 and its expenditure and income for the year then ended.



**Margaret Lee, Executive Director for Finance**

**23 September 2011**

Note:

*These financial statements replace the unaudited financial statements certified by the Executive Director for Finance on 30th June 2011.*

# Statement of Responsibilities

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## 4. Chairman of the Audit Committee's certificate

I approve these accounts on behalf of the Audit Committee and confirm that they were considered by the Committee at its meeting on 26 September 2011.

A handwritten signature in blue ink, appearing to read 'Michael Lager', written over a horizontal line.

**Cllr Michael Lager**  
**Chairman of the Audit Committee**  
**28 September 2011**

# Independent Auditor's Report

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## Independent auditor's report to the Members of Essex County Council

### Opinion on the Authority and Group accounting statements

#### **1. Opinion on the Authority and Group accounting statements**

I have audited the Authority and Group accounting statements of Essex County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

#### **2. Respective responsibilities of the Executive Director for Finance and auditor**

As explained more fully in the Statement of the Executive Director for Finance's Responsibilities, the Executive Director for Finance is responsible for the preparation of the Authority and Group'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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **3. Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

# Independent Auditor's Report

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## 4. Opinion on accounting statements

In my opinion the accounting statements:

- Give a true and fair view of the state of Essex County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- Give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## 5. Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## 6. Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## Opinion on the pension fund accounting statements

## 7. Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

# Independent Auditor's Report

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## **8. Respective responsibilities of the Executive Director for Finance and auditor**

As explained more fully in the Statement of the Executive Director for Finance's Responsibilities, the Executive Director for Finance is responsible for the preparation of the pension fund'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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **9. Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **10. Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- Give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **11. Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

# Independent Auditor's Report

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

### **12. Authority's responsibilities**

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

### **13. Auditor's responsibilities**

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

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

### **14. Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- Securing financial resilience; and
- Challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2011.

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

# Independent Auditor's Report

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## **15. Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Essex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the Authority and Group accounts of Essex County Council and Essex Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Rob Murray**  
**District Auditor**  
**Officer of the Audit Commission**  
**3rd Floor, Eastbrook Shaftesbury Road Cambridge, CB2 8BF**  
**30 September 2011**

# Accounting Statements

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## Introduction

The Accounting statements comprise:

### ▪ **Movement in Reserves Statement**

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

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

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.

### ▪ **Comprehensive Income and Expenditure Statement**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (as defined by International Financial Reporting Standards), rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### ▪ **Balance Sheet**

The Balance Sheet shows the value, as at the Balance Sheet date, of the asset and liabilities recognised by the Council.

The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories:

- **Usable reserves** - 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.
- **Unusable reserves** - those that the Council is not able to use to provide services. These include reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### ▪ **Cash Flow Statement**

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

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of



# Accounting Statements

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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 (ie borrowing) to the Council.

# Movement in Reserves Statement

For the year ended 31 March 2011

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000		
<b>Balance at 31 March 2009 (restated)</b>		(229,747)	(26,460)	(14,254)	(12,028)	(282,489)	(1,477,513)	(1,760,002)
<b>Movement in Reserves during 2009/10</b>								
Deficit on Provision of Services		-	241,921	-	-	241,921	-	241,921
Other Comprehensive Expenditure & Income		-	-	-	-	-	241,399	241,399
<b>Total Comprehensive Expenditure and Income</b>		-	241,921	-	-	241,921	241,399	483,320
Adjustments between accounting basis & funding under regulations	9	-	(213,382)	2,494	4,885	(206,003)	206,003	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	28,539	2,494	4,885	35,918	447,402	483,320
Transfers from Earmarked Reserves		35,150	(35,150)	-	-	-	-	-
<b>(Increase) / decrease in 2009/10</b>		35,150	(6,611)	2,494	4,885	35,918	447,402	483,320
<b>Balance at 31 March 2010 (restated)</b>		(194,597)	(33,071)	(11,760)	(7,143)	(246,571)	(1,030,111)	(1,276,682)
<b>Movement in Reserves during 2010/11</b>								
Deficit on Provision of Services		-	17,429	-	-	17,429	-	17,429
Other Comprehensive Expenditure & Income		-	-	-	-	-	(36,816)	(36,816)
<b>Total Comprehensive Expenditure and Income</b>		-	17,429	-	-	17,429	(36,816)	(19,387)
Adjustments between accounting basis & funding under regulations	9	-	(30,861)	(9,206)	(5,866)	(45,933)	45,933	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	(13,432)	(9,206)	(5,866)	(28,504)	9,117	(19,387)
Transfers to Earmarked Reserves		(14,512)	14,512	-	-	-	-	-
<b>(Increase) / decrease in 2010/11</b>		(14,512)	1,080	(9,206)	(5,866)	(28,504)	9,117	(19,387)
<b>Balance at 31 March 2011</b>		(209,109)	(31,991)	(20,966)	(13,009)	(275,075)	(1,020,994)	(1,296,069)

# Comprehensive Income and Expenditure Statement

For year ended 31<sup>st</sup> March 2011

2009/10 (restated)				Note	2010/11			
Gross expenditure	Income	Government grants	Net Expenditure Restated		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
9,292	(3,466)	-	5,826		7,849	(3,859)	-	3,990
149,263	(14,695)	(5,612)	128,956		131,748	(11,920)	(8,306)	111,522
1,575,604	(170,191)	(981,007)	424,406		1,500,480	(158,786)	(1,048,120)	293,574
146,748	(38,821)	(837)	107,090		140,173	(35,411)	(2,887)	101,875
2,101	(762)	-	1,339		754	(901)	-	(147)
531,447	(125,824)	(35,507)	370,116		533,001	(133,146)	(10,080)	389,775
27,017	(256)	(1)	26,760		23,040	(437)	(373)	22,230
6,754	(319)	(61)	6,374		6,346	(300)	(47)	5,999
-	-	-	-	8	(119,758)	-	-	(119,758)
<b>2,448,226</b>	<b>(354,334)</b>	<b>(1,023,025)</b>	<b>1,070,867</b>		<b>2,223,633</b>	<b>(344,760)</b>	<b>(1,069,813)</b>	<b>809,060</b>
41,778	-	-	41,778	11	138,488	-	-	138,488
127,341	(62,047)	-	65,294	12	138,580	(76,895)	-	61,685
-	(756,503)	(179,515)	(936,018)	14	-	(792,196)	(199,608)	(991,804)
<b>2,617,345</b>	<b>(1,172,884)</b>	<b>(1,202,540)</b>	<b>241,921</b>		<b>2,500,701</b>	<b>(1,213,851)</b>	<b>(1,269,421)</b>	<b>17,429</b>
			3,709	33.2				(458)
			237,690	33.5				(36,358)
			<b>241,399</b>					<b>(36,816)</b>
			<b>483,320</b>					<b>(19,387)</b>

# Accounting Statements

## Balance Sheet as at 31 March 2011

1 April 2009 Restated £000	31 March 2010 Restated £000	Note		31 March 2011 £000
			<b>Property, Plant and Equipment</b>	
			<b>Operational assets</b>	
2,138,673	1,960,841		Land and buildings	1,829,784
7,421	6,862		Vehicles, plant and equipment	8,483
483,893	549,082		Infrastructure	611,322
2,257	2,616		Community assets	2,830
83,866	90,380		<b>Non operational assets</b>	
7,980	7,046		Assets under construction	109,160
			Surplus assets held pending disposal	5,496
<u>2,724,090</u>	<u>2,616,827</u>	<b>18</b>	<b>Total Property, Plant and Equipment</b>	<u>2,567,075</u>
4,209	3,810	<b>19</b>	Investment property	3,920
713	452	<b>20</b>	Intangible assets	1,326
65,197	11,259	<b>24</b>	Long term investments	1,042
28,554	27,191	<b>25</b>	Long term debtors	26,095
<u>2,822,763</u>	<u>2,659,539</u>		<b>Long term assets</b>	<u>2,599,458</u>
48,869	-	<b>24</b>	Short term investments	21,354
218	162		Inventory	201
120,905	166,690	<b>25</b>	Short term debtors	157,718
127,458	111,750	<b>26</b>	Cash and cash equivalents	85,287
1,496	4,171	<b>27</b>	Assets held for sale	3,373
<u>298,946</u>	<u>282,773</u>		<b>Current Assets</b>	<u>267,933</u>
(5,037)	(5,068)	<b>24</b>	Short-term borrowing	(7,821)
(234,608)	(280,052)	<b>28</b>	Creditors	(234,663)
(13,948)	(13,892)	<b>29</b>	Revenue grant receipts in advance	(24,795)
(43,650)	(66,777)	<b>29</b>	Capital grant receipts in advance	(96,723)
(5,109)	(6,237)	<b>30</b>	Provisions (short term)	(10,892)
(2,481)	(2,681)		Finance Lease obligations (short term)	(2,998)
<u>(304,833)</u>	<u>(374,707)</u>		<b>Current liabilities</b>	<u>(377,892)</u>
-	(135)	<b>28</b>	Long term creditors	(35)
(22,411)	(26,849)	<b>30</b>	Provisions	(23,450)
(342,744)	(323,718)	<b>24</b>	Long term borrowing	(361,588)
(121,551)	(119,707)		Other long term liabilities	
(20,436)	(19,708)		Finance lease obligations	(117,117)
(549,732)	(800,806)		Deferred credits	(17,962)
			Pension liability	(673,278)
<u>(1,056,874)</u>	<u>(1,290,923)</u>		<b>Long term liabilities</b>	<u>(1,193,430)</u>
<u>1,760,002</u>	<u>1,276,682</u>		<b>Net Assets</b>	<u>1,296,069</u>
(229,747)	(194,597)	<b>10</b>	<b>Usable reserves</b>	
(26,460)	(33,071)		Earmarked reserves	(209,109)
(14,254)	(11,760)		General Fund Balance	(31,991)
(12,028)	(7,143)		Usable capital receipts reserve	(20,966)
<u>(282,489)</u>	<u>(246,571)</u>		Capital grants unapplied	(13,009)
(103,910)	(96,136)	<b>33</b>	<b>Unusable reserves</b>	
(1,933,998)	(1,753,300)		Revaluation reserve	(82,400)
3,551	3,382		Capital Adjustments Account	(1,630,394)
549,732	800,806		Financial Instruments Adjustment Account	3,342
(9,721)	(7,221)		Pension reserve	673,278
(3,370)	(1,501)		Deferred capital receipts	(6,221)
20,203	23,859		Collection Fund Adjustment Account	(2,915)
<u>(1,477,513)</u>	<u>(1,030,111)</u>		Accumulating Compensated Absences Adjustment Account	24,316
<u>(1,760,002)</u>	<u>(1,276,682)</u>		<b>Total Reserves</b>	<u>(1,020,994)</u>
				<u>(1,296,069)</u>

# Accounting Statements

## Cash Flow Statement

For year ended 31 March 2011

2009/10 £000	Notes		2010/11 £000
(20,723)	34	Operating activities	38,568
25,654	35	Investing activities	(103,381)
(20,639)	36	Financing activities	38,350
<u>(15,708)</u>		<b>Net decrease in cash and cash equivalents</b>	<u>(26,463)</u>
<b>127,458</b>		Cash and cash equivalents at 1st April	<b>111,750</b>
<u><b>111,750</b></u>		<b>Cash and cash equivalents at 31st March</b>	<u><b>85,287</b></u>

# Notes to the Accounts

## 1. Introduction

This section contains notes that are intended to aid interpretation of the financial statements (as set out on pages 22 to 25) and provide further information on the financial performance of the Council during 2010/11. The notes set out within this section are listed below for ease of reference.

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## Notes to the Accounts

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# Notes to the Accounts

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## 2. Accounting policies

### 2.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year, and its position as at 31 March 2011. The purpose of the Statement of Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events within the Statement of Accounts.

The accounting policies adopted, that are material in the context of the Council's 2010/11 Statement of Accounts, are set out within the following paragraphs.

### 2.2 General principles

The Council is required, by the Accounts and Audit Regulations 2011, to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

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

### 2.3 Accruals of income and expenditure

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received. In particular:

- **Sale of goods:** revenue is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, the amount of revenue can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Rendering of services:** revenue is recognised when the Council can reliably measure the proportion of the transaction that is complete and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Receipt of goods and services:** expenditure is recognised when the goods are consumed and the services are received by the Council.
- **Interest:** Amounts payable on borrowings and receivable on investments are accounted for on the basis of the effective interest rate for the relevant

# Notes to the Accounts

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financial instrument rather than according to the cash flows fixed or determined by the contract.

- **Debtors and creditors:** where income and expenditure has been recognised, but the cash has not been received or paid, a debtor or creditor for the relevant amount is recognised in the Balance Sheet.
- **Doubtful debts:** where it is doubtful that debts will be settled, the balance of debtors is reduced and a charge is made to revenue for the income that might not be recoverable.

## 2.4 Provisions, contingent liabilities and contingent assets

### 2.4.1 Provisions

Provisions are recognised when an event has taken place that gives the Council a legal or constructive obligation, it is probable that the obligation will be settled by the transfer of economic benefits and a reliable estimate can be made of the amount of the obligation.

The Council establishes provisions by charging the appropriate service line in the Comprehensive Income and Expenditure Statement with the best estimate, (taking into account relevant risks and uncertainties), of the likely settlement as at the Balance Sheet date, in the year that the Council first becomes aware of the obligation. When payments are eventually made, they are charged directly to the relevant provision in the Balance Sheet.

The provisions are reviewed annually to ensure that the amounts held on the Balance Sheet represent the best estimates of the expenditure required to settle the obligation. Where a lower settlement is made than anticipated, the excess provision is credited back to the relevant service.

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

### 2.4.2 Contingent liabilities

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control.

# Notes to the Accounts

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Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent liabilities are assessed continually. If an outflow of resources becomes probable, a provision is recognised.

## **2.4.3 Contingent assets**

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain events not wholly within the Council's control.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

Contingent assets are assessed continually. If it becomes virtually certain that an inflow of economic benefits or service potential will arise, and the asset's value can be reliably measured, a debtor and the related revenue are recognised in the financial statements.

## **2.5 Earmarked revenue reserves**

The Council sets aside specific amounts as reserves for future contingency or policy purposes. Reserves are established by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service revenue account in that year, to score against the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. An amount is then appropriated in the Movement in Reserves Statement, from the Reserve into the General Fund Balance, so that there is no net charge against Council Tax for the expenditure.

## **2.6 Government grants and contributions**

Government grants and third party contributions and donations are recognised as due and credited as income in the Comprehensive Income and Expenditure Statement, when there is reasonable assurance that:

- There are no conditions attached to them or that the Council has complied with the conditions attached to them; and
- The grants and contributions will be received.

## Notes to the Accounts

A condition exists when the grant must be returned to the grantor if not used as set out in the terms of the grant.

Where a grant or contribution has been received, but the conditions are not satisfied, the amount will be carried in the Balance Sheet as a receipt in advance.

Once the conditions are satisfied, the grants or contributions are credited to the Comprehensive Income and Expenditure Statement as follows:

Nature of grant	Accounting treatment
Specific revenue grants and contributions	Grants are credited to the relevant service line in the Comprehensive Income and Expenditure Statement when the conditions attached to the grants or contributions have been satisfied.
Specific capital grants and contributions	<p>Grants / contributions are credited to Taxation and Non-specific grant income in the Comprehensive Income and Expenditure Statement when the conditions attached to the grants or contributions have been satisfied.</p> <p>The grant / contribution is then reversed out of the General Fund Balance in the Movement in Reserves Statement and is either transferred to the:</p> <ul style="list-style-type: none"> <li>▪ Capital Adjustment Account if the grant eligible expenditure has been incurred (i.e. to reflect the application of capital resources to finance the expenditure); or</li> <li>▪ Capital Grants Unapplied Account (i.e. to reflect its status as a capital resource available to finance expenditure). When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.</li> </ul>
Non ring-fenced grants	<p>Grants are credited to Taxation and Non-specific grant income in the Comprehensive Income and Expenditure Statement when due.</p> <p>Where non ring-fenced grants are awarded to finance capital expenditure, the grant is reversed out the General Fund Balance in the Movement in Reserves Statement and is transferred to the Capital Adjustment Account .</p>

# Notes to the Accounts

Where revenue grants and contributions are credited to the Comprehensive Income and Expenditure Statement but associated expenditure has not yet been incurred, the grant will be set aside, by an appropriation in the Movement in Reserve Statement from the General Fund to an Earmarked Revenue Reserve (i.e. in accordance with Accounting Policy 2.5). This reserve will be drawn upon in subsequent years, to be matched with the related expenditure.

## 2.6.1 Area Based Grant

Area based grant (ABG) is a general grant allocated by central government directly to the Council as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## 2.7 Employee benefits

### 2.7.1 Benefits payable during employment

Short-term employee benefits (i.e. those that fall due wholly within 12 months of the year-end) include:

- Salaries and wages;
- Short term compensated absences (including paid annual leave and paid sick pay);
- Performance related bonus payments; and
- Non monetary benefits (e.g. cars).

Short-term employee benefits are recognised as an expense in the year in which employees render service to the Council. This means that:

Short term employee benefits	When recognised
Accumulating absences (e.g. annual leave and flexi-time)	Recognised when employees render services that increase their entitlement to future compensated absences.
Non accumulating absences (e.g. sick leave, maternity / paternity leave and jury service)	Recognised when the absence occurs.
Performance related bonus payments	Recognised when the Council has a constructive obligation to make such payments as a result of past events, and the obligations can be estimated reliably.

# Notes to the Accounts

Short term employee benefits	When recognised
Non monetary benefits (e.g. cars)	Recognised according to the same principals as benefits payable in cash.

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

## 2.7.2 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.

As termination benefits do not provide the Council with future economic benefits, they are charged on an accruals basis to the Comprehensive Income and Expenditure Statement immediately. That is, when the Council is demonstrably committed to either terminating the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve an enhancement of pensions (usually in the form of added years), the amount recognised in the Surplus or Deficit on the Provision of Services, (which is calculated in accordance with accounting standards), is replaced, by an appropriation in the Movement in Reserves Statement to / from the Pensions Reserve, with the cash paid to the pension fund and pensioners. This adjustment is required by Regulation, to ensure that it is the amount payable by the Council to the Pension Fund or pensioner in the year that is charged to the General Fund.

## 2.7.3 Post employment (retirement) benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Department for Education.
- The Local Government Pension Scheme (LGPS), administered by the Council.

# Notes to the Accounts

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Both schemes provided defined benefits to members (retirement lump sums and pensions based on age, years of service and remuneration), earned as employees worked for the Council.

The arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Children's Service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' pensions in the year.

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme. Hence:

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method. The projected unit method assesses 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, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **5.5%** (2009/10: 5.6%). This discount rate is based upon the indicative rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value:
  - **Quoted securities** – current bid price
  - **Unquoted securities** – professional estimate of fair value
  - **Unitised securities** – current bid price
  - **Property** – Market value
- The changes in the net pensions liability is analysed into the following components:
  - **Current service cost** – the increase in liabilities as a result of service earned during the year is charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked).
  - **Past service cost** - the increase in liabilities arising from a current year decision, whose effect relates to years of service earned in earlier years, is debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

# Notes to the Accounts

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- **Gains/losses on settlements and curtailments** - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are debited or credited to the Surplus/Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Interest cost** - the expected increase in the present value of liabilities during the year, as they move one year closer to being paid, is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Expected return on assets** - the annual investment return on the LGPS's assets attributable to the Council is based on an average of the expected long term return, and is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **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, are recognised as Other Comprehensive Income and Expenditure.
- **Contributions paid to the LGPS** – cash paid as employer's contributions to the Pension Fund; these are not accounted for as an expense within the Comprehensive Income and Expenditure Statement.
- The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year to the LGPS, as determined in accordance with the statutory requirements governing the Scheme. Where this amount does not match the net amount charged to the Surplus or Deficit on the Provision of Services, the difference is taken to the Pensions Reserve. This is achieved by an appropriation in the Movement in Reserves Statement from the General Fund Balance to the Pensions Reserve (or vice versa) to remove the notional entries referred to above, and replace them with the amount payable to the Fund for the year. As a consequence of these entries, a negative balance arises on the Pension Reserve. This balance represents the beneficial impact on the General Fund Balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## 2.7.4 Discretionary benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.



# Notes to the Accounts

## 2.8 Value added tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

## 2.9 Overheads and support services

The costs of overheads and support services are recharged to those that benefit from the supply or service, in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The full cost of overhead and support services are shared between services on agreed basis of allocation, with the exception of:

- Corporate and democratic core costs, which relate to the Council's status as a multi-functional, democratic organisation.
- Non distributed costs, which represent the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on assets held for sale.

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

## 2.10 Property, plant and equipment

### 2.10.1 Asset categories

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

#### Operational

- Land and buildings
- Vehicles, plant and equipment (*including IT hardware*)
- Infrastructure (*roads and highways*)
- Community assets (*including parks and historic buildings*)

# Notes to the Accounts

## Non operational

- Assets under construction
- Surplus assets held pending disposal

### 2.10.2 Recognition of Property, Plant and Equipment

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council operates de-minimis limits below which items will be charged to revenue rather than to capital on the grounds of materiality. The limits are as follows:

Category	De-minimis limit
General	£10,000
Trading activities	£6,000
Schools projects	£2,000
Land	Nil
Highways infrastructure	Nil

Expenditure on furniture and fittings is not capitalised.

### 2.10.3 Measurement

Items of Property, Plant and Equipment are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

## Notes to the Accounts

Borrowing costs incurred whilst items of Property, Plant and Equipment are under construction are not capitalised.

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

Asset category	Measurement basis
Land and buildings	<ul style="list-style-type: none"><li>▪ Fair value (this being the amount that would be paid for the asset in its existing use); or</li><li>▪ Depreciated replacement cost, if there is no market based evidence of fair value due to specialist nature of the asset.</li></ul>
Vehicles and equipment	<ul style="list-style-type: none"><li>▪ Depreciated historical cost.</li></ul>
Infrastructure assets	<ul style="list-style-type: none"><li>▪ Depreciated historical cost.</li></ul>
Community assets	<ul style="list-style-type: none"><li>▪ Depreciated historical cost.</li></ul>
Assets under Construction	<ul style="list-style-type: none"><li>▪ Depreciated historical cost.</li></ul>
Surplus assets (i.e. assets not in use but not held for sale)	<ul style="list-style-type: none"><li>▪ Fair value based on existing use value.</li></ul>

Assets included in the Balance Sheet at fair value are re-valued once every five years, as a minimum, to ensure that their carrying value is not materially different from their fair value at the year end.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise the unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for by writing the carrying amount of the asset down against:

- Any accumulated revaluation gains for the asset in the Revaluation Reserve (i.e. up to the amount of the accumulated gains); or
- The Comprehensive Income and Expenditure Statement (i.e. to the relevant service line), where there is no or insufficient balance in the Revaluation Reserve for the asset.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only. Gains arising prior to that have been consolidated into the Capital Adjustment Account.

# Notes to the Accounts

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## 2.10.4 Impairment

Assets are assessed at each year end to determine whether there is any indication that they may be impaired. Where the recoverable amount is estimated to be materially less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where material decreases in value are identified, the impairment loss is accounted for by writing the carrying amount of the asset down against:

- Any accumulated revaluation gains for the asset in the Revaluation Reserve (i.e. up to the amount of the accumulated gains); or
- The relevant service line in the Comprehensive Income and Expenditure Statement, where there is no or insufficient balance in the Revaluation Reserve for the asset.

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

## 2.10.5 Disposals

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, the asset is re-valued immediately and is classified as an Asset Held for Sale. Assets that are to be abandoned or scrapped are not classified as held for sale.

Assets held for sale are carried at the lower of the re-valued 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 only recognised up to the amount of any previously recognised losses within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on assets held for sale.

Once the asset is disposed of:

- The carrying amount of the asset (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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

# Notes to the Accounts

- Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

In relation to land, all amounts received for disposal are categorised as capital receipts. For all other Property, Plant and Equipment, amounts received for disposal in excess of £10,000 are categorised as capital receipts. These receipts are therefore appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement, and can then only be applied for new capital investment or to reduce the Council's underlying need to borrow.

The written off value of asset disposals is not a charge against Council Tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated from the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

## 2.10.6 Significant components

From 1 April 2010, where a significant component of an asset is replaced or restored and the expenditure extends the previously assessed standard of performance of the asset, the carrying amount of the old component is deducted from the carrying value of the asset to avoid double counting. If the carrying amount of the replaced component cannot be identified, the cost of the new component is used as an indication of the cost of the replaced component at the time it was acquired or constructed.

## 2.10.7 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, with the exception of assets without a determinable finite useful life and assets that are not yet available for use, by the allocation of their depreciable amounts over their useful lives.

Asset category	Depreciation bases
Land and buildings	<p>Buildings are depreciated, on a straight line basis, over a period commensurate with the useful economic life (UEL) of each asset. Land is not depreciated.</p> <p>Each part of our buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately: the building's structure, its roof, the plant and machinery and the external works.</p>

# Notes to the Accounts

Asset category	Depreciation bases
	<p>The UEL's for each of these significant components is re-assessed every time the assets are re-valued over the Council's five year rolling re-valuation programme; the UEL's for each of the significant components will not exceed:</p> <p>Structure – <b>100</b> years;            Roof – <b>80</b> years;            Plant and machinery – <b>30</b> years;            External works – <b>20</b> years.</p>
Community assets	Depreciated over <b>60</b> years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line, over an expected lifetime ranging between <b>5</b> and <b>20</b> years.
Roads and other infrastructure	<p>Depreciation on additions to assets since 2008/09 is provided on a straight-line basis over the following useful economic lives:</p> <ul style="list-style-type: none"> <li>▪ Roads and highway lighting – <b>40</b> years;</li> <li>▪ Structures (eg: bridges) – <b>120</b> years;</li> <li>▪ Off-highways drainage – <b>100</b> years; and</li> <li>▪ Other infrastructure – between <b>15</b> and <b>20</b> years.</li> </ul> <p>Additions to assets prior to 2008/09 are depreciated over <b>30 – 35</b> years.</p>
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

Depreciation charges commence the year after assets become operational.

Revaluation gains are also depreciated, with the 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.

## 2.11 Foundation, voluntary aided and academy schools

In accordance with the Council's interpretation of the accounting guidance set out within LAAP bulletin 46 issued by CIPFA, property, plant and equipment assets and

# Notes to the Accounts

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long term liabilities remain vested in the governing bodies of individual foundation, voluntary aided and academy schools. Therefore, values and amounts have not been incorporated into the Council's Balance Sheet.

## 2.12 Investment properties

Investment properties are those held solely to earn income from rentals and/or for capital appreciation purposes. This definition is not met if the property is:

- Used in any capacity to facilitate the delivery of services;
- Used for the production of goods; or
- 'Held for sale'.

Investment properties are initially measured at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Investment properties are not depreciated but are re-valued annually according to market conditions at the year end.

Gains and losses arising on the revaluation and/or disposal of investment properties are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. In accordance with statutory regulations, these gains and losses are then reversed out of the General Fund Balance in the Movement in Reserves Statement, and are posted to the Capital Adjustment Account and, in respect of asset disposals where the sales proceeds are greater than **£10,000**, to the Capital Receipts Reserve.

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.

## 2.13 Intangible assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Examples include software licences.

Development costs that are directly attributable to the design and testing of internally generated software products are recognised as an intangible asset when the following criteria are met:

- The project is technically feasible and it is intended to complete it; and
- The Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

# Notes to the Accounts

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Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are initially measured at cost. Subsequently, they are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. Impairment losses are also posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, the amortisation, impairment losses and disposal gains and losses charged to the Comprehensive Income and Expenditure Statement Account are reversed out of the General Fund Balance in the Movement in Reserves Statement and are posted to the Capital Adjustment Account and, for any sale proceeds greater than **£10,000**, to the Capital Receipts Reserve.

## **2.14 Charges to revenue for non current assets**

All services (including support services and trading activities) are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets held or occupied;
- Revaluation and impairment losses on the assets held or occupied (i.e. where there are no accumulated gains in the Revaluation Reserve against which the losses can be applied); and
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement; the annual revenue provision is determined in compliance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement on Reserves Statement for the difference between the two.



# Notes to the Accounts

## 2.15 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but 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.

Where the Council has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer is made in the Movement in Reserves Statement to the Capital Adjustment Account to mitigate the impact on the General Fund Balance.

## 2.16 Private Finance Initiative and Public Private Partnership schemes

### 2.16.1 Schemes

Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes involve operators designing, building, financing, and ultimately operating properties or roads on behalf of the Council.

The Council has entered into the following PFI and PPP contracts to date:

Scheme	Scheme Type	Year of commencement
A130 road scheme	PFI	1999/2000
Debden Park School	PFI	1999/2000
Tendring Primary Schools	PPP	2001/2002
Clacton Primary Schools	PFI	2003/2004

Where the Council is deemed to control the services that are provided under these schemes, and where ownership of the property, plant and equipment passes to the Council at the end of the contracts for no additional charges, the Council carries the assets used under the contracts on its own Balance Sheet as part of Property, Plant and Equipment.

PFI assets are recognised as Property, Plant and Equipment assets when they come into use. The assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset. A PFI liability is recognised at the same time as the PFI assets are recognised. It is

## Notes to the Accounts

measured initially at the same amount as the fair value of the PFI assets and is subsequently accounted for as a finance lease liability in accordance with accounting policy note 2.17.

Dowry payments, made to the PFI contractors to secure future reduced annual payments over the life of the contracts, are accounted for as pre-payments for services receivable. These pre-payments are treated as an initial payment towards the finance lease liability and are set against the carrying value of the liability.

### 2.16.2 Payments for services provided

The annual unitary payment to PFI and PPP operators is separated into the following component parts, using appropriate estimation techniques where necessary:

Element of charge	Explanation	Accounting treatment
Services received	Services that the operator must provide with the property, plant and equipment.	Debited to relevant service in the Comprehensive Income and Expenditure Statement
Deferred income	Benefits that the Council is deemed to receive through its control of the services to be provided through the use of the property, plant and equipment.	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.
Finance cost	Interest charge on 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	Obligation to pay the operator the value of the fair value of property, plant and equipment.	Applied to write down the Balance Sheet liability towards the PFI operator.

# Notes to the Accounts

Element of charge	Explanation	Accounting treatment
Lifecycle replacement	Comprise the replacement of components of an asset as they wear out.	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

## 2.16.3 Government grants

The Government provides grants to the Council in support of the PFI schemes. These grants are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement, to partially offset the payments the Council makes under the contracts.

The annual PFI grants receivable during the early years of the contracts are in excess of the amounts that will be received in later years. In order to equalise the impact of these grants upon the Comprehensive Income and Expenditure Statement over the life of the contracts, the Council currently sets aside a proportion of these grants, by an appropriation in the Movement in Reserves Statement from the General Fund to earmarked revenue reserves. These earmarked reserves will be drawn upon to compensate for the diminishing revenue grants during the later years of the contracts.

## 2.17 Leases

### 2.17.1 General

The Council accounts for leases as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

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

# Notes to the Accounts

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## **2.17.2 Authority as lessee – 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. Premiums paid on entry into a lease are applied to writing down the lease liability.

Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability.
- A finance charge (debited to 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 Property, Plant and Equipment (see Accounting Policy note 2.10), subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the lease does not transfer to the Council at the end of the lease).

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 provision is made from revenue towards the deemed capital investment, which is determined in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by this revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **2.17.3 Authority as Lessee - Operating leases**

Leases that do not meet the definition of finance leases are accounted for as an expense of the service(s) benefiting from the use of the leased property, plant or equipment. Rentals payable are charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## **2.17.4 Authority as lessor – Finance leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At commencement of the lease, the carrying amount is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement

# Notes to the Accounts

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as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset (long term debtor) in the Balance Sheet.

Rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased 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 asset (long term 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 the property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **2.17.5 Authority as lessor - Operating leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if it does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **2.18 Interests in companies and other entities**

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of companies, and has

# Notes to the Accounts

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concluded that the requirement to produce Group Accounts applies in relation to its interest in Essex Cares Ltd. In the Council's single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost.

## 2.19 Jointly controlled operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. 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 and income it incurs and the share of income it earns from the operations.

## 2.20 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'first in - first out' (FIFO) costing formula.

## 2.21 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty or notice of not more than 24 hours. Cash equivalents are 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.

## 2.22 Financial instruments

### 2.22.1 Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially measured at fair value and are carried at their amortised cost.

Interest is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. 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

# Notes to the Accounts

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originally recognised. For most of the borrowing undertaken by the Council, this means that:

- The amount included in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and
- Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The gains / losses are spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

## 2.22.2 Financial assets

The Council's financial assets (loans and receivables) have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value. They are then measured at their amortised cost.

Interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the assets, multiplied by the effective rate of interest for the instruments. For most of the loans that the Council has made, this means that:

- The amount included in the Balance Sheet is the outstanding principal receivable, plus accrued interest; and

# Notes to the Accounts

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- Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan agreement.

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

## 2.23 Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

## 2.24 Events after the Balance Sheet date

Events after the reporting period 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. There are two types of event:

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

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

## 2.25 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change).

Changes in accounting policies are only made when required by proper accounting practices or where 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 (unless otherwise stated) by adjusting the opening balances and comparative amounts for the prior period (i.e. as if the new policy had always been applied).



# Notes to the Accounts

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

## 3. Accounting Standards that have been issued but have not yet been adopted

The Council will be required next year to recognise heritage assets as a separate class of asset in the Statement of Accounts 2011/12 in accordance with Financial Reporting Standard (FRS) 30 'Heritage Assets'.

Currently, the Council holds community assets within its Balance Sheet, totalling **£2.6m**, which may fall to be heritage assets. However, the Council is currently considering the requirements of the FRS and has yet to adopt an accounting policy on heritage assets. A detailed exercise to reclassify relevant assets as heritage assets will be undertaken in 2011/12. It is not anticipated that the adoption of this new FRS will have a material impact on the Council's accounts.

## 4. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide any indication that assets of the Council might be impaired due to the need to reduce service provision.
- The Council is deemed to control the services provided under the Private Finance Initiative (PFI) / Public Private Partnership (PPP) agreements for the A130 road and for the provision of schooling in Debden and Clacton Secondary Schools and in Tendring primary schools. It is assumed that the Council controls the residual values of these schools and their facilities at the end of the agreements. The accounting policies for PFI/PPP schemes and similar contracts have been applied to these arrangements (as per note 2.16).
- The Council runs and employs staff at **67** voluntary controlled schools in Essex. Whilst these schools are owned by charitable trusts, it has been determined that, due to the Council's significant involvement in running these schools, the Council controls the school property and, as a result, has recognised these assets within Property, Plant and Equipment in the Council's Balance Sheet.

## Notes to the Accounts

### 5. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred for each asset. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation will increase and the carrying value of assets will decrease.
Provisions	<p>The estimate of the provision made for insurance claims depends on a number of complex actuarial assumptions and judgements which are used to forecast losses under claims. These include:</p> <ul style="list-style-type: none"> <li>▪ The loss development factors to predict ultimate losses;</li> <li>▪ The dates of historical claims data provided;</li> <li>▪ The basis on which historical years have been re-valued for inflation; and</li> <li>▪ That the profile of the body of claims is consistent.</li> </ul>	At 31 March 2011, the insurance provision amounted to <b>£28.189m</b> . Further details are provided in Note 30 which commences on page 108.

# Notes to the Accounts

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions (continued)	<p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>In addition, it is not certain that all valid claims have been received by the Council.</p>	
Pensions liability	<p>Estimation of the net pension liability to pay pensions depends on a number of complex actuarial assumptions / judgements relating to:</p> <ul style="list-style-type: none"> <li>▪ the discount rate used;</li> <li>▪ salary increases;</li> <li>▪ changes in retirement ages;</li> <li>▪ mortality rates; and</li> <li>▪ expected return on assets.</li> </ul> <p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effect on net pensions liability of changes in individual assumptions can be significant. For example, a <b>0.1%</b> increase in the discount rate would decrease the pension liability by <b>£31.8m</b>.</p>
Arrears	<p>At 31 March 2011, sundry debtors amounted to <b>£52.1m</b>. A review of significant balances suggested that an impairment for doubtful debts of <b>20% (£10.5m)</b> was appropriate. It is not certain that such an allowance will be sufficient.</p>	<p>If collection rates deteriorate by <b>1%</b>, an additional <b>£525,000</b> would need to be set aside as an allowance for doubtful debts.</p>

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

## 6. Transition to IFRS

### 6.1 Context

The Statement of Accounts for 2010/11 is the first to be prepared in compliance with International Financial Reporting Standards (IFRS), as defined by the CIPFA Code of

# Notes to the Accounts

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Practice on Local Authority Accounting in the United Kingdom 2010/11 (the IFRS Code).

Adoption of IFRS has resulted in the restatement of various balances and transactions which mean that some amounts presented in the Statement of Accounts are different from the equivalent figures presented in the Statement of Accounts for 2009/10. These differences arise in relation to:

- Short term accumulating compensated absences
- Property, plant and equipment – component accounting and impairment losses
- Investment properties
- Assets held for sale
- Government grants
- Leases
- Lease and lease type arrangements

Further details are provided in the following paragraphs.

## 6.2 Short term accumulating compensated absences

The Council is now required to accrue for benefits received by employees through their contract of employment, entitlement to which is built up as they provide service to the Council. The most significant such benefit is holiday earned but not yet taken. Under previous accounting arrangements no accrual was required.

The accrual for the year is a charge to Cost of Services within the Comprehensive Income and Expenditure Statement. It impacts negatively on the Total Comprehensive Income and Expenditure for the year transferred to the General Fund.

However, the Council is only required to fund the benefits when they are used and not when earned by the employees. As a result, a new reserve - the Accumulating Compensated Absences Adjustment Account - has been created in the Balance Sheet to neutralise the impact of the accrual on the General Fund. Transfers between the General Fund and the Accumulating Compensated Absences Adjustment Account are made via the Movement in Reserves Statement.

## 6.3 Property, plant and equipment

From 1 April 2010, the Council is required to apply component accounting. This requires that each part of an item of Property Plant and Equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

# Notes to the Accounts

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This is satisfied by separately accounting for only those significant components that have different useful lives and/or depreciation methods to the remainder of the asset. The policy determines which components will be recognised and depreciated separately with regards to the concept of materiality, the levels of which were determined after extensive analysis of the Council's primary schools (a sample of), as they constitute by far the largest element of the Council's property portfolio.

The Council established the following significant components:

- Roof
- Structure (host)
- Windows/ Doors
- Plant & Machinery
- External Works
- Land.

In addition to depreciating significant commitments separately, the Council is also required to recognise impairment losses where the recoverable amount is estimated to be materially less than the carrying amount of the asset. Impairment losses are accounted for by writing down the carrying amount to the Revaluation Reserve (i.e. up to the amount of any previously accumulated gains) and thereafter to the Comprehensive Income and Expenditure Statement. Previously, impairment losses were only charged to the Revaluation Reserve if resulting from a general fall in prices or where the reason for the impairment could not be determined.

## 6.4 Investment Properties

The Council is now required to separately disclose investment properties. No separate disclosure of these properties was required under previous accounting practice.

In order to qualify as an investment property the asset must be held solely for capital appreciation purposes or for rental income rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Investment property assets are required to be held at initially at cost and subsequently at fair value. No depreciation is charged on investment properties.

# Notes to the Accounts

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This change has had the following impact on the accounts:

- Some assets have reclassified – i.e. been transferred from Land and Building and Community Assets (within Property, Plant and Equipment) to Investment Properties on the Balance Sheet; and
- Depreciation previously charged which relates to investment properties has been eliminated from expenditure in the cost of services within the Comprehensive Income and Expenditure Statement.

## 6.5 Assets held for sale

The Council is now required to classify property, plant and equipment assets as ‘assets held for sale’ once it becomes probable that the carrying amount of the asset will be recovered principally through a sale transaction. Upon classification as ‘held for sale’, the assets are re-valued, reclassified on the Balance Sheet and their carrying amount is adjusted to the lower of their re-valued carrying amount or fair value less costs to sell. Depreciation charges also cease to be made.

Under previous accounting treatment, no criteria were set within the accounting standards for recognising ‘Assets Held for Sale’. Instead, the Council recognised ‘surplus assets held pending disposal’, which were classified as such based on the Council’s processes and procedures. ‘Surplus assets held pending disposal’ were assets which were identified as immediately available for sale or disposal and the availability for sale or disposal had been approved by the Council. Although separately classified on the Balance Sheet, these assets were valued at net realisable value and depreciation continued to be charged.

The changes have had the following impact:

- Surplus assets held pending disposal at 31 March 2009 have been reclassified into either Property Plant and Equipment, Surplus assets or Assets Held for Sale in the 1 April 2009 Balance Sheet;
- Depreciation previously charged which relate to Assets Held for Sale has been eliminated from expenditure in the cost of services within the Comprehensive Income and Expenditure Statement;
- The change in measurement basis for assets held for sale has increased the charges in the Comprehensive Income and Expenditure Statement.

## 6.6 Government Grants

Under IFRS, recognising government grants and capital contributions as income is focussed on whether conditions attached to the grants (if any) have been met. This applies to both revenue grants and capital grants and contributions, although the biggest impact on the accounts is on capital.

# Notes to the Accounts

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## Capital grants and contributions

Capital grants and contributions are now required to be recognised as income within the Comprehensive Income and Expenditure Statement when they become receivable, provided any conditions attached to the grant/contribution have been satisfied. Where conditions have not been satisfied the grant/contribution is held within Capital Receipts in Advance on the Balance Sheet until such time as the conditions are satisfied.

Where the grant/contribution receivable has been used to finance capital expenditure, the income is transferred from the General Fund to the Capital Adjustment Account.

However, where the grant/contribution has not been used to finance capital expenditure, the income is transferred to the Capital Grants Unapplied Account for future use in financing capital expenditure.

Under previous accounting treatment, capital grants and contributions were held within the Government Grants Deferred Account on the Balance Sheet and recognised over the life of the assets which they were used to fund. As a result, portions of the grant/contributions were credited annually to income. A transfer was made to the Capital Adjustment Account, equal to the income credited, reflecting the financing of the capital expenditure already incurred.

The impact of these changes on the accounts has resulted in:

- The balance on the Government Grants Deferred Account being transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet;
- The elimination of income, recognised under previous accounting treatment, from the Comprehensive Income and Expenditure Statement;
- The creation of a new liability on the Balance Sheet for capital grants / contributions receipts in advance; and
- A new reserve being created in the Balance Sheet – the Capital Grants Unapplied Account - for capital grants / contributions recognised as income but not yet used to finance capital expenditure.

## Revenue Grants

Under previous accounting treatment, the Council matched revenue grant income to expenditure incurred on the grant. Any grant / part-grant not matched against expenditure at the year end was held on the Balance Sheet as deferred grants within the creditors balance.

Under IFRS, as with capital grants and contributions, revenue grants should be recognised in full as income when the conditions on the grant have been met. Where conditions have not been met, the full grant should be recognised as revenue grants receipt in advance on the Balance Sheet. Where the grant has not been used to finance expenditure, it is transferred to earmarked reserves for use in future years.

# Notes to the Accounts

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The impact of these changes on the accounts has resulted in:

- The creation of a new liability on the Balance Sheet for revenue grants receipts in advance; and
- New earmarked reserves being created in the Balance Sheet for revenue grants recognised as income but not yet used to finance expenditure.

## 6.7 Leases

Under the IFRS Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the IFRS Code.

The Council has two property leases where the accounting treatment has changed following the introduction of the Code.

As a consequence of classifying the buildings element of these leases as a finance lease, the financial statements have been amended as follows:

- The Council has recognised an asset (the buildings) and a finance liability;
- The operating lease charges within the Net Cost of Services have been reduced by the amount that relates to the buildings element of the lease payments;
- Depreciation charges have been included within the Net Cost of Services;
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year;
- The interest element of the lease payment in respect of the buildings element is charged to the Financing and Investment Income line in the Surplus or Deficit on the Provision of Services.



# Notes to the Accounts

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## **6.8 Lease and lease type arrangements**

The Council is now required to account for arrangements containing a lease but where a formal lease agreement may not be in place. This includes informal arrangements in place over use of assets as well as contract for services which may contain leased assets within them.

## **6.9 Restatement of Financial Statements**

The impact of the changes outlined in the previous paragraphs on the 2009/10 Comprehensive Income and Expenditure Statement and the 1 April 2009 and 31 March 2010 Balance Sheets are shown on the following pages.

## Restatement of the Comprehensive Income and Expenditure Statement

	2009/10 Statement of Accounts	Adjustments made					2009/10 Restated
		S/Term Accumulating Compensated Absences	Adj to SORP Asset Values	Leases	Government Grants	Impairment & revaluation PPE	
	£000	£000	£000	£000	£000	£000	£000
Central services to the public	5,826	-	-	-	-	-	5,826
Cultural, environmental, regulatory & planning services	128,956	-	-	-	-	-	128,956
Education and children's services	433,859	3,656	-	-	2,682	(15,791)	424,406
Highways and transport services	107,090	-	-	-	-	-	107,090
Other housing services	1,339	-	-	-	-	-	1,339
Adult social care	370,116	-	-	-	-	-	370,116
Corporate and democratic core	26,760	-	-	-	-	-	26,760
Non distributed costs	6,606	-	(232)	-	-	-	6,374
<b>Cost of services</b>	<b>1,080,552</b>	<b>3,656</b>	<b>(232)</b>	<b>-</b>	<b>2,682</b>	<b>(15,791)</b>	<b>1,070,867</b>
Other Operating Expenditure	41,778	-	-	-	-	-	41,778
Financing & Investment Inc and Exp	64,932	-	362	-	-	-	65,294
Taxation and Non-Specific Grant Income	(881,754)	-	-	-	(54,264)	-	(936,018)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>305,508</b>	<b>3,656</b>	<b>130</b>	<b>-</b>	<b>(51,582)</b>	<b>(15,791)</b>	<b>241,921</b>

## Restatement of the 1 April 2009 Balance Sheet

	1 April 2009 Per 2009/10 Statement of Accounts	Prior period adjustments							1 April 2009 Restated	
		Employee Benefit (IAS 19)	Split Provisions current/ non current	Investment Properties	Government Grants	Cash and cash equivalents	Assets held for sale	Voluntary controlled schools		Impairment / revaluation of PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
<b>Property, Plant and Equipment</b>	2,573,893	-	-	(4,209)	-	-	(1,496)	155,902	-	2,724,090
Investment property	-	-	-	4,209	-	-	-	-	-	4,209
Intangible assets	713	-	-	-	-	-	-	-	-	713
Long term investments	65,197	-	-	-	-	-	-	-	-	65,197
Long term debtors	28,554	-	-	-	-	-	-	-	-	28,554
<b>Long term assets</b>	<b>2,668,357</b>	-	-	-	-	-	(1,496)	155,902	-	<b>2,822,763</b>
Short term investments	152,677	-	-	-	-	(103,808)	-	-	-	48,869
Stocks and work in progress	218	-	-	-	-	-	-	-	-	218
Short term debtors	120,905	-	-	-	-	-	-	-	-	120,905
Cash and cash equivalents	23,650	-	-	-	-	103,808	-	-	-	127,458
Assets held for sale	-	-	-	-	-	-	1,496	-	-	1,496
<b>Current Assets</b>	<b>297,450</b>	-	-	-	-	-	1,496	-	-	<b>298,946</b>
Short-term borrowing	(5,037)	-	-	-	-	-	-	-	-	(5,037)
Creditors	(291,314)	(20,203)	-	-	76,909	-	-	-	-	(234,608)
Revenue grant receipts in advance	-	-	-	-	(13,948)	-	-	-	-	(13,948)
Capital grant receipts in advance	-	-	-	-	(43,650)	-	-	-	-	(43,650)
Provisions (short term)	-	-	(5,109)	-	-	-	-	-	-	(5,109)
Finance Lease obligations (short term)	(2,481)	-	-	-	-	-	-	-	-	(2,481)
<b>Current liabilities</b>	<b>(298,832)</b>	<b>(20,203)</b>	<b>(5,109)</b>	-	<b>19,311</b>	-	-	-	-	<b>(304,833)</b>
Long term creditors	-	-	-	-	-	-	-	-	-	-
Provisions	(27,520)	-	5,109	-	-	-	-	-	-	(22,411)
Long term borrowing	(342,744)	-	-	-	-	-	-	-	-	(342,744)
Other long term liabilities										
Finance lease obligations	(121,551)	-	-	-	-	-	-	-	-	(121,551)
Deferred credits	(20,436)	-	-	-	-	-	-	-	-	(20,436)
Deferred grants and contributions	(255,123)	-	-	-	255,123	-	-	-	-	-
Pension liability	(549,732)	-	-	-	-	-	-	-	-	(549,732)
<b>Long term liabilities</b>	<b>(1,317,106)</b>	-	5,109	-	255,123	-	-	-	-	<b>(1,056,874)</b>
<b>Net Assets</b>	<b>1,349,869</b>	<b>(20,203)</b>	-	-	<b>274,434</b>	-	-	<b>155,902</b>	-	<b>1,760,002</b>
<b>Usable reserves</b>										
Earmarked reserves	(222,418)	-	-	-	(7,329)	-	-	-	-	(229,747)
General Fund Balance	(26,460)	-	-	-	-	-	-	-	-	(26,460)
Usable capital receipts reserve	(14,254)	-	-	-	-	-	-	-	-	(14,254)
Capital grants unapplied	-	-	-	-	(12,028)	-	-	-	-	(12,028)
	<b>(263,132)</b>	-	-	-	<b>(19,357)</b>	-	-	-	-	<b>(282,489)</b>
<b>Unusable reserves</b>										
Revaluation reserve	(106,924)	-	-	1,098	-	-	-	-	1,916	(103,910)
Capital Adjustments Account	(1,520,005)	-	-	(1,098)	(255,077)	-	-	(155,902)	(1,916)	(1,933,998)
Accumulating Compensated Absences Adj a/c	-	20,203	-	-	-	-	-	-	-	20,203
Other unusable reserves	540,192	-	-	-	-	-	-	-	-	540,192
	<b>(1,086,737)</b>	<b>20,203</b>	-	-	<b>(255,077)</b>	-	-	<b>(155,902)</b>	-	<b>(1,477,513)</b>
<b>Total equity</b>	<b>(1,349,869)</b>	<b>20,203</b>	-	-	<b>(274,434)</b>	-	-	<b>(155,902)</b>	-	<b>(1,760,002)</b>

## Restatement of the 31 March 2010 Balance Sheet

	31 March 2010 Per 2009/10 Statement of Accounts	Prior period adjustments								31 March 2010 Restated
		Employee Benefit (IAS 19)	Split Provisions current/ non current	Investment Properties	Government Grants	Cash and cash equivalents	Assets held for sale	Voluntary controlled schools	Impairment / revaluation of PPE	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Total Property, Plant and Equipment</b>	2,468,864	-	-	(3,768)	-	-	(4,171)	155,902	-	2,616,827
Investment property	-	-	-	3,810	-	-	-	-	-	3,810
Intangible assets	452	-	-	-	-	-	-	-	-	452
Long term investments	11,259	-	-	-	-	-	-	-	-	11,259
Long term debtors	27,191	-	-	-	-	-	-	-	-	27,191
<b>Long term assets</b>	<b>2,507,766</b>	-	-	42	-	-	(4,171)	155,902	-	<b>2,659,539</b>
Short term investments	92,034	-	-	-	-	(92,034)	-	-	-	-
Stocks and work in progress	162	-	-	-	-	-	-	-	-	162
Short term debtors	166,690	-	-	-	-	-	-	-	-	166,690
Cash and cash equivalents	19,716	-	-	-	-	92,034	-	-	-	111,750
Assets held for sale	-	-	-	-	-	-	4,171	-	-	4,171
<b>Current Assets</b>	<b>278,602</b>	-	-	-	-	-	4,171	-	-	<b>282,773</b>
Short-term borrowing	(5,068)	-	-	-	-	-	-	-	-	(5,068)
Creditors	(349,095)	(23,859)	-	-	92,902	-	-	-	-	(280,052)
Revenue grant receipts in advance	-	-	-	-	(13,892)	-	-	-	-	(13,892)
Capital grant receipts in advance	-	-	-	-	(66,777)	-	-	-	-	(66,777)
Provisions (short term)	-	-	(6,237)	-	-	-	-	-	-	(6,237)
Finance Lease obligations (short term)	(2,681)	-	-	-	-	-	-	-	-	(2,681)
<b>Current liabilities</b>	<b>(356,844)</b>	<b>(23,859)</b>	<b>(6,237)</b>	-	<b>12,233</b>	-	-	-	-	<b>(374,707)</b>
Long term creditors	(135)	-	-	-	-	-	-	-	-	(135)
Provisions	(33,086)	-	6,237	-	-	-	-	-	-	(26,849)
Long term borrowing	(323,718)	-	-	-	-	-	-	-	-	(323,718)
Other long term liabilities										
Finance lease obligations	(119,707)	-	-	-	-	-	-	-	-	(119,707)
Deferred credits	(19,708)	-	-	-	-	-	-	-	-	(19,708)
Deferred grants and contributions	(313,782)	-	-	-	313,782	-	-	-	-	-
Pension liability	(800,806)	-	-	-	-	-	-	-	-	(800,806)
<b>Long term liabilities</b>	<b>(1,610,942)</b>	-	6,237	-	313,782	-	-	-	-	<b>(1,290,923)</b>
<b>Net Assets</b>	<b>818,582</b>	<b>(23,859)</b>	-	42	326,015	-	-	155,902	-	<b>1,276,682</b>
<b>Usable reserves</b>										
Earmarked reserves	(189,478)	-	-	-	(5,119)	-	-	-	-	(194,597)
General Fund Balance	(33,071)	-	-	-	-	-	-	-	-	(33,071)
Usable capital receipts reserve	(11,760)	-	-	-	-	-	-	-	-	(11,760)
Capital grants unapplied	-	-	-	-	(7,143)	-	-	-	-	(7,143)
<b>Unusable reserves</b>	<b>(234,309)</b>	-	-	-	<b>(12,262)</b>	-	-	-	-	<b>(246,571)</b>
Revaluation reserve	(114,769)	-	-	926	-	-	-	-	17,707	(96,136)
Capital Adjustments Account	(1,264,970)	-	-	(968)	(313,753)	-	-	(155,902)	(17,707)	(1,753,300)
Accumulating Compensated Absences Adj a/c	-	23,859	-	-	-	-	-	-	-	23,859
Other unusable reserves	795,466	-	-	-	-	-	-	-	-	795,466
<b>Total equity</b>	<b>(584,273)</b>	<b>23,859</b>	-	<b>(42)</b>	<b>(313,753)</b>	-	-	<b>(155,902)</b>	-	<b>(1,030,111)</b>
<b>Total equity</b>	<b>(818,582)</b>	<b>23,859</b>	-	<b>(42)</b>	<b>(326,015)</b>	-	-	<b>(155,902)</b>	-	<b>(1,276,682)</b>

# Notes to the Accounts

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## 7. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director for Finance on 23rd September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Since 31st March 2011, ten community schools have become academy schools. Academy schools are independent of the Council, which means that the Council will cease to be the maintaining authority from the date of transfer. The Council will continue to own the school land and buildings, but will grant a finance lease to the academies that will allow them to occupy the sites. The effect of this arrangement is that the buildings will no longer be included in the Council's Balance Sheet. The net book value of these buildings at 31st March 2011 was **£57m**.

## 8. Exceptional items

During 2010/11, it was announced that future pension increases under the Local Government Pension Scheme were to be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has given rise to a past service gain of **£119.758m** which has been recognised in the Comprehensive Income and Expenditure Statement. The past service gain has then been transferred from the General Fund Balance and into the Pension Reserve, to reflect a reduction in the year end liabilities.

## 9. Adjustments between Accounting Basis and Funding under Regulations

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

## Adjustments between accounting basis and funding under Regulations – 2009/10 (part one)

2009/10 - Restated	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000			
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>		33-3						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>								
		-	(226,449)	-	-	(226,449)	226,449	-
		-	-	-	-	-	-	-
		-	(399)	-	-	(399)	399	-
		-	(403)	-	-	(403)	403	-
		-	135,876	-	-	135,876	(135,876)	-
		-	-	-	-	-	-	-
		-	(91,190)	-	-	(91,190)	91,190	-
		-	(39,046)	-	-	(39,046)	39,046	-
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>								
		-	26,688	-	-	26,688	(26,688)	-
		-	-	-	-	-	-	-
<b>Adjustments involving the CAA</b>		-	(194,923)	-	-	(194,923)	194,923	-
<b>Adjustments involving the Capital Grants Unapplied Account</b>								
		-	-	-	-	-	-	-
		-	-	-	4,885	4,885	(4,885)	-
<b>Adjustments involving the Cap Grants Unapplied A/C</b>		-	-	-	4,885	4,885	(4,885)	-

## Adjustments between accounting basis and funding under Regulations – 2009/10 (part two)

2009/10	Notes	Usable Reserves					Total Unusable Reserves	Total Authority Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000		
<b>Adjustments involving the Capital Receipts Reserve</b>								
		-	281	(281)	-	-	-	-
		-	-	(2,500)	-	(2,500)	2,500	-
		-	-	5,275	-	5,275	(5,275)	-
<b>Adjustments involving the Capital Receipts Reserve</b>		-	281	2,494	-	2,775	(2,775)	-
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>								
	33.4	-	169	-	-	169	(169)	-
<b>Adjustments involving the FIAA</b>		-	169	-	-	169	(169)	-
<b>Adjustments involving the Pensions Reserve</b>								
	33.5	-	(83,117)	-	-	(83,117)	83,117	-
		-	69,733	-	-	69,733	(69,733)	-
<b>Adjustments involving the Pensions Reserve</b>		-	(13,384)	-	-	(13,384)	13,384	-

## Adjustments between accounting basis and funding under Regulations – 2009/10 (part three)

2009/10	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000	£000	£000	
<b>Adjustments involving the Collection Fund Adjustment Account</b>	33.7							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(1,869)	-	-	(1,869)	1,869	-
<b>Adjustments involving the Collection Fund Adj Account</b>		-	(1,869)	-	-	(1,869)	1,869	-
<b>Adjustments involving the Accumulated Absences Account</b>	33.8							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	(3,656)	-	-	(3,656)	3,656	-
<b>Adjustments involving the Accumulated Absences Account</b>		-	(3,656)	-	-	(3,656)	3,656	-
<b>Total adjustments</b>		-	(213,382)	2,494	4,885	(206,003)	206,003	-



## Adjustments between accounting basis and funding under Regulations – 2010/11 (part one)

2010/11	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000	£000	£000	
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	33:3							
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>								
Depreciation and impairment of non current assets		-	(61,243)	-	-	(61,243)	61,243	-
Revaluation losses on property, plant and equipment		-	-	-	-	-	-	-
Movement in market value of investment properties		-	275	-	-	275	(275)	-
Amortisation of intangible assets		-	(602)	-	-	(602)	602	-
Capital grants and contributions applied		-	122,127	-	-	122,127	(122,127)	-
Donated assets		-	-	-	-	-	-	-
Revenue expenditure funded from capital under statute		-	(87,722)	-	-	(87,722)	87,722	-
Value of assets disposed of during the year		-	(150,274)	-	-	(150,274)	150,274	-
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>								
Statutory provision for the financing of capital investment		-	31,962	-	-	31,962	(31,962)	-
Capital expenditure charged against the General Fund		-	940	-	-	940	(940)	-
<b>Adjustments involving the CAA</b>			<b>-</b>	<b>(144,537)</b>	<b>-</b>	<b>-</b>	<b>(144,537)</b>	<b>144,537</b>
<b>Adjustments involving the Capital Grants Unapplied Account</b>								
Grants applied to financing (transferred to the CAA)	-	-	-	647	647	(647)	-	
Grants and contributions unapplied	-	6,513	-	(6,513)	-	-	-	
<b>Adjustments involving the Cap Grants Unapplied A/C</b>		<b>-</b>	<b>6,513</b>	<b>-</b>	<b>(5,866)</b>	<b>647</b>	<b>(647)</b>	<b>-</b>

## Adjustments between accounting basis and funding under Regulations – 2010/11 (part two)

2010/11	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000	£000	£000	
<b>Adjustments involving the Capital Receipts Reserve</b>								
		-	14,996	(14,996)	-	-	-	-
		-	-	(1,000)	-	(1,000)	1,000	-
		-	-	6,790	-	6,790	(6,790)	-
<b>Adjustments involving the Capital Receipts Reserve</b>		-	14,996	(9,206)	-	5,790	(5,790)	-
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>								
	33.4							
		-	40	-	-	40	(40)	-
<b>Adjustments involving the FIAA</b>		-	40	-	-	40	(40)	-
<b>Adjustments involving the Pensions Reserve</b>								
	33.5							
		-	20,205	-	-	20,205	(20,205)	-
		-	70,965	-	-	70,965	(70,965)	-
<b>Adjustments involving the Pensions Reserve</b>		-	91,170	-	-	91,170	(91,170)	-

## Adjustments between accounting basis and funding under Regulations – 2010/11 (part three)

2010/11	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000	£000	£000	
<b>Adjustments involving the Collection Fund Adjustment Account</b>	33.7							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	1,414	-	-	1,414	(1,414)	-
<b>Adjustments involving the Collection Fund Adj Account</b>		-	1,414	-	-	1,414	(1,414)	-
<b>Adjustments involving the Accumulated Absences Account</b>	33.8							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	(457)	-	-	(457)	457	-
<b>Adjustments involving the Accumulated Absences Account</b>		-	(457)	-	-	(457)	457	-
<b>Total adjustments</b>		-	(30,861)	(9,206)	(5,866)	(45,933)	45,933	-

# Notes to the Accounts

## 10. Earmarked revenue reserves

The Council maintains a number of earmarked revenue reserves, which are amounts that have been set aside for specific policy purposes, as follows:

<b>Reserves</b>	<b>Purpose and usage</b>	<b>Timescale for usage</b>
<b>Schools</b>	Schools are permitted to retain unspent resources (whether planned or unplanned), which are held in the Schools Reserves. The statutory authority to commit such resources rests with school governors.	No time constraints have been placed upon the usage of this reserve.
<b>Future capital funding</b>	Comprises revenue contributions to be used to supplement the resources available to finance future capital expenditure.	No time constraints have been placed upon the usage of this reserve.
<b>PFI reserves</b>	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
<b>Waste reserve</b>	To smooth the effects of future increases in the costs of waste disposal.	It is anticipated that this reserve will be utilised by 2040/41.
<b>Grant equalisation reserve</b>	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Accounting Policy 2.6) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
<b>Essex pledges</b>	Used to help meet the costs of achieving the annual pledges for delivery of the priorities outlined in our 'EssexWorks' vision.	Reserve now fully utilised.
<b>Carry forwards</b>	This reserve consists of unspent revenue budgets that Services have indicated they wish to utilise in a subsequent financial year, to meet existing commitments or to fund new initiatives. Funds are allocated from this reserve on the basis of business case submissions.	Amounts appropriated into this reserve are usually utilised in the subsequent financial year.
<b>Service improvements</b>	Used to initially meet the costs of restructuring where these cannot be met by the relevant services in-year, and to hold savings that will be used to re-invest in corporate priorities, as well as 'pump prime' proven efficiency projects.	There are no time constraints placed upon the usage of this reserve.

## Notes to the Accounts

<b>Reserves</b>	<b>Purpose and usage</b>	<b>Timescale for usage</b>
<b>ExDRA reserve</b>	To meet costs associated with the Council's former partnership with the Essex Development and Regeneration Agency (ExDRA).	It is anticipated that this reserve will be utilised in 2011/12.
<b>Trading activities</b>	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
<b>IMT development</b>	Provides for future costs of developing the Council's information technology strategy.	No time constraints have been placed upon the usage of this reserve.
<b>LAA performance reward</b>	This reserve represents the setting aside of Local Area Agreement performance reward grant to support projects over the medium term.	No time constraints have been placed upon the usage of this reserve.
<b>Developing partnerships</b>	Used to develop effective partnership working in order to spend more on key services.	Reserve will be fully utilised in 2011/12
<b>Carbon reduction</b>	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
<b>Essex Transport</b>	The revenue reserves of the former Essex Transport trading activity which have been set aside to meet costs arising subsequent to the outsourcing of the service in 2009/10.	No time constraints have been placed upon the usage of this reserve.
<b>Partnerships</b>	To retain unspent contributions from partners and apply them in subsequent years.	Usage of these reserves is determined by the partnerships.
<b>Health and safety</b>	Used to meet the costs of undertaking asbestos, legionella and disability discrimination act surveys.	No time constraints have been placed upon the usage of this reserve.
<b>Capital receipts pump priming</b>	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.

## Notes to the Accounts

<b>Reserves</b>	<b>Purpose and usage</b>	<b>Timescale for usage</b>
<b>Life raft pledges</b>	Used to support Essex attractions during the economic downturn.	Reserve will be utilised fully in 2011/12.
<b>Quadrennial elections</b>	Reserve established to meet costs associated with the Council's quadrennial elections.	There are no time constraints placed upon the usage of this reserve.
<b>Insurance</b>	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.
<b>Tendring PPP</b>	To meet costs associated with the Tendring PPP contract.	It is anticipated that this reserve will be utilised over the remaining life of the Tendring PPP contract.
<b>Severe weather</b>	To mitigate the impact on the Roads and Footways revenue budget of severe weather.	There are no time constraints placed upon the usage of this reserve.
<b>Essex Art Fund</b>	Used to purchase and commission art by Essex artists.	Reserve will be fully utilised in 2011/12
<b>Newton bequest</b>	Funds bequeathed to the Council for use by the Essex Records Office.	There are no time constraints placed upon the usage of this reserve.
<b>Children's reserve</b>	To help meet the costs of children in the care of the Council.	This reserve has been fully utilised.
<b>Debt financing</b>	To meet costs arising from the refinancing and management of the Council's debt portfolio.	This reserve has been fully utilised.
<b>Pension deficit</b>	Used to mitigate the impact of increases in employers' pension contributions arising as a consequence of actuarial valuations of the Pension Fund.	This reserve has been fully utilised.

## Notes to the Accounts

<b>Reserves</b>	<b>Purpose and usage</b>	<b>Timescale for usage</b>
<b>Highways energy reserve</b>	Reserve intended to help mitigate the impact on the street lighting budget of future increases in energy prices	There are no time constraints placed upon the usage of this reserve.
<b>Procurement</b>	To provide funding for the development of a joint working arrangement with Chelmsford Borough Council.	There are no time constraints placed upon the usage of this reserve.
<b>Building maintenance</b>	To support the delivery of the annual maintenance programme.	There are no time constraints placed upon the usage of this reserve.
<b>Section 75 reserve</b>	Used to manage the redistribution of the Adults, Health and Community Wellbeing portfolio's Section 75 partnership funds.	There are no time constraints placed upon the usage of this reserve.
<b>Transformation</b>	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.	Reserve now fully utilised.

# Notes to the Accounts

A summary of the balances on the Earmarked Reserves is set out in the following table.

	Balance	2009/10 movements		Balance	2010/11 movements		Balance
	1 April 2009	Contributions	Withdrawals	31 March 2010	Contributions	Withdrawals	31 March 2011
	£000	£000	£000	£000	£000	£000	£000
<b>Schools</b>	(55,377)	(8,076)	15,292	(48,161)	(9,975)	10,756	(47,380)
<b>Future capital funding</b>							
General	(6,370)	2,853	-	(3,517)	(212)	940	(2,789)
Bellhouse landfill site	(61)	-	-	(61)	-	-	(61)
Historic buildings	(120)	-	-	(120)	-	-	(120)
	<u>(6,551)</u>	<u>2,853</u>	<u>-</u>	<u>(3,698)</u>	<u>(212)</u>	<u>940</u>	<u>(2,970)</u>
<b>Equalisation reserves</b>							
PFI equalisation reserves							
A130 PFI	(49,532)	(2,331)	-	(51,863)	(5,474)	-	(57,337)
Debden PFI	(5,339)	(194)	-	(5,533)	(287)	666	(5,154)
Clacton secondary schools	(4,590)	(95)	-	(4,685)	(428)	226	(4,887)
Grants equalisation	(7,329)	-	2,209	(5,120)	(7,960)	4,879	(8,201)
Waste Reserve	(23,138)	(19,269)	6,979	(35,428)	(24,310)	17,247	(42,491)
	<u>(89,928)</u>	<u>(21,889)</u>	<u>9,188</u>	<u>(102,629)</u>	<u>(38,459)</u>	<u>23,018</u>	<u>(118,070)</u>
<b>Other reserves</b>							
Carry forwards	(8,223)	(6,044)	8,223	(6,044)	(10,541)	2,784	(13,801)
LAA Performance Reward	-	(12,962)	11,089	(1,873)	(2,368)	-	(4,241)
ExDRA	(3,344)	(1,000)	123	(4,221)	(39)	1,325	(2,935)
Insurance	(4,514)	-	4,047	(467)	(2,280)	131	(2,616)
Partnerships	(1,364)	(82)	230	(1,216)	(610)	-	(1,826)
Personal Care reserve	-	-	-	-	(1,800)	-	(1,800)
Trading activities	(2,564)	(403)	82	(2,885)	(56)	1,205	(1,736)
Carbon reduction	(1,521)	(57)	42	(1,536)	-	-	(1,536)
Developing partnerships	(1,500)	-	-	(1,500)	-	-	(1,500)
Essex Transport	(1,482)	-	84	(1,398)	-	77	(1,321)
Health and safety	(3,005)	(207)	2,125	(1,087)	-	-	(1,087)
Capital receipts pump priming	(1,357)	(8)	499	(866)	(214)	116	(964)
Service improvements	(22,365)	(3,384)	20,585	(5,164)	(412)	4,699	(877)
Life Raft pledges	-	(1,000)	272	(728)	-	-	(728)
Building maintenance	-	-	-	-	(713)	-	(713)
Section 75	-	-	-	-	(674)	-	(674)
Quadrennial elections	(1,480)	-	886	(594)	-	23	(571)
Street lighting	-	-	-	-	(476)	-	(476)
Tendring PPP	(430)	-	1	(429)	-	7	(422)
Severe weather	-	(252)	-	(252)	-	-	(252)
Essex Art Fund	(233)	(25)	-	(258)	-	-	(258)
IMT development	(6,488)	(1,735)	6,276	(1,947)	-	1,735	(212)
Newton bequest	-	(118)	-	(118)	(1)	-	(119)
Procurement	-	-	-	-	(24)	-	(24)
Essex pledges	(9,021)	(5,705)	7,200	(7,526)	-	7,526	-
Children's reserve	-	(2,000)	2,000	-	(4,400)	4,400	-
Debt financing	(5,600)	-	5,600	-	-	-	-
Pension deficit	(2,627)	-	2,627	-	-	-	-
Transformation	(773)	(2,273)	3,046	-	-	-	-
	<u>(77,891)</u>	<u>(37,255)</u>	<u>75,037</u>	<u>(40,109)</u>	<u>(24,608)</u>	<u>24,028</u>	<u>(40,689)</u>
<b>Total</b>	<u>(229,747)</u>	<u>(64,367)</u>	<u>99,517</u>	<u>(194,597)</u>	<u>(73,254)</u>	<u>58,742</u>	<u>(209,109)</u>



# Notes to the Accounts

## 11. Other operating expenditure

Other operating expenditure comprises precepts and levies payable by the Council and gains and losses arising on the disposal of non current assets.

2009/10 £000		2010/11 £000
	<b>Precepts and levies</b>	
1,618	Lee Valley Regional Park	1,613
1,114	Environment Agency	1,300
230	Kent and Essex Sea Fisheries Committee	239
4	Financial Reporting Council	-
<u>2,966</u>		<u>3,152</u>
	<b>(Gains)/losses on the disposal of non current assets</b>	
(281)	Disposal proceeds	(14,996)
39,046	Carrying value of assets disposed of during the year	150,274
47	Disposal costs	58
<u>38,812</u>		<u>135,336</u>
<u>41,778</u>	<b>Total Other Operating Expenditure</b>	<u>138,488</u>

The gain or loss on disposal of property, plant and equipment is the amount by which the disposal proceeds (net of disposal costs) are more (gain) or less (loss) than the carrying amount of the assets. The disposal costs are the only items that are actually charged against the General Fund Balance in the year.

The carrying value of assets disposed of during the year incorporates the effect of removing community schools from the Council's Balance Sheet that have obtained foundation, voluntary aided, voluntary controlled or academy status during the financial year.

## 12. Financing and investment income and expenditure

Financing and investment income and expenditure comprises interest payable and similar charges, pensions interest cost and expected return on pension assets, interest and other investment income and expenditure, changes in the fair values of investment properties and the net deficit or surplus achieved by the Council's trading activities.

# Notes to the Accounts

2009/10 Restated £000		2010/11 £000
	<b>Interest payable and similar charges</b>	
25,684	External interest payable	28,473
-	Premiums & discounts on early repayment of debt	-
(127)	Premiums arising	-
(128)	Discounts arising	-
	Loan charges grant	(126)
(766)	Contributions by other local authorities towards the repayment of debt	(744)
24,663		27,603
	<b>Interest and investment income</b>	
(4,960)	External interest received	(2,536)
263	Amounts allocated to sums held on deposit	293
(4,697)		(2,243)
	<b>Pensions interest cost and expected return on pension assets</b>	
103,205	Pensions interest	112,180
(57,313)	Expected return on pension assets	(74,611)
45,892		37,569
	<b>Investment properties</b>	
399	Movement in the market value of properties	(275)
(37)	Rental income	(41)
-	Repair and maintenance	-
362		(316)
(926)	<b>Net deficit/(surplus) on trading activities</b>	(928)
65,294	<b>Financing and Investment income &amp; expenditure</b>	61,685

## 13. Trading operations

The Council has a number of trading activities that are required to operate in a commercial manner and balance their budget by generating income from other parts of the Council and other organisations. The net surplus or deficit on these trading activities is brought into account when determining the net operating expenditure of the Council.

Trading activity	Purpose
School improvement and advisory service	Delivers advisory and inspection, governor, music and library services to schools.

# Notes to the Accounts

Trading activity	Purpose
School support (finance)	Delivers financial management support to schools.
School staffing insurance scheme	A self insurance scheme for schools, supporting sickness and relocation expenses.
Essex Equipment Service	Provision of the procurement, warehousing, distribution, collection and refurbishment of equipment to disabled people and patients of social care services, partner NHS trusts and local councils. The Essex Equipment Service ceased operating as a trading activity at the end of June 2009, when activities transferred to the Essex Cares Ltd group.
Smarte East	Procures framework arrangements for construction projects.
Information Services infrastructure	Monitors the decommissioning and refresh of IT equipment within the County Council.

The following table provides a summary of the financial results of these trading activities in 2010/11.

	Balance at 1 April	Movements					Balance at 31 March
		Income	Expenditure	Financing items	Net (Surplus) / deficit	Appropriations	
	£000	£000	£000	£000	£000	£000	£000
<b>2009/10</b>							
School improvement and advisory service	(332)	(9,835)	8,897	-	(938)	938	(332)
School Support (Finance)	(449)	(1,549)	1,444	-	(105)	105	(449)
School staffing insurance scheme	(1,023)	(4,527)	4,128	-	(399)	-	(1,422)
Essex equipment service	(756)	(4,233)	4,275	-	42	41	(673)
Smarte East	(4)	(221)	216	-	(5)	-	(9)
Information Services infrastructure	-	(70)	549	-	479	(479)	-
	<b>(2,564)</b>	<b>(20,435)</b>	<b>19,509</b>	<b>-</b>	<b>(926)</b>	<b>605</b>	<b>(2,885)</b>
<b>2010/11</b>							
School improvement and advisory service	(332)	(9,762)	8,887	-	(875)	958	(249)
School Support (Finance)	(449)	(1,560)	1,518	-	(42)	491	-
School staffing insurance scheme	(1,422)	(4,498)	4,476	-	(22)	-	(1,444)
Essex equipment service	(673)	-	-	-	-	673	-
Smarte East	(9)	(178)	144	-	(34)	-	(43)
Information Services infrastructure	-	(528)	573	-	45	(45)	-
	<b>(2,885)</b>	<b>(16,526)</b>	<b>15,598</b>	<b>-</b>	<b>(928)</b>	<b>2,077</b>	<b>(1,736)</b>

# Notes to the Accounts

## 14. Taxation and non specific grant income

This comprises council tax income, national non domestic rates distribution, non-ringfenced government grants and all capital grants and contributions.

2009/10 £000		2010/11 £000
	<b>Taxation</b>	
(562,408)	Council tax income	(576,773)
(194,095)	Non domestic rates	(215,423)
(756,503)		(792,196)
	<b>Non specific grant income</b>	
(118,877)	Non ringfenced government grants	(125,693)
(60,638)	Capital grants and contributions	(73,915)
(179,515)		(199,608)
(936,018)	<b>Taxation and non specific grant income</b>	(991,804)

## 15. Council Tax income

### 15.1 Demands on the Collection Fund

District councils are responsible for the billing and collection of the Council Tax (i.e. they are the billing authorities). They calculate the amount to be raised from Council Tax after taking account of their own needs, those of the County Council, Police Authority and Fire Authority and those of any parish councils.

Billing authorities are required to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax (i.e. the Collection Fund). Regulations determine that the income released from this Fund each year will be the total of the each authority's precept/demand for the year, plus their share of the estimated surplus or deficit for the previous financial year.

Council Tax income included in the Comprehensive Income and Expenditure Statement is the total of the:

- Precept on the Collection Fund; and
- The Council's share of the actual surplus / deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus / deficit on the Fund at the preceding year end that has not been distributed or recovered in the current year.

# Notes to the Accounts

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by Regulation to be credited to the General Fund is included as a reconciling item in the Movement in Reserves Statement, and taken to the Collection Fund Adjustment Account. The purpose of this reconciling adjustment is to mitigate the impact upon the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

2009/10 £000		2010/11	
		£000	£000
	<b>Comprehensive Income and Expenditure Statement</b>		
	Financing		
(561,419)	Council Tax precept	(574,956)	
(2,858)	Collection Fund surpluses receivable	(403)	
<u>(564,277)</u>	Amount received in year		(575,359)
1,869	Movement in the Council's share of the Collection Funds		(1,414)
<u>(562,408)</u>	<b>Amount credited to the Comprehensive Income and Expenditure Statement</b>		<u>(576,773)</u>
	<b>Movement in Reserves Statement</b>		
(1,869)	Reconciling transaction with the Collection Fund Adjustment Account		1,414
<u>(564,277)</u>	<b>Actual amount credited to the General Fund in the year: Amount payable to the Council under Regulation</b>		<u>(575,359)</u>

## 15.2 Balance Sheet

Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of Council Tax collected could be more or less than predicted. For this reason, the County Council's Balance Sheet includes:

- An attributable share of debtors for Council Tax arrears (net of any impairment allowance for doubtful debts);
- An attributable share of creditors for overpaid Council Tax;
- A debtor for the billing authorities for cash collected from council taxpayers but not paid across, or a creditor for the cash paid in advance of receipt from council taxpayers.

In addition, the Council's Balance Sheet includes a Collection Fund Adjustment Account, which records the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by Regulation to be credited to the General Fund.

## Notes to the Accounts

The balances included within the Council's Balance Sheet are summarised as follows:

2008/09 £000	2009/10 £000		2010/11	
			£000	£000
		<b>Current assets</b>		
		<b>Debtors</b>		
23,732	25,450	Council tax arrears	26,345	
(8,550)	(9,814)	Impairment for doubtful debts	(10,666)	
<u>15,182</u>	<u>15,636</u>			15,679
3,366	2,885	Billing authorities		3,675
<u>18,548</u>	<u>18,521</u>	<b>Total assets</b>		<u>19,354</u>
		<b>Current liabilities</b>		
		<b>Creditors</b>		
(7,866)	(7,898)	Council tax overpayments and pre-payments	(7,741)	
(7,312)	(9,122)	Billing authorities	(8,698)	
<u>(15,178)</u>	<u>(17,020)</u>	<b>Total current liabilities</b>		<u>(16,439)</u>
<u>3,370</u>	<u>1,501</u>	<b>Total assets less liabilities</b>		<u>2,915</u>
		<b>Financed by:</b>		
(3,370)	(1,501)	Collection Fund Adjustment Account		(2,915)
<u>(3,370)</u>	<u>(1,501)</u>	<b>Total reserves</b>		<u>(2,915)</u>

# Notes to the Accounts

## 16. Grant income

### 16.1 Amounts credited to Taxation and Non Specific Grant income

The following non specific revenue grants, and capital grants and contributions, have been credited to Taxation and Non Specific Grant income:

2009/10 £000		2010/11 £000
	<b>Non ringfenced grants</b>	
44,800	Revenue Support Grant	31,281
54,155	Area Based Grant	75,393
635	Local Authority Business Growth Incentive Grant	-
5,274	Local Area Agreement - Performance Reward Grant	2,466
14,013	Private Finance Initiative Grant	16,553
<u>118,877</u>		<u>125,693</u>
	<b>Capital grants and contributions</b>	
	Department of Transport grants	
4,593	Sadlers Farm junction	26,429
9,204	Basildon Enterprise Corridor	-
4,295	Colchester Junction	-
3,470	Harlow A414 dualling	-
3,580	Harlow First Avenue	-
4,879	Integrated transport	-
-	A13	5,000
4,353	Other	1,089
-	Homes and Communities Agency - Infrastructure grants	24,033
	Communities and Local Government	
-	Local area agreement performance reward grant	1,057
-	Other grants	1,793
-	Department of Health grants	1,099
	Department of Education	
23,233	Standards Fund	-
937	Surestart	6,785
-	Other	102
2,094	Other grants and contributions	6,528
<u>60,638</u>		<u>73,915</u>
<u>179,515</u>		<u>199,608</u>

# Notes to the Accounts

## 16.2 Amounts credited to Services

An analysis of the specific revenue grants, and capital grants applied to revenue expenditure financed from capital under statute, which have been credited to gross income within Cost of Services is as follows:

2009/10			2010/11	
Capital grants	Specific revenue grants		Capital grants	Specific revenue grants
£000	£000		£000	£000
<b>Department of Education</b>				
-	764,467	Dedicated Schools Grant	-	781,287
60,458	115,105	Standards Fund Grant	37,140	120,299
1,759	28,536	Early years and childcare grant	13,544	38,210
10	146	Aiming Higher grant	586	896
-	717	Youth Opportunities Fund	-	745
-	641	Golden Hellos grant	-	518
1,176	1,432	Other Department of Education grants	936	1,909
<u>63,403</u>	<u>911,044</u>		<u>52,206</u>	<u>943,864</u>
<b>Department of Health</b>				
-	4,710	Social Care Reform	-	6,235
-	1,431	Learning disabilities campus closure	-	2,353
-	440	Think Family Grant	-	744
3,772	575	Other Department of Health grants	1,119	885
<u>3,772</u>	<u>7,156</u>		<u>1,119</u>	<u>10,217</u>
<b>Training and Development Agency</b>				
-	1,851	Graduate teacher programme	-	2,684
-	286	Workforce development	-	674
-	1,040	Other Training and Development Agency grants	-	591
<u>-</u>	<u>3,177</u>		<u>-</u>	<u>3,949</u>
<b>East of England Development Agency (EEDA)</b>				
-	4,001	Beyond 2010	-	4,504
-	1,214	Partnership grant	-	1,358
1,533	-	Other EEDA grants	-	304
<u>1,533</u>	<u>5,215</u>		<u>-</u>	<u>6,166</u>
<b>Learning and Skills Council</b>				
-	54,093	Sixth Forms funding	-	87,981
-	10,366	Adult and Community Learning	-	10,036
-	-	Apprenticeships	-	1,000
-	507	Other Learning and Skills Council grants	-	401
<u>-</u>	<u>64,966</u>		<u>-</u>	<u>99,418</u>
<b>Grants from other bodies</b>				
17	195	Department of Transport	357	2,211
-	1,160	UK Border Agency: Asylum Seekers grant	-	1,549
-	-	Sport England	-	880
5,274	29,631	Department of Communities and Local Government	1,208	583
1,237	481	Other	443	976
<u>6,528</u>	<u>31,467</u>		<u>2,008</u>	<u>6,199</u>
<u>75,236</u>	<u>1,023,025</u>		<u>55,333</u>	<u>1,069,813</u>



# Notes to the Accounts

## 17. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Department for Education, the Dedicated Schools Grant (DSG).

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008.

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 2010/11 are provided in the following table.

2009/10	Notes	2010/11 Total	Deployment in 2010/11	
			Central Expenditure	Individual Schools Budget
£000		£000	£000	£000
(762,095)	(i) Final DSG for the year	(781,164)		
-	(ii) Adjustment for the 'fast track' transfer of schools	-		
(1,444)	(iii) Brought forward from previous year	928		
-	(iv) Carry forward to next year agreed in advance	-		
(763,539)	(v) <b>Agreed budgeted distribution</b>	(780,236)	(81,595)	(698,641)
769,670	(vi) Actual central expenditure / ISB deployed	784,626	85,985	698,641
(5,203)	(vii) Council's contribution for year	(3,340)	(3,340)	
928	(viii) <b>Carry forward to next year</b>	1,050	1,050	-

Notes:

- (i) The Final DSG for 2010/11 was issued by the Department for Education in March 2011.
- (ii) The amount brought forward from the previous year has been agreed with the Department for Education.
- (iii) No amounts were agreed in advance to be carried forward into next year.
- (iv) Budgeted distribution agreed by the Schools Forum.
- (v) Actual amount of central expenditure and the amount of ISB actually distributed to schools.
- (vi) Any contribution from the Council which had the effect of substituting DSG in the funding of the schools budget.
- (vii) For central expenditure, the carry forward into next year is the difference between the budgeted distribution of DSG and actual expenditure, plus the contribution by the Council.

# Notes to the Accounts

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- (viii) For the ISB, the carry forward is the difference between the budget and amount actually deployed to schools, plus the contribution by the Council.

An over or under deployment of ISB can arise from transfers from central expenditure during the year (e.g. for contingencies or for adjustments to schools' budget shares during the year, such as for named SEN pupils or excluded pupils). Thus, the total carry forward is the carry forward on central expenditure plus the carry forward on the ISB, plus or minus any carry forward to 2011/12 already agreed.

## **18. Property, Plant and Equipment**

### **18.1 Movement in balances**

The tables on the following pages summarise the net movements in property, plant and equipment from 1 April 2009 through to 31 March 2011.

## Property, Plant and Equipment –2009/10 movement in balances

	Operational Assets				Non-Operational Assets		Total	PFI /PPP Assets included in In PPE in PPE £000
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>								
As at 1 April 2009	2,165,234	13,865	610,372	2,282	83,866	8,044	2,883,663	104,477
Additions	7,765	1,430	421	-	154,301	-	163,917	-
Revaluations								
Inc/(dec) recognised in Revaluation Reserve	(14,001)	-	-	232	-	5,731	(8,038)	12,210
Inc/(dec) recognised in Surplus/Deficit on the provision of services	(192,776)	-	-	(435)	-	(1,935)	(195,146)	-
Disposals	(41,696)	(133)	-	-	-	(1,393)	(43,222)	-
Reclassification of assets to / from other categories	-	-	-	-	-	(2,675)	(2,675)	-
Transfers to / from assets under construction	62,363	-	84,759	564	(147,787)	76	(25)	-
<b>As at 31 March 2010</b>	<b>1,986,889</b>	<b>15,162</b>	<b>695,552</b>	<b>2,643</b>	<b>90,380</b>	<b>7,848</b>	<b>2,798,474</b>	<b>116,687</b>
<b>Depreciation</b>								
As at 1 April 2009	(26,561)	(6,444)	(126,479)	(25)	-	(64)	(159,573)	(16,417)
Revaluations and restatements	5,281	-	-	-	-	21	5,302	1,689
Depreciation on impairments	20,668	-	-	12	-	14	20,694	-
Depreciation for the year	(29,071)	(1,987)	(19,991)	(14)	-	(934)	(51,997)	(1,852)
Depreciation on assets sold	3,635	131	-	-	-	161	3,927	-
<b>As at 31 March 2010</b>	<b>(26,048)</b>	<b>(8,300)</b>	<b>(146,470)</b>	<b>(27)</b>	<b>-</b>	<b>(802)</b>	<b>(181,647)</b>	<b>(16,580)</b>
<b>Net book value at 31 March 2009</b>	<b>2,138,673</b>	<b>7,421</b>	<b>483,893</b>	<b>2,257</b>	<b>83,866</b>	<b>7,980</b>	<b>2,724,090</b>	<b>88,060</b>
<b>Net book value at 31 March 2010</b>	<b>1,960,841</b>	<b>6,862</b>	<b>549,082</b>	<b>2,616</b>	<b>90,380</b>	<b>7,046</b>	<b>2,616,827</b>	<b>100,107</b>

## Property, Plant and Equipment –2010/11 movement in balances

	Operational Assets				Non-Operational Assets		Total	PFI /PPP Assets included in in PPE £000
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>								
As at 1 April 2010	1,986,889	15,162	695,552	2,643	90,380	7,848	2,798,474	116,687
Additions	1,127	1,704	158	100	157,259	-	160,348	234
Revaluations / impairments								
Inc/(dec) recognised in Revaluation Reserve	(5,807)	-	-	-	-	132	(5,675)	-
Inc/(dec) recognised in Surplus/Deficit on the provision of services	1,458	-	-	-	-	(196)	1,262	-
Disposals	(154,286)	-	-	-	-	-	(154,286)	-
Reclassification of assets to / from other categories	(182)	-	-	(6)	-	(1,728)	(1,916)	-
Transfers to / from assets under construction	51,733	3,039	82,232	146	(138,479)	-	(1,329)	-
<b>As at 31 March 2011</b>	<b>1,880,932</b>	<b>19,905</b>	<b>777,942</b>	<b>2,883</b>	<b>109,160</b>	<b>6,056</b>	<b>2,796,878</b>	<b>116,921</b>
<b>Depreciation</b>								
As at 1 April 2010	(26,048)	(8,300)	(146,470)	(27)	-	(802)	(181,647)	(16,580)
Revaluations and restatements	5,859	-	-	-	-	274	6,133	-
Depreciation on impairments	(2,206)	-	-	-	-	-	(2,206)	-
Depreciation for the year	(36,809)	(3,122)	(20,150)	(26)	-	(32)	(60,139)	(2,418)
Depreciation on assets sold	8,056	-	-	-	-	-	8,056	-
<b>As at 31 March 2011</b>	<b>(51,148)</b>	<b>(11,422)</b>	<b>(166,620)</b>	<b>(53)</b>	<b>-</b>	<b>(560)</b>	<b>(229,803)</b>	<b>(18,998)</b>
<b>Net book value at 31 March 2010</b>	<b>1,960,841</b>	<b>6,862</b>	<b>549,082</b>	<b>2,616</b>	<b>90,380</b>	<b>7,046</b>	<b>2,616,827</b>	<b>100,107</b>
<b>Net book value at 31 March 2011</b>	<b>1,829,784</b>	<b>8,483</b>	<b>611,322</b>	<b>2,830</b>	<b>109,160</b>	<b>5,496</b>	<b>2,567,075</b>	<b>97,923</b>

# Notes to the Accounts

## 18.2 Depreciation

The useful lives and depreciation rates that have been used within the calculation of depreciation on Property Plant and Equipment are detailed within Note 2.10.7, which commences on page 41.

## 18.3 Capital commitments

At 31st March 2011, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2011/12. The commitments are summarised as follows:

2010 £000		2011 £000
99,110	Highways and Transportation	40,676
13,412	Education (schools)	17,584
284	Other	284
<u>112,806</u>		<u>58,544</u>

## 18.4 Revaluations

The Council ensures that all property, plant and equipment required to be measured at fair value is re-valued, under a rolling five year programme, by the Council's property advisor Lambert Smith Hampton. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

Valuations of vehicles, plant 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.

# Notes to the Accounts

The timing and amounts of the valuations of each class of asset are summarised in the following table:

	Held at historical cost value £000	Year of valuation for assets valued at 'current value'					Total £000	Total Gross book value £000
		2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000		
<b>Operational Assets</b>								
Intangible Assets	3,361	-	-	-	-	-	-	3,361
Land and buildings	-	434,112	299,460	613,626	144,270	421,731	1,913,199	1,913,199
Vehicles, plant & equipment	19,905	-	-	-	-	-	-	19,905
Infrastructure	777,942	-	-	-	-	-	-	777,942
Community Assets	2,782	-	-	-	-	-	-	2,782
<b>Non-Operational Assets</b>								
Investment Assets	-	-	-	-	-	3,810	3,810	3,810
Assets held for sale	-	-	-	-	-	2,264	2,264	2,264
Surplus Assets	-	-	-	-	-	1,681	1,681	1,681
Assets under construction	109,162	-	-	-	-	-	-	109,162
<b>Gross book value</b>	<b>913,152</b>	<b>434,112</b>	<b>299,460</b>	<b>613,626</b>	<b>144,270</b>	<b>429,486</b>	<b>1,920,954</b>	<b>2,834,106</b>

## 19. 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:

2010 £000		2011 £000
(37)	Rental income from investment property	(41)
-	Direct operating expenses arising from investment property	-
<u>(37)</u>	<b>Net (gain)/loss</b>	<u>(41)</u>

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

## Notes to the Accounts

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

2009/10 £000		2010/11 £000
4,209	Balance as at 1 April	3,810
-	Additions	-
-	Disposals	(165)
(399)	Net gains/(losses) from fair value adjustments	275
	Transfers	-
-	Other charges	-
<u>3,810</u>	<b>Balance as at 31 March</b>	<u>3,920</u>

### 20. 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 scheme and accounted for as part of the hardware items of property, plant and equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life of 5 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 charged to revenue for the year is charged to the Cost of Services within the Comprehensive Income and Expenditure Statement and then absorbed as an overhead across all the service headings in the Cost of Services.

# Notes to the Accounts

The movement on intangible assets during the year is analysed as follows:

2009/10 £000		2010/11 £000
1,744	Gross book value as at 1 April	1,886
117	Additions	1,476
25	Other movements (e.g. transfers)	-
<u>1,886</u>	Gross book value as at 31 March	<u>3,362</u>
(1,031)	Amortisation as at 1 April	(1,434)
(403)	Amortisation for the year	(602)
<u>(1,434)</u>	Amortisation as at 31 March	<u>(2,036)</u>
<u>713</u>	Net book value as at 1 April	<u>452</u>
<u>452</u>	Net book value as at 31 March	<u>1,326</u>

## 21. Capital expenditure and financing

The following table provides an analysis that shows the way in which capital expenditure (which is recognised in the Balance Sheet) and revenue expenditure funded from capital under statute (which forms part of the deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement) was financed.

2009/10			Sources of finance	2010/11		
Capital expenditure £000	Revenue expenditure funded from capital £000	Total £000		Capital expenditure £000	Revenue expenditure funded from capital £000	Total £000
55,632	7,197	62,829	Borrowing	30,253	21,292	51,545
43,151	3,481	46,632	Unsupported Borrowing	59,985	6,098	66,083
65,524	75,237	140,761	Government grants & contributions	66,850	55,925	122,775
-	5,275	5,275	Capital receipts	3,322	3,467	6,789
-	-	-	Earmarked revenue reserves applied	-	940	940
<u>164,307</u>	<u>91,190</u>	<u>255,497</u>	Total	<u>160,410</u>	<u>87,722</u>	<u>248,132</u>



# Notes to the Accounts

## 22. Leases

### 22.1 Council as Lessee

The Council has acquired the use of property, plant and equipment under operating and finance lease arrangements, including PFI/PPP arrangements. Further details are provided in the following paragraphs.

#### Finance leases

The property, plant and equipment acquired under finance leases are carried in the Balance Sheet at the following net amounts:

31 March 2010 £000		31 March 2011 £000
1,386	Other Land and Buildings	2,120
737	Vehicles and Equipment	446
2,123	<b>Total</b>	2,566

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

31 March 2010 £000		31 March 2011 £000
	Net present value of minimum lease payments	
813	Current	783
127	Non Current	803
(37)	Finance costs payable in future years	(366)
903	<b>Minimum lease payments</b>	1,220

# Notes to the Accounts

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£000	£000	£000	£000
Not later than one year	62	287	19	224
Later than one year and not later than five years	102	224	18	142
Later than five years	739	709	-	-
<b>Total</b>	<b>903</b>	<b>1,220</b>	<b>37</b>	<b>366</b>

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.

## Operating leases

The Council has acquired the use of property, plant and equipment by entering into operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2010				31 March 2011		
Property £000	Other £000	Total £000		Property £000	Other £000	Total £000
2,638	3,143	5,781	One year	2,564	5,564	8,128
8,654	5,091	13,745	Two to five years	7,637	7,509	15,146
12,416	338	12,754	Over five years	11,060	463	11,523
<b>23,708</b>	<b>8,572</b>	<b>32,280</b>	<b>Total lease rentals</b>	<b>21,261</b>	<b>13,536</b>	<b>34,797</b>

## 22.2 Council as Lessor

The Council leases out property under operating leases for the following purposes:

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

# Notes to the Accounts

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

31 March 2010 £000		31 March 2011 £000
128	Not later than one year	200
177	Later than one year and not later than five years	474
303	later than five years	419
<u>608</u>	<b>Total</b>	<u>1,093</u>

The minimum lease payments receivable do not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 23. Private Finance Initiative and similar contracts

### 23.1 Nature and significant terms of PFI arrangements

The Council has entered into several Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes, as detailed within accounting policy note 2.16, which commences on page 45. The nature and significant terms of these arrangements are as follows:

Scheme	Nature and significant terms
A130 Bypass	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until the road was constructed. Construction costs were estimated at <b>£86m</b> (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed or traffic flow is affected by road works.</p> <p>The road will be passed to Council in a repaired/neutral state at the end of the arrangements in 2030.</p>

## Notes to the Accounts

Scheme	Nature and significant terms
<p><b>Debden Park Schools</b></p>	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of <b>£15m</b>.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p> <p>The Operator refinanced its debt in December 2001.</p>
<p><b>Clacton Secondary Schools</b></p>	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of <b>£34m</b>.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, whose amounts vary according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>
<p><b>Tendring Primary Schools</b></p>	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of <b>£15m</b>.</p> <p>The Operator is operating and maintaining the school facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary accounting to inflation, the proportion of the required time that the facilities are available to the Council and the extent to which performance goals are met.</p> <p>The operator re-financed its debt with an effective date of 31st March 2008.</p>

In addition to the schemes referred to above, the Council has entered into a PFI contract for the provision of three schools (Castleview School, Columbus New Model Special School and Cornelius Vermuyden School and Arts College) under one project agreement with one unitary payment; the contract includes buildings and grounds maintenance, security, caretaking and cleaning.

## Notes to the Accounts

The operational term for the PFI contract is 25 years (excluding a phased construction period of 23 months). The handover is planned in several stages (to be completed by January 2012), with an element of post completion works. Upon expiry of the contract, it is intended that any property interests will revert back to the Council for nil consideration.

The Council's obligations to pay for the fair value of property, plant and equipment under this project agreement are estimated at **£74.3m**. Unitary payments, which include payment for services provided, financing charges and payment towards this liability, will be in the region of **£9.8m** per annum.

### 23.2 Value of liabilities resulting from PFI

The value of liabilities from these schemes at each Balance Sheet date, and an analysis of the movements in those values are as follows:

PFI liabilities	A130 road	Debden Park school	Clacton secondary schools	Tendring primary schools	Total
	£000	£000	£000	£000	£000
<b>Liabilities as at 1 April 2009</b>	(79,124)	(11,137)	(22,788)	(10,844)	<b>(123,893)</b>
Liabilities repaid	1,200	377	771	134	<b>2,482</b>
Fair value of assets coming into use	-	-	-	-	-
<b>Liabilities as at 31 March 2010</b>	(77,924)	(10,760)	(22,017)	(10,710)	<b>(121,411)</b>
Liabilities repaid	1,305	372	762	178	<b>2,617</b>
Fair value of assets coming into use	-	-	-	-	-
<b>Liabilities as at 31 March 2011</b>	(76,619)	(10,388)	(21,255)	(10,532)	<b>(118,794)</b>

# Notes to the Accounts

## 23.3 Details of payments to be made under PFI contracts

The following table provides the best estimate of payments in future periods on each scheme, on the assumption that the contractors provide a reliable service.

	Estimated timing of payments to PFI/PPP operators							Total
	Within one year	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years	
	£000	£000	£000	£000	£000	£000	£000	£000
<b>A130 Bypass</b>								
Service charges	1,121	4,770	6,665	7,541	6,740	-	-	26,837
Interest and similar charges	9,325	39,378	49,542	50,554	8,180	-	-	156,979
Repayment of liability	1,495	10,191	16,894	42,013	6,025	-	-	76,618
Lifecycle replacement	-	-	3,934	2,124	6,903	-	-	12,961
<b>Total</b>	<b>11,941</b>	<b>54,339</b>	<b>77,035</b>	<b>102,232</b>	<b>27,848</b>	<b>-</b>	<b>-</b>	<b>273,395</b>
<b>Debden Park School</b>								
Service charges	535	2,279	3,184	3,603	333	-	-	9,934
Interest and similar charges	1,203	4,848	6,088	5,653	468	-	-	18,260
Repayment of liability	375	1,834	3,211	4,482	487	-	-	10,389
Lifecycle replacement	285	1,247	1,779	2,399	202	-	-	5,912
<b>Total</b>	<b>2,398</b>	<b>10,208</b>	<b>14,262</b>	<b>16,137</b>	<b>1,490</b>	<b>-</b>	<b>-</b>	<b>44,495</b>
<b>Clacton Secondary Schools</b>								
Service charges	2,099	9,064	13,000	15,153	17,651	18,162	-	75,129
Interest and similar charges	1,992	7,234	6,979	5,506	4,042	1,757	-	27,510
Repayment of liability	885	3,500	3,058	3,072	3,666	7,074	-	21,255
Lifecycle replacement	562	2,625	5,649	5,984	5,527	985	-	21,332
<b>Total</b>	<b>5,538</b>	<b>22,423</b>	<b>28,686</b>	<b>29,715</b>	<b>30,886</b>	<b>27,978</b>	<b>-</b>	<b>145,226</b>
<b>Tendring Primary Schools</b>								
Service charges	690	2,939	4,106	4,646	5,256	2,921	-	20,558
Interest and similar charges	1,684	6,833	9,187	9,602	10,075	4,014	-	41,395
Repayment of liability	244	491	1,075	1,743	4,239	2,746	-	10,538
Lifecycle replacement	209	1,775	2,444	3,030	1,950	2,281	-	11,689
<b>Total</b>	<b>2,827</b>	<b>12,038</b>	<b>16,812</b>	<b>19,021</b>	<b>21,520</b>	<b>11,962</b>	<b>-</b>	<b>84,180</b>
	<b>22,704</b>	<b>99,008</b>	<b>136,795</b>	<b>167,105</b>	<b>81,744</b>	<b>39,940</b>	<b>-</b>	<b>547,296</b>

Under existing legislation, the Council expects to continue to receive additional government grant that will broadly cover the capital elements of the payments to contractors.

# Notes to the Accounts

## 24. Financial instruments

### 24.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2009		31 March 2010		31 March 2011	
Long term	Current	Long term	Current	Long term	Current
£000	£000	£000	£000	£000	£000
<b>Financial assets - Loans and receivables</b>					
65,197	48,869	11,259	-	1,042	21,354
-	127,458	-	111,750	-	85,287
28,554	89,414	27,191	107,105	26,095	95,217
<u>93,751</u>	<u>265,741</u>	<u>38,450</u>	<u>218,855</u>	<u>27,137</u>	<u>201,858</u>
<b>Financial liabilities at amortised cost</b>					
-	(206,432)	(135)	(243,374)	(35)	(216,000)
(342,744)	(5,037)	(323,718)	(5,068)	(361,588)	(7,821)
(121,551)	(2,481)	(119,707)	(2,681)	(117,117)	(2,998)
<u>(464,295)</u>	<u>(213,950)</u>	<u>(443,560)</u>	<u>(251,123)</u>	<u>(478,740)</u>	<u>(226,819)</u>

### 24.2 Income, expense, gains and losses

The following table provides an analysis of the items included within the Comprehensive Income and Expenditure Statement in relation to income, expense and gains and losses on financial instruments:

2009/10			2010/11		
Loans and receivables	Financial liabilities	Total	Loans and receivables	Financial liabilities	Total
£000	£000	£000	£000	£000	£000
-	24,768	24,768	-	27,572	27,572
-	-	-	-	-	-
-	22	22	-	31	31
<u>-</u>	<u>24,790</u>	<u>24,790</u>	<u>-</u>	<u>27,603</u>	<u>27,603</u>
<b>Expenses</b>					
(4,960)	-	(4,960)	(2,536)	-	(2,536)
-	(127)	(127)	-	-	-
-	-	-	-	-	-
<u>(4,960)</u>	<u>(127)</u>	<u>(5,087)</u>	<u>(2,536)</u>	<u>-</u>	<u>(2,536)</u>
<b>Income</b>					
<u>(4,960)</u>	<u>24,663</u>	<u>19,703</u>	<u>(2,536)</u>	<u>27,603</u>	<u>25,067</u>
<b>Net gain/(loss) for the year</b>					

### 24.3 Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values can be assessed by calculating the

## Notes to the Accounts

present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- The fair value of borrowing from the PWLB has been determined with reference to the ‘premature repayment’ set of PWLB rates in force at 31 March 2011. This demonstrates how much it would cost the Council to buy itself out of an unfavourable position or how much it could generate from liquidating a favourable position.
- Where an instrument will mature in the next 12 months, the 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.

In some cases, there is no difference between the carrying value and fair value of financial instruments. The following table provides an analysis of those financial instruments where the carrying value and fair value differ:

31 March 2010			31 March 2011		
Carrying amount	Fair Value		Carrying amount	Fair Value	
£000	£000		£000	£000	
(328,786)	(328,345)	Borrowing	(369,409)	(389,290)	
11,259	12,405	Investments	-	-	

The fair value of borrowings varies from the carrying amount because the Council’s portfolio of loans includes a number of fixed rate loans where the interest rate payable is either higher or lower than the rates available for similar loans at the balance sheet date.

The fair value of investments was higher than the carrying amount in 2009/10 because the Council’s portfolio of investments included some long term fixed rate loans where the interest rate receivable was higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates demonstrated the financial consequences of the Council continuing to hold the investments. Conversely it increases the amount that the Council would receive if it agreed to early repayment of the deposits. There were no investments held with maturities beyond 12 months at 31st March 2011.

### 24.4 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.



# Notes to the Accounts

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- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments.
- **Market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall treasury risk management framework focuses on the unpredictability of financial markets and arrangements for minimising these risks. An annual treasury management strategy is produced in compliance with statutory regulations and the CIPFA Treasury Management Code of Practice (ie. the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral guidance notes).

Overall, these procedures require the Council to manage risks in the following ways:

- By approving annually limits on the overall level of borrowing, exposure to fixed and variable interest rates, maturity structure of debt and amount that can be invested beyond one year.
- By approving an annual investment strategy that establishes criteria for both investing and selecting counterparties in compliance with government guidance.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. In addition, the Council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as from credit exposures associated with the Authority's customers.

The Council aims to minimise the credit risks associated with depositing funds with banks and financial institutions by only placing funds with those counterparties that have credit ratings equivalent to, or better than, the credit rating criteria set out within the Council's annual investment strategy.

Counterparties are only considered for inclusion on the Council's lending list if they have all of the following credit ratings:

- **Short term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments in the short term.
- **Long term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments over the longer term.
- **Individual / financial strength rating** – provides a measure of the likelihood that a bank will require financial assistance from third parties such as its owners, its industry

## Notes to the Accounts

group or official institutions. It also considers how a bank would be viewed if it were entirely independent and could not rely upon external support.

- **Support rating** – provides an assessment of a potential supporter’s (either a sovereign state or an institutional owner) propensity to support the bank or of its ability to support it.

Institutions that satisfy the Council’s minimum criteria across each of these categories may be included on the Council’s lending list. However, the short and long term ratings are further applied to determine the maximum amount that can be invested with individual counterparties and the maximum period of those investments. This approach ensures that the Council applies a consistent approach to the amount, and period, of investments with institutions exposed to similar risks.

Application of the credit rating criteria set out within the Annual Investment Strategy means that investment limits of **£60m, £50m or £35m** may be applied. Surplus cash balances are usually invested on a short term basis (ie: for periods of up to 364 days) until the funds are next required. Funds invested on this basis are either placed ‘on-call’ or in short term ‘fixed’ period deposits. Because of the short term nature of these investments, it is possible for the Council to respond to changes in credit risks reasonably quickly.

The Council may invest its underlying cash balances on a longer term basis (ie: for periods beyond 364 days). Because it is not possible to respond to changes in credit risk as quickly, a limit is set within the annual treasury management strategy, upon the total amount that can be invested for periods beyond 364 days. For 2010/11, this limit was **£50m** (2009/10: £60m).

No credit limits were exceeded during 2010/11 and the Council does not expect any losses from non performance by any of its counterparties in relation to deposits.

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

	Amount at 31 March 2011	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and other financial institutions				
AAA rated	10,000	0.000%	0.00%	-
AA rated	24,700	0.030%	0.03%	7
A rated	44,700	0.080%	0.08%	36
	<b>79,400</b>			<b>43</b>
Debtors (contractual)	121,312	9.671%	9.67%	11,732
Potential maximum exposure to credit risk	<b>200,712</b>			<b>11,775</b>

## Notes to the Accounts

Of the total amount of debtors at 31 March 2011, the following amounts (analysed by age) are past their due date for payment:

2009/10 £000		2010/11 £000
7,251	Less than three months	5,922
2,754	Three to six months	2,966
5,359	Six months to one year	7,792
11,294	More than one year	13,257
<b>26,658</b>	<b>Total</b>	<b>29,937</b>

### Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there are no significant risks that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure a relatively even debt maturity profile through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

2009/10 £000	Repayment period	2010/11				Total £000
		PWLB £000	Money Market £000	Castle Point DC £000	Other £000	
5,068	Less than one year	4,388	922	6	2,505	7,821
<b>5,068</b>	<b>Short term borrowing</b>	<b>4,388</b>	<b>922</b>	<b>6</b>	<b>2,505</b>	<b>7,821</b>
9	Between 1 and 2 years	1,118	-	4	-	1,122
5,004	Between 2 - 5 years	8,635	-	2	-	8,637
3	Between 5 - 10 years	22,117	-	2	-	22,119
15,003	Between 10 - 25 years	26,024	-	2	-	26,026
47,688	Between 25 - 40 years	47,688	-	-	-	47,688
179,011	Between 40 - 50 years	178,996	-	-	-	178,996
77,000	Over 50 years	-	77,000	-	-	77,000
<b>323,718</b>	<b>Long term borrowing</b>	<b>284,578</b>	<b>77,000</b>	<b>10</b>	<b>-</b>	<b>361,588</b>
<b>328,786</b>	<b>Total borrowing</b>	<b>288,966</b>	<b>77,922</b>	<b>16</b>	<b>2,505</b>	<b>369,409</b>

# Notes to the Accounts

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The maximum amount of PWLB debt that matures in any one year is **£30m**, with maturities averaging at approximately **£15m** per annum.

Assuming that the money market loans run full term, they will all mature over a period of three consecutive years. However, the lender has the option, at fixed intervals over the life of the loans, to require repayment sooner.

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

## Market risk

### ▪ Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- Borrowings at fixed rates – the fair value of the liability borrowings will fall;
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowing and investments are not carried at fair value, so nominal gains and losses on fixed rate borrowing and investments would not impact on the Surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and effect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of **30%** of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances are favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

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. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

## Notes to the Accounts

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2009/10 £000		2010/11 £000
273	Interest payable on variable rate borrowing	153
(893)	Interest receivable on variable rate investments	(880)
<u>(620)</u>	<b>Impact on Comprehensive Income and Expenditure Account</b>	<u>(727)</u>

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

### ▪ Price risk

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund.

### ▪ Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to losses or gains arising from movements in exchange rates.

## 25. Debtors

The following table analyses short and long term debtors by counter party grouping:

Debtors	Counterparty					Total £000
	Central Government bodies £000	Other local authorities £000	NHS bodies £000	Public corporations £000	Other entities £000	
<b>2008/09</b>						
Short term	25,245	22,384	79	15	73,182	<b>120,905</b>
Long term	-	18,892	-	-	9,662	<b>28,554</b>
<b>Total</b>	<b>25,245</b>	<b>41,276</b>	<b>79</b>	<b>15</b>	<b>82,844</b>	<b>149,459</b>
<b>2009/10</b>						
Short term	57,975	22,536	204	-	85,975	<b>166,690</b>
Long term	-	17,240	-	-	9,951	<b>27,191</b>
<b>Total</b>	<b>57,975</b>	<b>39,776</b>	<b>204</b>	<b>-</b>	<b>95,926</b>	<b>193,881</b>
<b>2010/11</b>						
Short term	65,033	29,139	1,027	135	62,384	<b>157,718</b>
Long term	1	16,501	-	-	9,593	<b>26,095</b>
<b>Total</b>	<b>65,034</b>	<b>45,640</b>	<b>1,027</b>	<b>135</b>	<b>71,977</b>	<b>183,813</b>

## Notes to the Accounts

Further details of the Council's long term debtors are as follows:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
19,028	18,152	Debt outstanding on assets transferred to other bodies	17,299
7,221	6,221	Deferred capital receipts	6,896
2,305	2,818	Other long term debtors	1,900
<u>28,554</u>	<u>27,191</u>	<b>Balance as at 31 March</b>	<u>26,095</u>

### 26. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 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 and cash equivalents also include bank overdrafts where these arise as an integral part of the Council's cash management. The cash position is managed to ensure that a broadly neutral position is maintained on a daily basis (i.e. surplus cash balances are temporarily invested until next needed); overdrawn balances represents cash in transit at 31st March.

The Council's cash management arrangements do not extend to bank balances held by schools in their own bank accounts.

The following table shows the balance of cash and cash equivalents at 31 March.

2008/09 £000	2009/10 £000		2010/11 £000
		<b>Amounts that form an integral part of the Council's cash management</b>	
35,072	67,031	Cash repayable on demand	44,054
68,736	25,003	Cash equivalents	15,010
(39,407)	(40,029)	Bank overdraft	(35,460)
748	694	Petty cash balances	623
<u>65,149</u>	<u>52,699</u>		<u>24,227</u>
62,309	59,051	<b>Cash held by schools</b>	<b>61,060</b>
<u>127,458</u>	<u>111,750</u>	<b>Total of cash and cash equivalents</b>	<u>85,287</u>

# Notes to the Accounts

## 27. Assets held for sale

The net movement on assets held for sale is:

2009/10 £000		2010/11 £000
1,496	Balance as at 1 April	4,171
2,675	Property, Plant and Equipment newly classified as held for sale	3,245
-	Impairment losses	(162)
-	Disposals	(3,881)
<u>4,171</u>	<b>Balance as at 31 March</b>	<u>3,373</u>

## 28. Creditors

The following table analyses short and long term creditors by counter party grouping:

Creditors	Counterparty					Total £000
	Central Government bodies £000	Other local authorities £000	NHS bodies £000	Public corporations £000	Other entities £000	
<b>2008/09</b>						
Short term	2,892	29,219	2,219	501	199,777	234,608
Long term	-	-	-	-	-	-
<b>Total</b>	<b>2,892</b>	<b>29,219</b>	<b>2,219</b>	<b>501</b>	<b>199,777</b>	<b>234,608</b>
<b>2009/10</b>						
Short term	8,569	36,050	2,574	769	232,090	280,052
Long term	-	-	-	-	135	135
<b>Total</b>	<b>8,569</b>	<b>36,050</b>	<b>2,574</b>	<b>769</b>	<b>232,225</b>	<b>280,187</b>
<b>2010/11</b>						
Short term	2,199	35,710	1,523	393	194,838	234,663
Long term	-	-	-	-	35	35
<b>Total</b>	<b>2,199</b>	<b>35,710</b>	<b>1,523</b>	<b>393</b>	<b>194,873</b>	<b>234,698</b>

# Notes to the Accounts

## 29. Grant receipts in advance

Where grants or contributions have been received, but the conditions attached to the funding are not satisfied, the amount is carried in the Balance Sheet as a receipt in advance. An analysis of the amounts carried in the Balance Sheet as a receipt in advance is as follows:

2009/10			2010/11			
Revenue £000	Capital £000	Total £000		Revenue £000	Capital £000	Total £000
			<b>Department of Education</b>			
5,669	27,360	33,029	Standards Fund Grant	10,439	50,740	61,179
530	404	934	Other Department of Education grants	1,550	3,186	4,736
6,199	27,764	33,963		11,989	53,926	65,915
			<b>Other grants</b>			
163	285	448	Department of Transport grants	5,933	1,310	7,243
-	2,031	2,031	Communities and Local Government	-	1,880	1,880
1,106	-	1,106	Training and Development Agency	935	-	935
481	-	481	Learning and Skills Council grants	1,639	-	1,639
23	-	23	Department of Health grants	-	-	-
240	517	757	Other grants	633	74	707
2,013	2,833	4,846		9,140	3,264	12,404
<b>8,212</b>	<b>30,597</b>	<b>38,809</b>	<b>Total of grant receipts in advance</b>	<b>21,129</b>	<b>57,190</b>	<b>78,319</b>
5,680	36,180	41,860	Developer contributions	3,666	39,533	43,199
<b>13,892</b>	<b>66,777</b>	<b>80,669</b>	<b>Total</b>	<b>24,795</b>	<b>96,723</b>	<b>121,518</b>

## 30. Provisions

The Council has set funds aside as provisions to meet obligations related to events that have taken place which probably require settlement by the transfer of economic benefits. An explanation of each provision is as follows:

Provision	Purpose
Insurance	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance and Independent Insurance were the Council's insurers.</p> <p>Municipal Mutual insured the Council's liability risks from 1977, until they ceased trading in 1992. They are now operating under a scheme of arrangements dealing with the outstanding claims.</p> <p>Independent Insurance was the Council's insurer for the liability classes of business from 1st April 1993 to 31st March 2001, and went into provisional liquidation on 17th June 2001.</p>



## Notes to the Accounts

Provision	Purpose
Insurance (continued)	It is currently not expected that any payments will be received from Independent Insurance.
Restructuring	This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of certain services, where these plans are likely to result in the termination of a number of employees' employment before their normal retirement date.
Highways	This provision relates to claims for compensation in relation to the construction of a road.
Section 117	This provision represents estimated outstanding claims by service users who were charged for care under Section 117 of the Mental Health Act 1983. Settlement of these claims is likely to be spread over a number of years. When the Act was introduced, it did not clearly indicate whether service users receiving aftercare under Section 117 could be charged. The Council, along with many other authorities, charged service users for residential care. Following a ruling by the House of Lords, and the Local Government ombudsman, it is now clear that Section 117 aftercare is not chargeable. The Council therefore has a duty to repay the charges it previously levied.
Schools capital provisions	Provision has been made for various loss and expense claims related to the construction work at various schools.
Other	Provisions have been established for various minor matters and for one commercially sensitive matter.

# Notes to the Accounts

A summary of the provisions held is as follows:

	Insurance Provision	Restructuring	Section 117	Highways provision	Schools' capital provisions	Other provisions	Total
	£000	£000	£000	£000	£000		£000
<b>Current provisions</b>							
<b>Balance at 1st April 2009</b>	(4,967)	-	(9)	-	-	(133)	<b>(5,109)</b>
Amounts arising	-	(195)	-	-	(437)	(276)	<b>(908)</b>
Provisions reversed	-	-	-	-	-	133	<b>133</b>
Provisions utilised	4,967	-	9	-	-	-	<b>4,976</b>
Amounts reclassified as current	(4,548)	-	(83)	(698)	-	-	<b>(5,329)</b>
<b>Balance at 31st March 2010</b>	<b>(4,548)</b>	<b>(195)</b>	<b>(83)</b>	<b>(698)</b>	<b>(437)</b>	<b>(276)</b>	<b>(6,237)</b>
Amounts arising	-	(3,808)	-	(50)	(216)	(804)	<b>(4,878)</b>
Provisions reversed	-	-	-	-	18	256	<b>274</b>
Provisions utilised	4,548	195	83	698	513	22	<b>6,059</b>
Amounts reclassified as current	(5,000)	-	(83)	(349)	-	(678)	<b>(6,110)</b>
<b>Balance at 31st March 2011</b>	<b>(5,000)</b>	<b>(3,808)</b>	<b>(83)</b>	<b>(399)</b>	<b>(122)</b>	<b>(1,480)</b>	<b>(10,892)</b>
<b>Non current provisions</b>							
<b>Balance at 1st April 2009</b>	(20,544)	-	(349)	(860)	-	(658)	<b>(22,411)</b>
Amounts arising	(9,560)	-	-	(187)	-	(20)	<b>(9,767)</b>
Provisions reversed	-	-	-	-	-	-	<b>-</b>
Provisions utilised	-	-	-	-	-	-	<b>-</b>
Amounts reclassified as current	4,548	-	83	698	-	-	<b>5,329</b>
<b>Balance at 31st March 2010</b>	<b>(25,556)</b>	<b>-</b>	<b>(266)</b>	<b>(349)</b>	<b>-</b>	<b>(678)</b>	<b>(26,849)</b>
Amounts arising	(2,633)	-	(78)	-	-	-	<b>(2,711)</b>
Provisions reversed	-	-	-	-	-	-	<b>-</b>
Provisions utilised	-	-	-	-	-	-	<b>-</b>
Amounts reclassified as current	5,000	-	83	349	-	678	<b>6,110</b>
<b>Balance at 31st March 2011</b>	<b>(23,189)</b>	<b>-</b>	<b>(261)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,450)</b>

## 31. Contingent liabilities and assets

The Insurance Provision represents the estimated outstanding liabilities that the Council is likely to be required to pay as a result of the self insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance and Independent Insurance were the Council's insurers. It is possible that the Council may be required to settle liabilities in excess of those for which provision has been made.

# Notes to the Accounts

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## 32. Usable reserves

These are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use.

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

## 33. Unusable reserves

### 33.1 Introduction

The Council keeps a number of unusable reserves on the Balance Sheet which are held for statutory reasons or are needed to comply with property accounting practice. The Council is not able to use these unusable reserves to provide services. This category of reserves holds includes those that hold unrealised gains and losses, (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Notes 33.2 to 33.8 provide specific details on the purpose of each unusable reserve kept by the Council and the movements in the reserve during the year.

### 33.2 Revaluation Reserve

This reserve records the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

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

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

# Notes to the Accounts

The following table provides an analysis of the movements on the Revaluation Reserve:

2009/10		2010/11	
£000		£000	£000
(103,910)	<b>Balance as at 1 April</b>		(96,136)
(64,191)	Revaluation of non current assets (increases)	(458)	
67,900	Revaluation of non current assets (subsequent decreases)	-	
<u>3,709</u>	<b>(Surplus) / deficit on revaluations</b>		(458)
4,049	Depreciation on revaluation gains	-	
16	Accumulated gains on assets sold or scrapped	<b>14,194</b>	
<u>4,065</u>	<b>Amounts written off to the Capital Adjustment Account</b>		14,194
<u>(96,136)</u>	<b>Balance as at 31 March</b>		<u>(82,400)</u>

## 33.3 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 historic 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 that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

# Notes to the Accounts

The following table provides an analysis of the movements on the Capital Adjustment Account:

2009/10 Restated £000		2010/11	
		£000	£000
(1,933,998)	<b>Balance as at 1 April</b>		(1,753,300)
	<b>Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>		
52,400	Depreciation	60,740	
174,452	Impairment of non current assets	1,105	
91,190	Revenue expenditure financed from capital under statute	87,722	
39,046	Cost / value of assets disposed of during the year	150,274	
<u>357,088</u>			<u>299,841</u>
	<b>Adjusting amounts written out of the Revaluation Reserve:</b>		
(4,049)	Difference between fair value and historical cost depreciation	-	
(16)	Revaluation gains outstanding for assets upon disposal	(14,194)	
<u>(4,065)</u>			<u>(14,194)</u>
353,023	<b>Net written out amount of the cost of non current assets consumed in the year</b>		<u>285,647</u>
	<b>Capital financing applied in the year</b>		
-	Revenue reserves applied	(940)	
(26,688)	Statutory provision for the financing of capital investment	(31,962)	
(5,275)	Capital receipts applied	(6,790)	
	Capital grants and contributions applied to finance:		
(60,638)	Capital Expenditure	(66,646)	
(75,238)	Revenue expenditure funded from capital	(55,481)	
(4,885)	Application of grants from the Capital Grants Unapplied Account	(647)	
<u>(172,724)</u>			<u>(162,466)</u>
399	<b>Movement in market value of investment properties</b>		(275)
<u>(1,753,300)</u>	<b>Balance as at 31 March</b>		<u>(1,630,394)</u>

## 33.4 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid, or discounts received, on the early redemption of loans. Premiums are debited, and discounts are credited, to the Comprehensive Income and Expenditure Statement when they are incurred/received, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense / income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden / benefit on council tax.

# Notes to the Accounts

Premiums are spread over the unexpired term that was outstanding on the loans when they were redeemed; discounts are spread over a maximum period of 10 years. The balance on the account will be charged to the General Fund over the next 67 years.

2009/10				2010/11		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
8,570	(5,019)	<b>3,551</b>	<b>Balance as at 1 April</b>	8,348	(4,966)	<b>3,382</b>
(127)	19	<b>(108)</b>	Amortisation of premiums / discounts to the General Fund	(127)	19	<b>(108)</b>
(95)	34	<b>(61)</b>	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(96)	164	<b>68</b>
<b>8,348</b>	<b>(4,966)</b>	<b>3,382</b>	<b>Balance as at 31 March</b>	<b>8,125</b>	<b>(4,783)</b>	<b>3,342</b>

## 33.5 Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible.

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

# Notes to the Accounts

2009/10				2010/11		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
549,732	-	549,732	<b>Balance as at 1 April</b>	757,831	42,975	<b>800,806</b>
			Appropriation from Pension Reserve			
37,390	-	37,390	Current service (pension) costs	58,928	-	<b>58,928</b>
293	-	293	Past service cost	(117,382)	(2,337)	<b>(119,719)</b>
1,046	-	1,046	Curtailement	3,017	-	<b>3,017</b>
(1,504)	-	(1,504)	Settlement	-	-	-
100,695	2,510	103,205	Interest cost	109,903	2,277	<b>112,180</b>
(57,313)	-	(57,313)	Expected return on assets	(74,611)	-	<b>(74,611)</b>
(66,535)	(3,198)	(69,733)	Pension costs payable from Council Tax	(67,815)	(3,150)	<b>(70,965)</b>
<u>14,072</u>	<u>(688)</u>	<u>13,384</u>	Total appropriation from Pension Reserve	(87,960)	(3,210)	<b>(91,170)</b>
194,027	43,663	237,690	Actuarial loss / (gain)	(36,681)	323	<b>(36,358)</b>
<u>757,831</u>	<u>42,975</u>	<u>800,806</u>	<b>Balance as at 31 March</b>	<u>633,190</u>	<u>40,088</u>	<b>673,278</b>

## 33.6 Deferred Capital Receipts Reserve

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

2009/10 £000		2010/11 £000
(9,721)	<b>Balance as at 1 April</b>	<b>(7,221)</b>
-	Amounts arising	-
2,500	Amounts received	<b>1,000</b>
<u>(7,221)</u>	<b>Balance as at 31 March</b>	<b>(6,221)</b>

# Notes to the Accounts

## 33.7 Collection Fund Adjustment Account

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

2009/10 £000		2010/11 £000
(3,370)	<b>Balance at 1 April</b>	(1,501)
	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	
1,869		(1,414)
<u>(1,501)</u>	<b>Balance as at 31 March</b>	<u>(2,915)</u>

## 33.8 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.

2009/10 £000		2010/11	
		£000	£000
20,203	<b>Balance as at 1 April</b>		23,859
(20,203)	Settlement or cancellation of accrual made at the end of the preceding year	(23,859)	
23,859	Amounts accrued for at the end of the current year	24,316	
<u>3,656</u>	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		<u>457</u>
<u>23,859</u>	<b>Balance as at 31 March</b>		<u>24,316</u>



# Notes to the Accounts

## 34. Cash Flow – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
	<b>Cash inflows generated from operating activities</b>	
(758,372)	Taxation	(790,782)
(1,122,360)	Grants	(1,196,313)
(266,837)	Sales of goods and rendering of services	(329,162)
(10,871)	Interest received	(2,895)
<u>(2,158,440)</u>		<u>(2,319,152)</u>
	<b>Cash outflows from operating activities</b>	
1,053,628	Cash paid to and on behalf of employees	1,073,723
26,147	Interest paid	27,677
1,099,388	Cash paid to suppliers of goods and services	1,179,184
<u>2,179,163</u>		<u>2,280,584</u>
<u>20,723</u>	<b>Net (inflow) / outflow of cash from operating activities</b>	<u>(38,568)</u>

## 35. Cash Flow – Investing Activities

The following table provides an analysis of the cash flows from investing activities disclosed in the Cash Flow Statement:

2009/10 £000		2010/11 £000
	<b>Cash outflows generated from investing activities</b>	
152,250	Purchase of property, plant and equipment, investment property and intangible assets	171,105
-	Purchase of short and long term investments	21,354
91,190	Other payments for investing activities	87,722
<u>243,440</u>		<u>280,181</u>
	<b>Cash inflows generated from investing activities</b>	
(4,558)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14,821)
(102,807)	Proceeds from short and long term investments	(10,217)
(161,729)	Other receipts from investing activities	(151,762)
<u>(269,094)</u>		<u>(176,800)</u>
<u>(25,654)</u>	<b>Net (inflow) / outflow of cash from investing activities</b>	<u>103,381</u>

# Notes to the Accounts

## 36. Cash Flow – Financing Activities

The following table provides an analysis of the cash flows from financing activities disclosed in the Cash Flow Statement:

2009/10 £000		2010/11 £000
(14,437)	Cash receipts of short and long term borrowing	(40,780)
-	Other receipts from financing activities	-
1,644	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	2,273
33,432	Other payments for financing activities	157
<u>20,639</u>	<b>Net (inflow) / outflow of cash from financing activities</b>	<u>(38,350)</u>

## 37. Amounts reported for resource allocation decisions

### 37.1 Analysis of income and expenditure

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council on the basis of Cabinet members' respective responsibilities for service delivery. Cabinet reports are prepared on a different basis to that applied in the financial statements. In particular:

- No charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based upon payment of employer's pensions contributions rather than current service cost of benefits accrued in the year.
- Expenditure on support services is accounted for centrally, whereas they are charged to services in the Comprehensive Income and Expenditure Statement.

The income and expenditure of each of the Cabinet members' portfolios are as follows:

## Analysis of amounts reported for resource allocation in 2009/10

2009/10	Income			Government grants	Expenditure						Controllable Net Expenditure
	Fees, charges and other service income £000	Interest and investment income £000	Corporate amounts £000		Employee expenses £000	Other Service expenses £000	Interest Payable and similar charges £000	Precepts & levies £000	Gain or loss on disposal of fixed assets £000	Corporate amounts £000	
Adults, Health and Community Wellbeing	(123,169)	-	-	(35,508)	67,693	436,586	-	-	-	-	345,602
Children's Services	(18,998)	-	-	(140,624)	132,800	180,016	4,912	-	-	2,469	160,575
Education and 2012 Games	(82,360)	-	-	(830,017)	718,600	255,065	44	1,618	-	100	63,050
Highways and Transportation	(37,311)	-	-	(837)	20,578	92,963	7,193	-	-	1,200	83,786
Environment and Waste	(4,908)	-	-	(17)	9,604	57,283	-	-	-	-	61,962
Heritage, Culture and the Arts Leader	(9,589)	-	-	(10,366)	28,170	15,618	-	-	-	-	23,833
Communities and Planning	(2,116)	-	-	(5,595)	8,713	15,859	-	-	-	-	16,861
Major Projects and Commercial Services	(1,963)	-	-	-	3,620	3,825	-	-	-	-	5,482
Finance and Transformation	(3,491)	-	(37)	-	3,155	2,478	-	-	-	-	2,105
	4,757	-	-	(61)	(266)	(3,699)	-	1,348	-	-	2,079
	(279,148)	-	(37)	(1,023,025)	992,667	1,055,994	12,149	2,966	-	3,769	765,335
Recharged Support Services											
Transport Coordination Centre	-	-	-	-	-	1,378	-	-	-	-	1,378
Car Provision Scheme	-	-	-	-	-	291	-	-	-	-	291
Democratic Services	-	-	-	-	-	952	-	-	-	-	952
Communications and customer relations	-	-	-	-	-	1,957	-	-	-	-	1,957
Customer Services	-	-	-	-	-	2,355	-	-	-	-	2,355
Facilities Management Service	-	-	-	-	-	15,163	-	-	-	-	15,163
Essex Legal Services	-	-	-	-	-	4,615	-	-	-	-	4,615
Asset Management	-	-	-	-	-	2,958	-	-	47	-	3,005
Procurement	-	-	-	-	-	2,974	-	-	-	-	2,974
Human Resources	-	-	-	-	-	8,153	-	-	-	-	8,153
Information Services	-	-	-	-	-	30,800	-	-	-	-	30,800
Finance	-	-	-	-	-	22,578	-	-	-	-	22,578
Transformation Support Unit	-	-	-	-	-	2,239	-	-	-	-	2,239
Insurance Cost Recovery Account	-	-	-	-	-	7,845	-	-	-	-	7,845
Building Maintenance	-	-	-	-	-	5,940	-	-	-	-	5,940
Operating costs	-	(4,697)	(93,892)	-	-	-	12,683	-	-	87,338	1,432
<b>Net cost of services (portfolios)</b>	<b>(279,148)</b>	<b>(4,697)</b>	<b>(93,929)</b>	<b>(1,023,025)</b>	<b>992,667</b>	<b>1,166,192</b>	<b>24,832</b>	<b>2,966</b>	<b>47</b>	<b>91,107</b>	<b>877,012</b>

## Analysis of amounts reported for resource allocation in 2010/11

2010/11	Income			Government grants	Expenditure						Controllable Net Expenditure
	Fees, charges and other service income £000	Interest and investment income £000	Corporate amounts £000		Employee expenses £000	Other Service expenses £000	Interest Payable and similar charges £000	Precepts & levies £000	Gain or loss on disposal of fixed assets £000	Corporate amounts £000	
Adults, Health and Community Wellbeing	(132,633)	-	-	(10,081)	59,653	457,558	-	-	-	-	374,497
Children's Services	(17,143)	-	-	(168,223)	134,636	190,009	4,879	-	-	1,347	145,505
Education and 2012 Games	(85,086)	-	-	(869,861)	733,728	280,925	1,003	1,614	-	1,616	63,939
Highways and Transportation	(35,053)	-	-	(2,887)	22,911	88,949	7,176	-	-	1,305	82,401
Environment and Waste	(4,716)	-	-	(156)	9,337	58,424	-	-	-	-	62,889
Heritage, Culture and the Arts	(8,703)	-	-	(10,036)	28,328	12,827	-	-	-	-	22,416
Leader	(1,406)	-	-	(8,497)	12,339	12,400	-	-	-	-	14,836
Communities and Planning	(1,331)	-	-	(25)	3,708	2,676	-	-	-	-	5,028
Major Projects and Commercial Services	(3,952)	-	(41)	-	3,217	2,535	-	-	-	-	1,759
Finance and Transformation	(9)	-	-	(47)	257	984	-	1,538	-	-	2,723
	(290,032)	-	(41)	(1,069,813)	1,008,114	1,107,287	13,058	3,152	-	4,268	775,993
Recharged Support Services	-	-	-	-	-	-	-	-	-	-	-
Transport Coordination Centre	-	-	-	-	-	1,410	-	-	-	-	1,410
Car Provision Scheme	-	-	-	-	-	(247)	-	-	-	-	(247)
Democratic Services	-	-	-	-	-	875	-	-	-	-	875
Communications and customer relations	-	-	-	-	-	2,107	-	-	-	-	2,107
Customer Services	-	-	-	-	-	4,351	-	-	-	-	4,351
Facilities Management Service	-	-	-	-	-	14,074	-	-	-	-	14,074
Essex Legal Services	-	-	-	-	-	3,936	-	-	-	-	3,936
Asset Management	-	-	-	-	-	3,652	-	-	58	-	3,710
Procurement	-	-	-	-	-	5,956	-	-	-	-	5,956
Human Resources	-	-	-	-	-	8,066	-	-	-	-	8,066
Information Services	-	-	-	-	-	18,131	-	-	-	-	18,131
Finance	-	-	-	-	-	15,969	-	-	-	-	15,969
Transformation Support Unit	-	-	-	-	-	5,420	-	-	-	-	5,420
Insurance Cost Recovery Account	-	-	-	-	-	558	-	-	-	-	558
Building Maintenance	-	-	-	-	-	2,689	-	-	-	-	2,689
Operating costs	-	(2,243)	15,195	-	-	-	14,585	-	-	100,937	128,474
<b>Net cost of services (portfolios)</b>	<b>(290,032)</b>	<b>(2,243)</b>	<b>15,154</b>	<b>(1,069,813)</b>	<b>1,008,114</b>	<b>1,194,234</b>	<b>27,643</b>	<b>3,152</b>	<b>58</b>	<b>105,205</b>	<b>991,472</b>

# Notes to the Accounts

## 37.2 Reconciliation to the Cost of Services

The following table provides a reconciliation of the figures in the analysis of Cabinet members' income and expenditure to the amounts included in the Comprehensive Income and Expenditure Statement:

2009/10 £000		2010/11 £000
877,012	<b>Net expenditure in the Portfolio Analysis</b>	991,472
323,683	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	863
(129,828)	Amounts included the Analysis but not included in the Cost of Services in the Comprehensive Income and Expenditure Statement	(183,275)
<u>1,070,867</u>	<b>Cost of Services in the Comprehensive Income &amp; Expenditure Statement</b>	<u>809,060</u>

## 37.3 Reconciliation to Subjective Analysis

The following reconciliation shows how the figures in the analysis of Cabinet Members' income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

## Reconciliation to Subjective Analysis - 2009/10

2009/10	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(279,148)	(75,186)	-	(354,334)	-	(354,334)
Interest and investment income	(4,697)	-	4,697	-	(4,697)	(4,697)
Corporate amounts	(93,929)	(6,374)	100,303	-	(57,350)	(57,350)
Income from council tax	-	-	-	-	(562,408)	(562,408)
Income from non domestic rates	-	-	-	-	(194,095)	(194,095)
<b>Total income</b>	<b>(377,774)</b>	<b>(81,560)</b>	<b>105,000</b>	<b>(354,334)</b>	<b>(818,550)</b>	<b>(1,172,884)</b>
<b>Total Government Grants</b>	<b>(1,023,025)</b>	<b>-</b>	<b>-</b>	<b>(1,023,025)</b>	<b>(179,515)</b>	<b>(1,202,540)</b>
Employee expenses	992,667	87,023	(115,625)	964,065	-	964,065
Other service expenditure	1,166,192	91,117	-	1,257,309	-	1,257,309
Depreciation, amortisation and impairment	-	226,852	-	226,852	-	226,852
Interest payable and similar charges	24,832	(169)	(24,663)	-	24,663	24,663
Precepts and levies	2,966	-	(2,966)	-	2,966	2,966
Gain or loss on disposal of fixed assets	47	-	(47)	-	38,812	38,812
Corporate amounts	91,107	420	(91,527)	-	102,678	102,678
<b>Total expenditure</b>	<b>2,277,811</b>	<b>405,243</b>	<b>(234,828)</b>	<b>2,448,226</b>	<b>169,119</b>	<b>2,617,345</b>
<b>Surplus or deficit on the provision of services</b>	<b>877,012</b>	<b>323,683</b>	<b>(129,828)</b>	<b>1,070,867</b>	<b>(828,946)</b>	<b>241,921</b>

## Reconciliation to Subjective Analysis - 2010/11

2010/11	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(290,032)	(54,728)	-	(344,760)	-	(344,760)
Interest and investment income	(2,243)	-	2,243	-	(2,243)	(2,243)
Corporate amounts	15,154	(73,913)	58,759	-	(74,652)	(74,652)
Income from council tax	-	-	-	-	(576,773)	(576,773)
Income from non domestic rates	-	-	-	-	(215,423)	(215,423)
<b>Total income</b>	<b>(277,121)</b>	<b>(128,641)</b>	<b>61,002</b>	<b>(344,760)</b>	<b>(869,091)</b>	<b>(1,213,851)</b>
<b>Total Government Grants</b>	<b>(1,069,813)</b>	<b>-</b>	<b>-</b>	<b>(1,069,813)</b>	<b>(199,608)</b>	<b>(1,269,421)</b>
Employee expenses	1,008,114	(19,748)	(108,534)	879,832	-	879,832
Other service expenditure	1,194,234	87,722	-	1,281,956	-	1,281,956
Depreciation, amortisation and impairment	-	61,845	-	61,845	-	61,845
Donated assets	-	-	-	-	-	-
Interest payable and similar charges	27,643	(40)	(27,603)	-	27,603	27,603
Precepts and levies	3,152	-	(3,152)	-	3,152	3,152
Gain or loss on disposal of fixed assets	58	-	(58)	-	135,336	135,336
Corporate amounts	105,205	(275)	(104,930)	-	110,977	110,977
<b>Total expenditure</b>	<b>2,338,406</b>	<b>129,504</b>	<b>(244,277)</b>	<b>2,223,633</b>	<b>277,068</b>	<b>2,500,701</b>
<b>Surplus or deficit on the provision of services</b>	<b>991,472</b>	<b>863</b>	<b>(183,275)</b>	<b>809,060</b>	<b>(791,631)</b>	<b>17,429</b>

# Notes to the Accounts

## 38. Termination benefits

The Council is undertaking a major transformation programme to improve core services, meet difficult budget pressures in challenging times and deliver better customer services. This transformation programme includes projects aimed at modernising working practices and utilising mobile technology and will reshape the Council into a smaller core organisation. An unavoidable consequence of this programme is that a number of employees were made redundant during 2010/11. The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

2009/10 £000		2010/11 £000
113	Central services to the public	124
81	Cultural, environmental, regulatory & planning services	1,100
1,146	Education and children's services	8,640
50	Highways and transport services	2,201
-	Other housing services	-
286	Adult social care	584
-	Corporate and democratic core	457
-	Non distributed costs	-
<b>1,676</b>	<b>Total</b>	<b>13,106</b>

## 39. Pension Schemes accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.



# Notes to the Accounts

The following table shows the amounts the Council paid to the Department for Education in respect of teachers' pension costs.

2009/10 £000		2010/11 £000
55,369	Employer's contributions	55,962
25,448	Employee contributions	25,670
<u>80,817</u>	Total paid to Department For Education	<u>81,632</u>

For the year these amounts reflect:

- An employer contribution of **14.1%** (14.1% for 2009/10).
- An employee contribution of **6.4%** of teachers' pensionable pay (6.4% for 2009/10).

There were no contributions remaining payable at the year end.

The Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2010/11, these amounted to **£3.3m** (2009/10: £3.2m), representing **0.8%** of pensionable pay (0.75% in 2009/10). These costs are accounted for on a defined benefit basis and detailed in note 40.

The Council's contributions are set in relation to the current service period only. As such, the Council is not entitled to, or liable for, any of the underlying assets or liabilities of the scheme.

## 40. Defined Benefit Pension Schemes

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

The Council participates in two post retirement employment schemes:

- The Local Government Pension Scheme – this is a funded defined benefit final salary scheme. The Council maintains a pension fund for its employees (other than teachers) and those of other scheduled bodies within its area, in accordance with the Local Government Pension Scheme Regulations 1997. The Fund is also empowered to admit the employees of certain other bodies. The Council and employees pay contributions into the Pension Fund, calculated at a level intended to balance the pension liabilities with investment assets. The rate of contributions payable by employees is between 5.5% and 7.5% (2009/10: between 5.5% and 7.5%). Employers are required to contribute at

# Notes to the Accounts

rates prescribed by the Fund's actuary that aim to preserve the Fund's long term financial viability; and

- Arrangements for the award of discretionary post retirement benefits upon early retirement in relation to the teachers' pension scheme. This is an unfunded defined benefits arrangement, under which the liabilities are recognised when awards are made. However, there are not any investment assets built up to meet these pensions liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due.

## 40.1 Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (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 retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

2009/10			2010/11		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
<b>Comprehensive Income and Expenditure Statement</b>					
Net cost of Services					
37,390	-	37,390	58,928	-	58,928
293	-	293	(117,382)	(2,337)	(119,719)
1,046	-	1,046	3,017	-	3,017
(1,504)	-	(1,504)	-	-	-
37,225	-	37,225	(55,437)	(2,337)	(57,774)
Net operating expenditure					
100,695	2,510	103,205	109,903	2,277	112,180
(57,313)	-	(57,313)	(74,611)	-	(74,611)
43,382	2,510	45,892	35,292	2,277	37,569
80,607	2,510	83,117	(20,145)	(60)	(20,205)
<b>Net charge to the Comprehensive Income and Expenditure Statement</b>					
<b>Movement on the General Fund Balance</b>					
(14,072)	688	(13,384)	87,960	3,210	91,170
Reversal of net charges made for retirement benefits in accordance with IAS 19					
<b>Actual amount charged against the General Fund Balance in the year:</b>					
66,535	3,198	69,733	67,815	3,150	70,965
employers' contributions payable to the Scheme					

During 2010/11, it was announced that future pension increases would be linked to the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI). This has given rise to a past service gain of **£119.758m**, which is reflected in the above figures (i.e. net of past service costs).

# Notes to the Accounts

The cumulative value of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is **£346.561m** (2009/10: £382.919m).

## 40.2 Assets and liabilities in relation to post-employment benefits

### Scheme Liabilities

The following table provides a reconciliation of the present value of scheme liabilities:

2009/10				2010/11		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,441,202	-	1,441,202	<b>Balance as at 1 April</b>	1,954,983	42,975	<b>1,997,958</b>
37,390	-	37,390	Current service cost	58,928	-	<b>58,928</b>
100,695	2,510	103,205	Interest Cost	109,903	2,277	<b>112,180</b>
20,385	-	20,385	Contributions by scheme participants	20,691	-	<b>20,691</b>
446,089	43,663	489,752	Actuarial (gains) / losses	(65,149)	323	<b>(64,826)</b>
(58,244)	(3,198)	(61,442)	Benefits paid	(64,472)	(3,150)	<b>(67,622)</b>
293	-	293	Past service costs	(117,382)	(2,337)	<b>(119,719)</b>
(33,873)	-	(33,873)	Settlements	-	-	<b>-</b>
1,046	-	1,046	Curtailments	3,017	-	<b>3,017</b>
<b>1,954,983</b>	<b>42,975</b>	<b>1,997,958</b>	<b>Balance as at 31 March</b>	<b>1,900,519</b>	<b>40,088</b>	<b>1,940,607</b>

### Scheme Assets

The following table provides a reconciliation of the fair value of scheme assets:

2009/10				2010/11		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
891,470	-	891,470	<b>Balance as at 1 April</b>	1,197,152	-	<b>1,197,152</b>
57,313	-	57,313	Expected return on scheme assets	74,611	-	<b>74,611</b>
252,062	-	252,062	Actuarial gains / (losses)	(28,468)	-	<b>(28,468)</b>
66,535	3,198	69,733	Contributions by the Council	67,815	3,150	<b>70,965</b>
20,385	-	20,385	Contributions by scheme participants	20,691	-	<b>20,691</b>
(58,244)	(3,198)	(61,442)	Benefits paid	(64,472)	(3,150)	<b>(67,622)</b>
(32,369)	-	(32,369)	Settlements	-	-	<b>-</b>
<b>1,197,152</b>	<b>-</b>	<b>1,197,152</b>	<b>Balance as at 31 March</b>	<b>1,267,329</b>	<b>-</b>	<b>1,267,329</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. In summary, expected yields / returns are based on the following:

- Government bonds: Yield on 20 year fixed interest gilts at the relevant date. The yield at 31st March 2011 was **4.4%** (31 March 2010: 4.5%);
- Corporate bonds: Market yields at the relevant date, less a reduction to reflect a risk of default in the corporate bond yield. As at 31st March 2011 the reduction is about **0.4%** per annum (31 March 2010: 0.5%); and

## Notes to the Accounts

- Equities: Yield on 20 year fixed interest gilts, plus an allowance of approximately 3% per annum for the 'risk premium' associated with equity investment. At 31st March 2011, the assumed return on equities was **7.5%** per annum (31 March 2010: 7.5%).

The actual return on the Local Government Pension Scheme assets for the year was a gain of **£116.080m** (2009/10: gain of £309.375m).

### Scheme History

	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme
	£000	£000	£000
<b>LGPS</b>			
2006/07	(1,491,817)	1,143,602	<b>(348,215)</b>
2007/08	(1,671,192)	1,107,153	<b>(564,039)</b>
2008/09	(1,441,202)	891,470	<b>(549,732)</b>
2009/10	(1,954,983)	1,197,152	<b>(757,831)</b>
2010/11	(1,900,519)	1,267,329	<b>(633,190)</b>
<b>Teachers</b>			
2009/10	(42,975)	-	<b>(42,975)</b>
2010/11	(40,088)	-	<b>(40,088)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net deficit of the two Schemes of **£673.278m** (2009/10: £800.806m) has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the Local Government Pension Scheme will be made good by increased contributions over the next twenty years. Teachers' unfunded added years are payable in annual instalments.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is **£60.753m**. Expected contributions for the Teachers' unfunded added years awards to 31 March 2012 are **£3.150m**.

### **40.3 Basis for estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting, an independent

## Notes to the Accounts

firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the Actuary in its calculations for the Local Government Pension Scheme have been:

Assumptions	2009/10	2010/11
▪ Rate of inflation		
- RPI	3.3%	3.4%
- CPI	2.8%	2.9%
▪ Rate of increase in salaries	4.8%	4.4%
▪ Rate of increase in pensions	3.3%	2.9%
▪ Discount rate	5.6%	5.5%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners at 65:		
▪ Male	23.1 years	24.0 years
▪ Female	25.9 years	26.8 years
- Life expectancy of current pensioners aged 65:		
▪ Male	22.1 years	22.6 years
▪ Female	25.0 years	25.2 years
▪ Commutation of pension for lump sum at retirement:		
- % taking maximum cash	50%	50%
- % taking 3/8 <sup>ths</sup> cash	50%	50%
▪ Long term expected rate of return on assets in the scheme:		
- Equities	7.5%	7.5%
- Government bonds	4.5%	4.4%
- Other bonds	5.2%	5.1%
- Property	6.5%	6.5%
- Cash / liquidity	0.5%	0.5%

## Notes to the Accounts

The actuarial assumptions used in the calculations of the year end balance sheet liabilities for Teachers' additional unfunded pensions are based on the above assumptions with the following exceptions:

Assumptions	2009/10	2010/11
▪ Rate of inflation		
- RPI	3.2%	3.3%
- CPI	N/A	2.8%
▪ Rate of increase in pensions	3.2%	2.8%
▪ Discount rate	5.5%	5.4%
▪ Life expectancy		
- Male	22.1 years	22.6 years
- Female	25.0 years	25.2 years

The Local Government Pension Scheme's assets consist of the following categories by proportion of the total assets held:

2009/10 %		2010/11 %
67.5	Equities	69.5
7.9	Government bonds	6.7
10.0	Other bonds	9.5
9.3	Property	11.2
5.3	Cash / liquidity	3.1
<u>100.0</u>		<u>100.0</u>

# Notes to the Accounts

## 40.4 History of experience gains and losses

The actuarial gains and losses identified as movements in the Pension Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31<sup>st</sup> March.

	Difference between expected and actual return on assets %	Experience gains and losses on liabilities %
2006/07	+ 1.10%	0.00%
2007/08	- 11.10%	+ 1.10%
2008/09	- 35.10%	0.00%
2009/10	+ 21.1%	0.00%
<b>2010/11</b>	<b>- 2.2%</b>	<b>+ 2.8%</b>

## 41. Audit costs

The following table provides a summary of the fees incurred by the Council in relation to external audit and inspection.

2009/10 £000		2010/11	
		£000	£000
	<b>Fees payable to the appointed auditor</b>		
404	External audit services carried out by appointed auditor	405	
79	Certification of grant claims and returns	54	
21	Other services carried out by appointed auditor	-	
<u>504</u>		<u>459</u>	
-	Less: Rebate for additional audit costs arising as a consequence of the transition to IFRS	(23)	
<u>504</u>	Total fees payable to the appointed auditor		436
	<b>Fees payable to the Audit Commission in respect of statutory inspections</b>		
18			-
<u>522</u>			<u>436</u>

## 42. Members' allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and to the maximum amounts

# Notes to the Accounts

payable in respect of certain allowances. The total of members' allowances paid in 2010/11 amounted to:

2009/10 £000		2010/11 £000
814	Basic allowances	862
629	Special responsibility allowances	761
<u>1,443</u>		<u>1,623</u>

## 43. Officers' remuneration

Officers' remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax and the money value of benefits. It should be emphasised that this relates to payments to individuals, so part year employment can produce distortions in the presentation. Pension payments made, whether from a funded or unfunded scheme, do not count as remuneration for this purpose.

The number of officers whose remuneration in 2010/11 was £50,000 or more, grouped in rising bands of £5,000, are listed in the following table.

2009/10			Remuneration band	2010/11		
Non-schools	Schools	Total		Non-schools	Schools	Total
128	394	522	£50,000 to £54,999	127	318	445
79	220	299	£55,000 to £59,999	89	214	303
45	149	194	£60,000 to £64,999	54	165	219
35	54	89	£65,000 to £69,999	40	82	122
27	37	64	£70,000 to £74,999	30	26	56
13	18	31	£75,000 to £79,999	15	16	31
9	10	19	£80,000 to £84,999	19	16	35
9	9	18	£85,000 to £89,999	20	13	33
12	16	28	£90,000 to £94,999	14	10	24
6	3	9	£95,000 to £99,999	15	7	22
4	5	9	£100,000 to £104,999	7	4	11
3	2	5	£105,000 to £109,999	6	4	10
2	4	6	£110,000 to £114,999	3	1	4
2	-	2	£115,000 to £119,999	3	1	4
1	-	1	£120,000 to £124,999	2	1	3
-	-	-	£125,000 to £129,999	1	-	1
2	2	4	£130,000 to £134,999	-	-	-
-	-	-	£135,000 to £139,999	3	1	4
-	-	-	£140,000 to £144,999	1	-	1
1	1	2	£150,000 to £154,999	2	-	2
2	-	2	£155,000 to £159,999	1	-	1
1	-	1	£160,000 to £164,999	4	-	4
1	-	1	£165,000 to £169,999	-	-	-
-	-	-	£170,000 to £174,999	1	-	1
1	-	1	£175,000 to £179,999	-	-	-
-	-	-	£180,000 to £184,999	1	-	1
1	-	1	£185,000 to £189,999	-	-	-
1	-	1	£195,000 to £199,999	-	-	-
1	-	1	£235,000 to £239,999	-	-	-
-	-	-	£240,000 to £244,999	1	-	1
<u>386</u>	<u>924</u>	<u>1,310</u>	<b>Total</b>	<u>459</u>	<u>879</u>	<u>1,338</u>



# Notes to the Accounts

## 44. Senior officers' remuneration

Senior officers include all members of the Council's Corporate Leadership Team and the County Solicitor. Remuneration of senior officers was as follows:

	Notes	Remuneration						
		Salaries, fees or allowances	Bonus payments	Expense allowances / benefits	Compensation for loss of employment	Total remuneration Excl pension contributions	Employer's contribution to pension	Total remuneration Incl. pension contributions
		£	£	£	£	£	£	£
<b>2009/10</b>								
Chief Executive - Ms Joanna Killian	(iv)	237,000	-	772	-	237,772	29,670	267,442
Deputy Chief Executive and Executive Director for Finance and Transformation - Mr James N Bell	(v)	182,000	13,600	1,041	-	196,641	24,329	220,970
Executive Director for Commercial Services - Mr Graham Tombs		162,000	13,950	1,130	-	177,080	21,795	198,875
Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		157,000	-	3,372	-	160,372	19,350	179,722
Director for Adult Social Care		150,100	-	783	-	150,883	18,460	169,343
Director for Childrens Services	(vi)	47,333	-	-	138,000	185,333	5,805	191,138
Executive Director for IS, Performance & Programmes	(vii)	64,936	2,500	1,145	100,000	168,581	7,662	176,243
Director of Human Resource & Customer Excellence		125,000	30,000	1,041	-	156,041	19,350	175,391
Head of Information Services	(viii)	122,500	10,000	514	-	133,014	-	133,014
Assistant Chief Executive		122,500	9,600	1,041	-	133,141	16,718	149,859
Chief Financial Officer		109,500	7,490	1,041	-	118,031	14,769	132,800
County Solicitor		103,552	4,042	1,041	-	108,635	13,557	122,192
<b>2010/11</b>								
Chief Executive - Ms Joanna Killian	(iv)	233,000	6,900	815	-	240,715	30,345	271,060
Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		157,000	6,000	1,099	-	164,099	20,124	184,223
Executive Director for Commercial Services - Mr Graham Tombs		162,000	-	1,167	-	163,167	19,995	183,162
Deputy Chief Executive and Commissioning Director for Adult Social Services - Miss Jennifer Owen		162,320	-	841	-	163,161	20,036	183,197
Director of Transformation - Mr Keir Lynch	(ix)	157,860	4,800	1,099	-	163,759	20,073	183,832
Executive Director for Finance - Mrs Margaret Lee	(x)	152,654	4,280	1,099	-	158,033	19,443	177,476
Director for Customer Services - Mr Andrew Fairchild	(xi)	152,974	-	1,050	-	154,024	18,854	172,878
Executive Director for Schools Children & Families - Mr David Hill	(xii)	75,833	-	472	-	76,305	9,406	85,711
Assistant Chief Executive		122,500	-	1,099	-	123,599	15,480	139,079
County Solicitor		114,144	2,021	2,288	-	118,453	14,814	133,267

### Notes:

- (i) Where a senior officer's salary is £50,000 or more, but less than £150,000, remuneration is disclosed individually by way of job title. For those senior officers whose salary is £150,000 or more, their name is also disclosed.

## Notes to the Accounts

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- (ii) The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual. In previous years' accounts, the Council had also included the contributions towards the past deficiency in the Pension Fund within the employers' contributions.
- (iii) Bonus payments have been disclosed in the year of payment, but relate to performance in the preceding financial year.
- (iv) The Council's Chief Executive also fulfils the role of Chief Executive for Brentwood Borough Council, providing strategic management and coordination under a contract for services (see note 45, which commences on page 134, for further details).
- (v) The Deputy Chief Executive and Executive Director for Finance and Transformation, Mr James N. Bell, left the County Council on 31st March 2010.
- (vi) The Director for Children's Services left the County Council's employment on 31st July 2009.
- (vii) The Executive Director for IS, Performance and Programmes left the County Council on 14th September 2009.
- (viii) The Head of Information Services left the County Council's employment on 12th December 2010.
- (ix) The Executive Director for Transformation, Mr Keir Lynch, previously held the post of Director for Human Resources and Customer Excellence.
- (x) The Executive Director for Finance, Mrs Margaret Lee, previously held the post of Chief Financial Officer.
- (xi) The Director for Customer Services, Mr Andrew Fairchild, joined the County Council on 12th April 2010 and left on 10th April 2011.
- (xii) The Executive Director for Schools, Children and Families, Mr David Hill, joined the County Council on 1st November 2010.
- (xiii) The post of Executive Director for Schools, Children and Families was filled by Mr Malcolm Newsam, on an interim basis, from October 2009 until November 2010. The cost to the Council of filling this post on an interim basis was **£143,585** in 2009/10 and **£173,655** in 2010/11 (of which **£124,200** was payable to Mr Newsam in 2009/10 and **£150,212** in 2010/11).

### 45. Related parties

The Council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention, in making this disclosure, is to make explicit 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.

## Notes to the Accounts

Related party	Declaration
Central government	<p>Central 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.</p> <p>Grants received from government departments are detailed in notes 14 and 16.</p>
Elected members	<p>Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in note 42.</p> <p>During 2010/11, works and services were commissioned from companies in which certain members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders and procurement rules, and were minor in nature and value.</p> <p>In addition, grants were paid to voluntary organisations in which several members had an interest. The decisions to award the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of these transactions are recorded in the Register of Members' Interests, which is open to public inspection.</p>
Officers	<p>Members of the Council's Corporate Leadership Team, and other officers with independent statutory powers, can influence significantly the policies of the authority.</p>
Essex Pension Fund	<p>The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies. The Council charged <b>£1.332m</b> for administering the Fund during 2010/11 (2009/10: £1.485m).</p> <p>During 2009/10, the cash balances of the Essex Pension Fund were held by the County Council. The Council paid interest of <b>£116,000</b> to the Fund on these balances. With effect from 1 April 2010, the Pension Fund's cash balances were managed separately.</p>
Essex Police Authority	<p>The Council provided legal, pension, internal audit and coroners' services to the Essex Police Authority in 2010/11 to the value of <b>£864,000</b> (2009/10: £921,000).</p>
Essex Fire Authority	<p>The Council's Monitoring Officer is also employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provides a pensions' service to the Authority.</p> <p>The total value of these services in 2010/11 was <b>£143,000</b> (2009/10: £155,000).</p>

## Notes to the Accounts

Related party	Declaration
Essex Probation Board	<p>The Council provided financial and other support services to the Essex Probation Board during 2010/11. The value of the services provided in 2010/11 was <b>£288,000</b> (2009/10: £329,000).</p> <p>The Council undertakes the management of the Probation Board's surplus cash balances. The Council paid interest of <b>£11,000</b> on the amounts borrowed (determined at the prevailing Local Authority Seven Day Rate of interest) (2009/10: £5,000).</p>
London Probation Board	<p>The Council provided legal services to the London Probation Board during 2010/11. The charge levied for these services amounted to <b>£258,000</b> (2009/10: £219,000).</p>
Brentwood Borough Council	<p>The Council has entered into an agreement with Brentwood Borough Council to create a strategic partnership to improve two tier working. The objective is to improve service delivery and enhance the authorities' understanding of each other.</p> <p>The County Council's Chief Executive, Joanna Killian, also fulfils the role of the Chief Executive for Brentwood Borough Council, providing strategic management and coordination under the terms of a contract for services. Brentwood Borough Council pays the County Council <b>£30,000</b> per annum for this support.</p> <p>In addition, the Borough Council's Director of Finance is an employee of the County Council who has been seconded to fulfil this role on a fixed term contract. Costs payable by Brentwood Borough Council in respect of this secondment amounted to <b>£102,000</b> in 2010/11.</p>
Essex Cares Ltd	<p>Essex Cares Ltd is a 100% owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 141 to 151.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of <b>£36.1m</b> in 2010/11 (2009/10: £18.4m).</p> <p>The Council provided financial and other support services to Essex Cares Ltd during 2010/11. The value of the services provided in 2010/11 was <b>£259,000</b> (2009/10: £249,000).</p> <p>The Council also provides cash management support to Essex Cares Ltd. The Council received interest of <b>£131,000</b> (net) on the amounts it lent to Essex Cares Ltd (2009/10: £160,000).</p>

# Notes to the Accounts

## 46. Partnership arrangements

The Council is involved in a number of partnership arrangements, as follows:

Partnership	Nature of partnership
Youth offending teams	<p>Under the Crime and Disorder Act 1998, the Council is required to establish a Youth Offending Service to co-ordinate the provision of Youth Justice Services by the Youth Offending Teams in Essex and to ensure the effective contribution by partnership agencies in support of the aim of the Youth Justice System - the prevention of offending by children and young people.</p> <p>The Council works in partnership with the Essex Probation Service, Essex Police Authority and the South East and South West Essex Primary Care Trusts (PCTs) to run the service.</p> <p>The Youth Offending Service has a Management Board on which every partner is represented as well as other relevant agencies. The Board meets twice a year and is supported by an Executive Group which meets quarterly.</p> <p>The Council accounts for all of the expenditure and income (including funding received from its partners) within the Statement of Accounts.</p> <p>Any surplus/deficit at the end of the year in relation to the service is held in a ring-fenced account by the Council and carried forward to the following financial year for use/replenishment by the service.</p>
Essex Drug and Alcohol partnership (EDAP)	<p>This partnership aims to reduce and prevent usage of illegal drugs and alcohol, minimise their harm, treat and rehabilitate users, reduce related offending and crime, and thereby make a contribution to community well being.</p> <p>The partners comprise the County Council, the West, South East, South West, Mid and North East Essex PCTs, Essex Police, Essex Probation Service and HMP Chelmsford.</p> <p>West Essex PCT receives Pooled Treatment Funding from the Department of Health and the National Treatment Agency for the provision of substance misuse services on behalf of all of the PCTs within Essex. These funds are transferred to the County Council, as lead commissioner, under sections 75 and 256 of the National Health Services Act 2006 to support substance misuse services within Essex under the terms of the partnership.</p> <p>The County Council is the lead commissioner for the partnership and accounts for the receipt of funding and related expenditure within its Statement of Accounts.</p> <p>Unspent partnership funding must be returned to the Department of</p>

## Notes to the Accounts

Partnership	Nature of partnership
	<p>Health, or approval sought to carry the money forward to the following financial year for use in EDAP substance misuse projects.</p> <p>Overspends are shared between EDAP partners on the following basis: 50% of the total liability is shared by the Primary Care Trust on a capitation basis. The remaining 50% liability is shared by the Council, Essex Police, Essex Probation Service and HMP Chelmsford based on a ratio defined by each organisation's last reported total annual budget.</p>
Essex Safety Camera partnership	<p>This partnership combines the resources and activities of the County Council, Southend and Thurrock Councils, the Highways Agency, Essex Police Authority and the Magistrates' Courts' Service to conduct safety camera enforcement and other casualty reduction strategies.</p> <p>The County Council acts as the accountable body for the partnership, receiving contributions from Southend and Thurrock Councils.</p>
Haven Gateway partnership	<p>The aims of the partnership are to promote economic opportunities and to secure the future prosperity of the ports of Felixstowe, Harwich International, Harwich Navyard, Ipswich and Mistley.</p> <p>The partners involved are:</p> <ul style="list-style-type: none"> <li>▪ Essex and Suffolk County Councils;</li> <li>▪ Suffolk Coastal, Mid Suffolk, Ipswich, Babergh, Colchester and Tendring District/Borough Councils;</li> <li>▪ Hutchinson Ports;</li> <li>▪ British Telecom; and</li> <li>▪ Harwich Haven Authority.</li> </ul> <p>The Council acts as the accountable body for this partnership.</p>
East Anglian Professional Development Centre	<p>This partnership was formed with Cambridgeshire, Suffolk and Norfolk County Councils to provide strategic direction for the development and running of the East Anglian Professional Development Centre.</p> <p>The County Council acts at the accountable body for this partnership.</p>
Thames Chase Community Forest	<p>The County Council is the lead partner for the Thames Chase Community Forest. Previously, the partnership was managed as a joint committee, but this committee ceased to exist on 31 March 2010.</p>

# Notes to the Accounts

## 47. Trust Funds

At 31 March 2011 the Council acted as sole trustee for 2 trust funds and as administrator for 9 other trust funds (31 March 2010: 2 and 9 respectively). The funds do not represent assets of the Council and have not been incorporated into the Council's Balance Sheet. Details of the trust funds administered by the Council are provided in the following table.

	Balance 1 April 2010 £000	2010/11 transactions		Balance 31 March 2011 £000
		Income £000	Expenditure £000	
<b>Sole Trustee Funds</b>				
F W Powell scholarship	(30)	-	-	(30)
Kendrick trust	(27)	-	-	(27)
	<u>(57)</u>	<u>-</u>	<u>-</u>	<u>(57)</u>
<b>Administrator Funds</b>				
Great and Little Leighs educational trust	(112)	(9)	7	(114)
Paslow common foundation	(89)	(4)	-	(93)
Essex awards (incl. former Florence Knapton and other funds)	(82)	(1)	1	(82)
J H Burrows scholarship	(20)	-	-	(20)
Other	(21)	-	-	(21)
	<u>(324)</u>	<u>(14)</u>	<u>8</u>	<u>(330)</u>
<b>Total Trust Funds</b>	<u>(381)</u>	<u>(14)</u>	<u>8</u>	<u>(387)</u>

None of these individual funds have been subject to audit.

## 48. Charitable Trust Funds

The Council acts as sole trustee for two charitable trust funds:

Charitable Trust Fund	Nature of charitable trust fund
Saffron Walden Public Library  NB: also known as Saffron Walden Town Library	This charity was established in 1967 and the Council is the sole trustee. The charity's purpose is to maintain / improve the library and / or provide library facilities additional to those normally provided by the Council under the Public Libraries and Museums Act 1964.
Writtle Library and Reading Room	This charity was also established in 1967 and the Council is the sole trustee. The charity's purposes are to advance the education of local inhabitants through classes and / or by means of a library or reading room and other educational facilities for children and young persons.

## Notes to the Accounts

The Council provides library services to the public from the buildings owned by these charitable trusts. However, neither these buildings, nor any other assets of these charities, are incorporated into the Council's Balance Sheet.

Details of the charitable trust funds are provided in the following table:

2009/10			2010/11	
Saffron Walden Library	Writtle Library & reading room		Saffron Walden Library	Writtle Library & reading room
Restated £000	£000		£000	£000
58	10	Expenditure	52	31
(47)	(8)	Income	(49)	(29)
<b>11</b>	<b>2</b>	<b>Total</b>	<b>3</b>	<b>2</b>
1,656	329	Assets	1,619	327
(5)	-	Liabilities	(1)	-
<b>1,651</b>	<b>329</b>	<b>Total</b>	<b>1,618</b>	<b>327</b>



# Group Accounts

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## Introduction

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and Essex Cares Ltd have been consolidated. The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

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

These statements, together with explanatory notes and accounting policies, are set out in the following pages, as detailed below.

	<b>Page</b>
<b>Group Movement in Reserves Statement</b>	<b>142</b>
<b>Group Comprehensive Income and Expenditure Statement</b>	<b>143</b>
<b>Group Balance Sheet</b>	<b>144</b>
<b>Group Cash Flow Statement</b>	<b>145</b>
<b>Notes to the Group Accounts</b>	<b>146</b>

# Group Movement in Reserves Statement

For the year ended 31 March 2011

	Notes	Usable Reserves						Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000	Analysis of Reserves	
		Earmarked General Reserves £000	General Fund Balance £000	Authority share of Profit and Loss Reserve of Subsidiary £000	Authority share of Pension Reserve of Subsidiary £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000				Total Authority Reserves £000	Authority Share of Reserves of Subsidiary £000
<b>Balance at 31 March 2009 (restated)</b>		(229,747)	(26,460)	-	-	(14,254)	(12,028)	(282,489)	(1,477,513)	(1,760,002)	(1,760,002)	-
<b>Movement in Reserves during 2009/10</b>												
Deficit on Provision of Services		-	241,921	7,224	(817)	-	-	248,328	-	248,328	241,921	6,407
Other Comprehensive Expenditure & Income		-	-	-	(3,652)	-	-	(3,652)	241,399	237,747	241,399	(3,652)
<b>Total Comprehensive Expenditure and Income</b>		-	241,921	7,224	(4,469)	-	-	244,676	241,399	486,075	483,320	2,755
Adjustments between accounting basis & funding under regulations		-	(213,382)	-	-	2,494	4,885	(206,003)	206,003	-	-	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	28,539	7,224	(4,469)	2,494	4,885	38,673	447,402	486,075	483,320	2,755
Transfers from Earmarked Reserves		35,150	(35,150)	-	-	-	-	-	-	-	-	-
<b>(Increase) / decrease in 2009/10</b>		35,150	(6,611)	7,224	(4,469)	2,494	4,885	38,673	447,402	486,075	483,320	2,755
<b>Balance at 31 March 2010 (restated)</b>		<b>(194,597)</b>	<b>(33,071)</b>	<b>7,224</b>	<b>(4,469)</b>	<b>(11,760)</b>	<b>(7,143)</b>	<b>(243,816)</b>	<b>(1,030,111)</b>	<b>(1,273,927)</b>	<b>(1,276,682)</b>	<b>2,755</b>
<b>Movement in Reserves during 2010/11</b>												
Deficit on Provision of Services		-	17,429	(7,875)	-	-	-	9,554	-	9,554	17,429	(7,875)
Other Comprehensive Expenditure & Income		-	-	-	1,393	-	-	1,393	(36,816)	(35,423)	(36,816)	1,393
<b>Total Comprehensive Expenditure and Income</b>		-	17,429	(7,875)	1,393	-	-	10,947	(36,816)	(25,869)	(19,387)	(6,482)
Adjustments between accounting basis & funding under regulations		-	(30,861)	-	-	(9,206)	(5,866)	(45,933)	45,933	-	-	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	(13,432)	(7,875)	1,393	(9,206)	(5,866)	(34,986)	9,117	(25,869)	(19,387)	(6,482)
Transfers to Earmarked Reserves		(14,512)	14,512	-	-	-	-	-	-	-	-	-
<b>(Increase) / decrease in 2010/11</b>		(14,512)	1,080	(7,875)	1,393	(9,206)	(5,866)	(34,986)	9,117	(25,869)	(19,387)	(6,482)
<b>Balance at 31 March 2011</b>		<b>(209,109)</b>	<b>(31,991)</b>	<b>(651)</b>	<b>(3,076)</b>	<b>(20,966)</b>	<b>(13,009)</b>	<b>(278,802)</b>	<b>(1,020,994)</b>	<b>(1,299,796)</b>	<b>(1,296,069)</b>	<b>(3,727)</b>

# Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2011

2009/10				Note	2010/11			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
9,292	(3,466)	-	5,826	Central services to the public	7,849	(3,859)	-	3,990
149,263	(14,695)	(5,612)	128,956	Cultural, environmental and planning services	131,748	(11,920)	(8,306)	111,522
1,575,604	(170,191)	(981,007)	424,406	Children's and Education services	1,500,480	(158,786)	(1,048,120)	293,574
146,748	(38,821)	(837)	107,090	Highways, roads and transportation services	140,173	(35,411)	(2,887)	101,875
2,101	(762)	-	1,339	Housing services	754	(901)	-	(147)
545,349	(132,683)	(35,507)	377,159	Adult Social Care	532,362	(138,053)	(10,080)	384,229
27,017	(256)	(1)	26,760	Corporate and democratic core	23,040	(437)	(373)	22,230
5,819	(319)	(61)	5,439	Non distributed costs	6,346	(300)	(47)	5,999
-	-	-	-	Exceptional Items	(121,552)	-	-	(121,552)
<b>2,461,193</b>	<b>(361,193)</b>	<b>(1,023,025)</b>	<b>1,076,975</b>	<b>Cost of services</b>	<b>2,221,200</b>	<b>(349,667)</b>	<b>(1,069,813)</b>	<b>801,720</b>
41,778	-	-	41,778	Other Operating Expenditure	138,488	-	-	138,488
129,038	(63,601)	-	65,437	Financing and Investment Income and Expenditure	140,928	(79,641)	-	61,287
-	(756,503)	(179,515)	(936,018)	Taxation and non specific grant income	-	(792,196)	(199,608)	(991,804)
<b>2,632,009</b>	<b>(1,181,297)</b>	<b>(1,202,540)</b>	<b>248,172</b>	<b>Deficit on Provision of Services</b>	<b>2,500,616</b>	<b>(1,221,504)</b>	<b>(1,269,421)</b>	<b>9,691</b>
			156	Tax expenses of subsidiary				(137)
			248,328	<b>Group deficit</b>				9,554
			3,709	(Surplus)/deficit arising on revaluation of fixed assets				(458)
			234,038	Actuarial losses on Pension Fund assets and liabilities				(34,965)
			237,747	<b>Other Comprehensive Income and Expenditure</b>				<b>(35,423)</b>
			486,075	<b>Total Comprehensive Income and Expenditure</b>				<b>(25,869)</b>

# Group Accounts

## Group Balance Sheet as at 31st March 2011

1 April 2009 Restated £000	31 March 2010 Restated £000	Note		31 March 2011 £000
			<b>Property, Plant and Equipment</b>	
			<b>Operational assets</b>	
2,138,673	1,960,841		Land and buildings	1,829,784
7,421	7,022		Vehicles, plant and equipment	8,651
483,893	549,082		Infrastructure	611,322
2,257	2,616		Community assets	2,830
			<b>Non operational assets</b>	
83,866	90,380		Assets under construction	109,160
7,980	7,046		Surplus assets held pending disposal	5,496
<u>2,724,090</u>	<u>2,616,987</u>		<b>Total Property, Plant and Equipment</b>	<u>2,567,243</u>
4,209	3,810		Investment property	3,920
713	97		Intangible fixed assets	1,197
65,197	11,259		Long term investments	1,042
28,554	27,191		Long term debtors	26,095
<u>2,822,763</u>	<u>2,659,344</u>		<b>Long term assets</b>	<u>2,599,497</u>
48,869	(1,691)		Short term investments	21,354
218	951		Stocks and work in progress	800
120,905	165,057	3	Short term debtors	157,966
127,458	111,807		Cash and bank	85,134
1,496	4,171		Assets held for sale	3,373
<u>298,946</u>	<u>280,295</u>		<b>Current assets</b>	<u>268,627</u>
(5,037)	(5,068)		Short-term borrowing	(6,273)
(234,608)	(278,142)	3	Creditors	(234,672)
(13,948)	(13,892)		Revenue grant receipts in advance	(24,795)
(43,650)	(66,777)		Capital grant receipts in advance	(96,723)
(5,109)	(6,237)	4	Provisions (short term)	(10,892)
(2,481)	(2,681)		Finance lease obligations - short term	(2,998)
<u>(304,833)</u>	<u>(372,797)</u>		<b>Current liabilities</b>	<u>(376,353)</u>
-	(135)		Long term creditors	(35)
(22,411)	(33,310)	4	Provisions	(27,886)
(342,744)	(323,718)		Long term borrowing	(361,588)
			Other long term liabilities	
(121,551)	(119,707)		Finance lease obligations - long term	(117,117)
(20,436)	(19,708)		Deferred credits	(17,962)
(549,732)	(796,337)		Pension liability	(667,387)
<u>(1,056,874)</u>	<u>(1,292,915)</u>		<b>Long term liabilities</b>	<u>(1,191,975)</u>
<u>1,760,002</u>	<u>1,273,927</u>		<b>Net Assets</b>	<u>1,299,796</u>
			<b>Usable reserves</b>	
(229,747)	(194,597)		Earmarked reserves	(209,109)
(26,460)	(33,071)		General Fund Balance	(31,991)
-	7,224		Profit and Loss reserve	(651)
-	(4,469)	5	Pension reserve	(3,076)
(14,254)	(11,760)		Usable capital receipts reserve	(20,966)
(12,028)	(7,143)		Capital grants unapplied	(13,009)
<u>(282,489)</u>	<u>(243,816)</u>			<u>(278,802)</u>
			<b>Unusable reserves</b>	
(103,910)	(96,136)		Revaluation reserve	(82,400)
(1,933,998)	(1,753,300)		Capital Adjustments Account	(1,630,394)
3,551	3,382		Financial Instruments Adjustment Account	3,342
549,732	800,806	5	Pension reserve	673,278
(9,721)	(7,221)		Deferred capital receipts	(6,221)
(3,370)	(1,501)		Collection Fund Adjustment Account	(2,915)
20,203	23,859		Accumulating Compensated Absences Adjustment Account	24,316
<u>(1,477,513)</u>	<u>(1,030,111)</u>			<u>(1,020,994)</u>
<u>(1,760,002)</u>	<u>(1,273,927)</u>		<b>Total equity</b>	<u>(1,299,796)</u>

# Group Accounts

## Group Cash Flow Statement

2009/10 £000	Notes		2010/11 £000
(22,047)	6	Operating activities	40,038
25,344	7	Investing activities	(103,513)
(18,948)	8	Financing activities	36,802
<u>(15,651)</u>		<b>Net decrease in cash and cash equivalents</b>	<u>(26,673)</u>
<b>127,458</b>		Cash and cash equivalents at 1st April	<b>111,807</b>
<u><b>111,807</b></u>		<b>Cash and cash equivalents at 31st March</b>	<u><b>85,134</b></u>

# Group Accounts

## Notes to the Group Accounts

### 1. Group boundary

The Council has an interest in a number of entities. The nature of each of these entities is as follows:

Entity	Nature of the entity
Essex Careers and Business Partnership	The Council held 51% of the share capital of the Essex Careers and Business Partnership (ECBP), whose principal business was to deliver a universal careers service to young people aged 13 to 19, under contract from Essex, Southend and Thurrock Connexions Ltd. ECBP was placed into liquidation on 23 March 2004. There is no liability to the Council and there have been no financial transactions since that time. On this basis, ECBP is not considered to be material to the Council and has not been consolidated
ExWaste	The Council is the sole shareholder of ExWaste, a local authority waste disposal company. The company is no longer trading, and the only financial transactions in its accounts are interest receivable and tax payable. Consideration is being given to making an application for formal dormancy of the company.
Essex Development and Regeneration Agency	The Council established the Essex Development and Regeneration Agency (ExDRA) on 1 October 2004 to promote urban and rural regeneration in areas of social and economic deprivation, and to promote economic, social and environmental wellbeing in Essex. On 31 March 2009, ExDRA entered into voluntary administration and ceased to trade. Assets and liabilities were transferred to the Council.
ReMaDe	ReMaDe Essex Limited was established in 2000 to create new markets and secondary uses for recycled materials in Essex. In April 2007, ownership of the Company transferred to the Essex Development and Regeneration Agency (ExDRA). As of 1 April 2009, the sole share of ReMaDe is held by the Council and the sole director is an employee of the Council. ReMaDe is a subsidiary of the Council for accounting purposes. However, its annual income and expenditure are not material to the Council's accounts and its results have not been consolidated into the Group Accounts.
Essex Trading and Investment Limited	The Council established Essex Trade and Investment Limited (ETIL) in June 2009 as a means of establishing a representative office in

# Group Accounts

Entity	Nature of the entity
	Jiangsu, China. The company is limited in the United Kingdom, and is wholly owned by the Council. ETIL is a subsidiary of the Council for accounting purposes. However, its annual income and expenditure are not material to the Council's accounts and its results have not therefore been consolidated into the Group Accounts.
Essex Schools Ltd	Essex Schools Ltd is the Special Purpose Vehicle for three Private Finance Initiative (PFI) 'Building Schools for the Future' schools in Essex, which are expected to open during 2011/12. The Council holds a 10% share in its equity. Although the Council participates in the company, it does not control its financial or operating policy decisions.
Library Services (Slough) Ltd	Library Services (Slough) Ltd is a 100% owned subsidiary of the Council. It runs the library service for the residents of Slough borough as contracted by Slough Borough Council. The contract started on 1st January 2011.
Essex Cares Ltd	During 2009/10, the Council transferred adult social care provider services into a Local Authority Trading Company, Essex Cares Ltd. Essex Cares Ltd commenced trading in July 2009 and was established by the Council in order to provide services for people requiring care, support and assistance living in the Community. Essex Cares Ltd is a company limited by shares. Essex County Council owns 100% of the ordinary shares of the Essex Cares Ltd group, which are vested with the Council as a corporate shareholder. Essex Cares Ltd is a subsidiary of the Council for accounting purposes, and its results have been consolidated into the Group Accounts on a line by line basis using acquisition accounting basis of consolidation.

The only one of these entities to be consolidated into the Council's Group Accounts is Essex Cares Ltd, as the others are deemed to be immaterial.

## 2. Accounting policies

In preparing the Group Accounts the Council has aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the Council on a line by line basis; and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

# Group Accounts

## 3. Debtors and creditors

The debtors and creditors included within the Group Accounts exclude any amounts owed within the 'Group'.

## 4. Provisions

The Group Accounts include a provision of £4.436m (2009/10: £6.461m) which represents the liability Essex Cares Ltd has to issue refunds in respect of items of equipment that are returned before their assumed useful life.

## 5. Defined Benefit Pension Schemes

Note 40 of the Council's single entity accounts explains the Council's participation in the Local Government Pension Scheme. Essex Cares Ltd also participates in this scheme as an admitted body. The following paragraphs explain the Group transactions relating to retirement benefits, the Group assets and liabilities within the Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2010/11:

2009/10			2010/11		
Authority £000	Subsidiary £000	Group £000	Authority £000	Subsidiary £000	Group £000
<b>Comprehensive Income and Expenditure Statement</b>					
Net cost of Services					
37,390	1,284	<b>38,674</b>	58,928	1,981	<b>60,909</b>
293	-	<b>293</b>	(117,382)	(1,792)	<b>(119,174)</b>
1,046	-	<b>1,046</b>	3,017	161	<b>3,178</b>
(1,504)	-	<b>(1,504)</b>	-	-	<b>-</b>
37,225	1,284	<b>38,509</b>	(55,437)	350	<b>(55,087)</b>
Net operating expenditure					
100,695	1,537	<b>102,232</b>	109,903	2,215	<b>112,118</b>
(57,313)	(1,554)	<b>(58,867)</b>	(74,611)	(2,744)	<b>(77,355)</b>
43,382	(17)	<b>43,365</b>	35,292	(529)	<b>34,763</b>
80,607	1,267	<b>81,874</b>	(20,145)	(179)	<b>(20,324)</b>
<b>Net charge to the Comprehensive Income and Expenditure Statement</b>					
<b>Movement on the Authority's General Fund Balance</b>					
(14,072)	(118)	<b>(14,190)</b>	87,960	1,996	<b>89,956</b>
<b>Actual amount charged against the Authority's General Fund Balance In the year: employers' contributions payable to the Scheme</b>					
66,535	1,149	<b>67,684</b>	67,815	1,817	<b>69,632</b>



# Group Accounts

The following table provides a reconciliation of the present value of scheme liabilities:

2009/10				2010/11		
Authority £000	Subsidiary £000	Group £000		Authority £000	Subsidiary £000	Group £000
1,441,202	-	1,441,202	Balance as at 1 April	1,954,983	38,221	1,993,204
-	31,434	31,434	Acquired on business combination	-	-	-
1,441,202	31,434	1,472,636	<b>Opening balance</b>	1,954,983	38,221	1,993,204
37,390	1,284	38,674	Current service cost	58,928	1,981	60,909
100,695	1,537	102,232	Interest Cost	109,903	2,215	112,118
20,385	504	20,889	Contributions by scheme participants	20,691	739	21,430
446,089	3,577	449,666	Actuarial (gains) / losses	(65,149)	(10,238)	(75,387)
(58,244)	(115)	(58,359)	Benefits paid	(64,472)	(45)	(64,517)
293	-	293	Past service costs	(117,382)	(1,792)	(119,174)
(33,873)	-	(33,873)	Settlements	-	-	-
1,046	-	1,046	Curtailments	3,017	161	3,178
1,954,983	38,221	1,993,204	<b>Balance as at 31 March</b>	1,900,519	31,242	1,931,761

The following table provides a reconciliation of the fair value of scheme assets:

2009/10				2010/11		
Authority £000	Subsidiary £000	Group £000		Authority £000	Subsidiary £000	Group £000
891,470	-	891,470	<b>Balance as at 1 April</b>	1,197,152	42,691	1,239,843
-	32,370	32,370	Acquired on business combination	-	-	-
891,470	32,370	923,840	<b>Opening balance</b>	1,197,152	42,691	1,239,843
57,313	1,554	58,867	Expected return on scheme assets	74,611	2,744	77,355
252,062	7,229	259,291	Actuarial gains / (losses)	(28,468)	(10,813)	(39,281)
66,535	1,149	67,684	Contributions by the Council	67,815	1,817	69,632
20,385	504	20,889	Contributions by scheme participants	20,691	739	21,430
(58,244)	(115)	(58,359)	Benefits paid	(64,472)	(45)	(64,517)
(32,369)	-	(32,369)	Settlements	-	-	-
1,197,152	42,691	1,239,843	<b>Balance as at 31 March</b>	1,267,329	37,133	1,304,462

# Group Accounts

Finally, the Scheme history is as follows:

	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme
	£000	£000	£000
<b>LGPS</b>			
2006/07	(1,491,817)	1,143,602	(348,215)
2007/08	(1,671,192)	1,107,153	(564,039)
2008/09	(1,441,202)	891,470	(549,732)
2009/10	(1,993,204)	1,239,843	(753,361)
2010/11	(1,931,761)	1,304,462	(627,299)
<b>Teachers</b>			
2009/10	(42,975)	-	(42,975)
2010/11	(40,088)	-	(40,088)

## 6. Cash Flow – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
(758,372)	Taxation	(790,919)
(1,122,360)	Grants	(1,196,313)
(285,512)	Sales of goods and rendering of services	(367,618)
(10,871)	Interest received	(2,897)
<u>(2,177,115)</u>	<b>Cash inflows generated from operating activities</b>	<u>(2,357,747)</u>
1,065,185	Cash paid to and on behalf of employees	1,091,874
26,147	Interest paid	27,677
1,107,830	Cash paid to suppliers of goods and services	1,198,158
<u>2,199,162</u>	<b>Cash outflows from operating activities</b>	<u>2,317,709</u>
<u>22,047</u>	<b>Net cash flows from operating activities</b>	<u>(40,038)</u>

# Group Accounts

## 7. Cash Flow – Investment Activities

The following table provides an analysis of the cash flows from investing activities disclosed in the Cash Flow Statement:

2009/10 £000		2010/11 £000
152,560	Purchase of property, plant and equipment, investment property and intangible assets	171,237
(102,807)	Purchase of short and long term investments	11,137
91,190	Other payments for investing activities	87,722
(4,558)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14,821)
(161,729)	Other receipts from investing activities	(151,762)
<u>(25,344)</u>	<b>Net cash flows from investing activities</b>	<u>103,513</u>

## 8. Cash Flow – Financing Activities

The following table provides an analysis of the cash flows from financing activities disclosed in the Cash Flow Statement:

2009/10 £000		2010/11 £000
(16,128)	Cash receipts of short and long term borrowing	(39,232)
-	Other receipts from financing activities	-
1,644	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	2,273
33,432	Other payments for financing activities	157
<u>18,948</u>	<b>Net cash flows from financing activities</b>	<u>(36,802)</u>

# Pension Fund Accounts

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## Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	<b>Page</b>
<b>Fund Account</b>	<b>153</b>
<b>Net Assets Statement</b>	<b>154</b>
<b>Notes to the Pension Fund Accounts</b>	<b>155</b>

# Pension Fund Accounts

## Pension Fund Accounts

Fund account for the year ended 31 March 2011

2008/09 £000	2009/10 £000	Note		2010/11 £000	£000
			<b>Contributions and Benefits</b>		
			<b>Income</b>		
			Contributions receivable		
(47,271)	(49,558)	5	Member contributions	(50,353)	
(163,956)	(154,488)	5	Employers' contributions	(173,106)	
(22,358)	(25,264)	5	Transfers in from other Pension Funds	(27,683)	
(192)	(201)		Other income	(169)	
<u>(233,777)</u>	<u>(229,511)</u>		<b>Total income</b>		(251,311)
			<b>Expenditure</b>		
			Benefits payable		
115,672	125,384	5	Pensions	130,775	
32,020	31,826		Commutation of pensions & lump sum retirement benefits	43,229	
3,510	3,986		Lump sum death benefits	3,338	
			Payments to and on account of Leavers		
6	14		Refunds of contributions	15	
6	5		State scheme premiums	-	
13,701	16,141	5	Transfers out to other schemes	17,246	
1,812	1,869	7	Administration expenses	1,816	
<u>166,727</u>	<u>179,225</u>		<b>Total expenditure</b>		196,419
(67,050)	(50,286)		<b>Net additions from dealings with members</b>		(54,892)
			Returns on investments		
(69,956)	(46,999)	6	Investment income	(48,977)	
822,540	(778,921)	9	Profit and losses on disposal of investments and changes in market value of investments	(240,963)	
3,340	2,512		Taxes on income	2,134	
13,687	13,627	8	Investment management expenses	13,560	
<u>769,611</u>	<u>(809,781)</u>		<b>Net returns on investments</b>		(274,246)
702,561	(860,067)		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		(329,138)
(2,927,368)	(2,224,807)		<b>Net assets as at 1 April</b>		(3,084,874)
<u>(2,224,807)</u>	<u>(3,084,874)</u>		<b>Net assets as at 31 March</b>		<u>(3,414,012)</u>

# Pension Fund Accounts

## Pension Fund Accounts

Net assets statement as at 31 March 2011

31 March 2009 £000	31 March 2010 £000	Note		31 March 2011	
				£000	£000
		<b>9</b>	<b>Investments at market value</b>		
			Investment assets		
149,665	217,771		Fixed interest securities	226,019	
1,348,654	1,905,749		Equities	2,118,859	
72,068	172,895		Index linked securities	171,839	
120,822	186,281		Property unit trusts	234,688	
325,981	381,123		Managed funds	406,820	
4,996	1,631		Derivative Contracts	22	
83,165	117,700		Property	147,520	
103,882	92,716		Cash/deposits	76,737	
15,479	24,408		Other investment balances	13,347	
<u>2,224,712</u>	<u>3,100,274</u>				3,395,851
			Investment liabilities		
(38,908)	(28,896)		Derivative Contracts	(3,060)	
(4,003)	(4,787)		Other investment balances	(9,429)	
<u>(42,911)</u>	<u>(33,683)</u>				(12,489)
2,181,801	3,066,591		Total Investments		3,383,362
			<b>Long term assets</b>		
-	-		Contributions due from Central Government		11,300
		<b>11</b>	<b>Current assets and liabilities</b>		
			Current Assets		
14,413	5,065		Cash		13,150
32,151	19,337		Contributions due from employers and other current assets		19,874
<u>2,228,365</u>	<u>3,090,993</u>				3,427,686
			Current liabilities		
(3,558)	(6,119)		Unpaid benefits and other current liabilities		(13,674)
<u>2,224,807</u>	<u>3,084,874</u>		Net assets of the scheme available to fund benefits		<u>3,414,012</u>

# Pension Fund Accounts

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## Notes to the Pension Fund Accounts

### 1. Background

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund (the Fund) for its employees and those of other scheduled Bodies within its area. The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. As a result the Fund now contains around 420 employing bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report & Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity infrastructure and shareholder activism through the use of limited partnerships. The Investment Steering Committee (ISC) oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report & Accounts.

### 2. Basis of preparation

The Pension Fund Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting for England 2010/11 issued by CIPFA. This is the first year of preparation that the Code has incorporated the requirement of the International Requirement Financial Standards (IRFS).

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies can be obtained by contacting the Council's Investments team or alternatively are available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

The Pension Fund Statement of Accounts summarises the transactions of the scheme and the net assets of the Fund. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, for the first time, a statement calculating the Fund's promised retirement benefits as at 31 March 2010 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

# Pension Fund Accounts

## 3. Actuarial valuation

The contributions payable for 2010/11 were determined by the 2007 Actuarial Valuation.

### 3.1 Actuarial valuation 2007

The market value of the assets as at the 2007 actuarial valuation was **£3,043m**. The assets of the Fund were valued on the market value approach and showed that the assets held were sufficient to cover **79.6%** of the Fund's liabilities at that time. The valuation was carried out using the projected unit method.

The main economic assumptions used in the actuarial valuation were:

	Past service liabilities % per annum	Future service liabilities % per annum
Rate of return on investments		
Pre retirement	6.90%	6.50%
Post retirement	5.40%	6.50%
Rate of pay increases	4.60%	4.25%
Rate of increase to pensions in payment	3.10%	2.75%

The actuary has set a common contribution rate of **12.7%** of pensionable pay. This rate is varied for each participating body depending on their individual circumstances. In addition, a past service deficiency contribution of **7.0%** has been set to enable the Fund to reach 100% funding in 20 years from the date of the last actuarial valuation. This rate and recovery period are also varied for individual employers, to reflect their individual circumstances. The report of the actuary can be found in the Pension Fund Annual Report & Accounts.

### 3.2 Actuarial Valuation 2010

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,085m** represented **71%** of the Funding Target liabilities of **£4,319m** at the valuation date. The valuation also showed that a common rate of contribution of **12.2%** of Pensionable Pay per annum was required from employers. The common rate is calculated as



# Pension Fund Accounts

being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **9.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.4%** of Pensionable Pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions, 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). Different approaches adopted in implementing 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. Full details of the actuarial assumptions are contained within the full valuation report that is available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk), but the main financial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

<b>Rates per annum:</b>	<b>Past service liabilities (funding target)</b>	<b>Future service liabilities (common contribution rate)</b>
Rate of discount		
Pre retirement	7.00%	6.75%
Post retirement	5.50%	6.75%
Rate of pay increases	4.50%	4.50%
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	3.00%	3.00%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2014.

# Pension Fund Accounts

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## 3.3 Actuarial present value of promised retirement benefits

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.

In order to assess the value of the benefits on this basis, the Actuary has used the same actuarial assumptions as those used for funding purposes, other than the discount rate where a rate of 5.6% per annum both before and after retirement has been used, rather than the rates as outlined above. The Actuary has also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was **£4,720m**.

Similar calculations were carried out as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.4% per annum both before and after retirement was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£4,213m**.

## 4. Accounting policies

### 4.1 Introduction

The transfer to International Financial Reporting Standards (IFRS) did not result in any material differences between amounts presented in the 2009/10 financial statements and the equivalent amounts in the 2010/11 financial statements.

### 4.2 Accounting convention

The Pension Fund Statement of Accounts has been prepared on an accruals basis, except for transfers to and from the scheme which are accounted for on a cash basis.

All liabilities shown in the Net Asset Statement will mature within 12 months of 31st March 2011.

### 4.3 Investments

Assets are carried in the Net Asset Statement at fair value, as detailed below.

In the majority of cases, equity investments are valued at the last traded price recorded on the Stock Exchange Electronic Trading Service or bid market price at 31 March 2011.

For unquoted equity in the private equity limited partnerships, there is usually a time delay in receiving information from the private equity fund managers. The valuations shown in the net

# Pension Fund Accounts

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asset statement for these investments are the latest valuations provided to the County Council. These are valuations at 31 March 2011 and are compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. Where this information is not available, an estimate of the valuation as at 31 March 2011 would have been made, based on the 31 December 2010 valuation plus payments made to, and payments received from, the private equity managers in the period 1 January 2011 to 31 March 2011.

Unit Trusts and managed funds are valued at the bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year end, which is included separately within accrued investment income (as disclosed in Note 9).

Futures are valued at the closing market price published by the relevant futures exchange (eg. London International Financial Futures Exchange).

Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31<sup>st</sup> March.

Direct property investments have been valued, at open market value, at 31 March 2011, by Jones Lang LaSalle, Chartered Surveyors.

Acquisition costs are included in the purchase cost of investments.

## 4.4 Investment income

Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax on income is disclosed as a separate line item on the face of the fund account.

Income from fixed interest and index linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

# Pension Fund Accounts

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## 4.5 Foreign currencies

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction. In the financial statements, balances are recorded at rates ruling on 31 March 2011.

## 4.6 Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

## 4.7 Benefits payable

Under the rules of the Fund, retirees receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Other benefits are accounted for on the date the member leaves the Fund or on death.

## 4.8 Transfers to / from other schemes

Transfer values are normally accounted for on a payment/receipts basis since not only do they frequently apply to several past years but, in the case of transfer values due, information is not available at the year end on which to make an accrual.

## 4.9 Administrative and other expenses

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. A proportion of relevant officers' salaries have been charged to the Fund on the basis of time spent on investment related matters and pension administration.

# Pension Fund Accounts

## 5. Membership activities

### 5.1 Membership

31 March 2009	31 March 2010		31 March 2011 (Provisional)
46,857	43,728	Contributors	41,583
26,272	32,173	Deferred pensioners	34,723
27,992	29,165	Pensioners	30,612

Deferred pensioners are former employees who have chosen not to transfer their pension rights.

### 5.2 Pension benefits payable

2008/09 £000	2009/10 £000		2010/11 £000
44,551	47,629	County Council	49,311
51,539	55,122	District / unitary authorities	56,718
9,944	11,588	Other scheduled bodies	11,547
9,638	11,045	Other admitted bodies	13,199
<u>115,672</u>	<u>125,384</u>		<u>130,775</u>

### 5.3 Contributions receivable

Contributions receivable from employers are set out below:

2008/09 £000	2009/10 £000		2010/11 £000
88,097	94,680	Normal	96,103
145	105	Augmentation	16
69,731	55,390	Deficit	71,482
5,983	4,313	Other	5,505
<u>163,956</u>	<u>154,488</u>		<u>173,106</u>

Other employers' contributions relate to payments for the cost of early retirements.

# Pension Fund Accounts

2008/09		2009/10			2010/11	
Member £000	Employer £000	Member £000	Employer £000		Member £000	Employer £000
16,315	51,634	17,167	53,130	County Council	17,448	55,855
14,588	52,860	15,020	54,742	District / unitary authorities	14,940	55,387
12,272	31,131	12,886	33,969	Other scheduled bodies	11,922	31,739
4,096	28,331	4,485	12,647	Other admitted bodies	6,043	30,125
47,271	163,956	49,558	154,488		50,353	173,106

During 2010/11 lump sum contributions in respect of the Actuarial deficit were received from the Essex Probation of **£0.100m** and an accrual in respect of the Essex Magistrates Court Committee **£12.556m**.

During 2009/10 no lump sum employer contributions in respect of actuarial deficit were received.

During 2008/09 lump sum contributions in respect of the Actuarial deficit were received from Chelmsford Borough Council **£1.419m**, CCETSW **£16.235m** and SCIE **£0.265m**. These amounts were paid following the 31st March 2007 Actuarial Valuation and have been recognised on receipt.

## 5.4 Transfers in from other pension funds

During 2010/11 **£0.700m** was received from Suffolk County Council, Ipswich Museum and **£0.005m** was received from Metropolitan Police Superannuation Scheme. There were no amounts received in respect of group transfers from other schemes during 2009/10 or 2008/09.

## 5.5 Transfers out to other schemes

No amounts were payable in respect of group transfers to other schemes during 2010/11. During 2009/10 **£1.249m** was paid out to HPSS and a further **£0.436m** was paid to Tayside Council as a result of the termination of fund membership of the Central Council for the Education and Training of Social Workers. No amounts were payable in respect of group transfers to other schemes during 2008/09.

# Pension Fund Accounts

## 6. Investment income

2008/09 £000	2009/10 £000		2010/11 £000
5,021	2,325	Income from fixed interest securities	-
42,872	26,492	Dividends from equities	30,138
416	3,677	Income from index linked securities	3,156
7,396	7,904	Net rent from properties	9,235
12,892	5,295	Interest from cash deposits	5,728
1,359	1,306	Other	720
<b>69,956</b>	<b>46,999</b>	<b>Total</b>	<b>48,977</b>

## 7. Administrative expenses

2008/09 £000	2009/10 £000		2010/11 £000
1,491	1,485	Administration and Processing	1,182
128	175	Actuarial Fees	413
193	209	Legal and other Professional Fees	221
<b>1,812</b>	<b>1,869</b>		<b>1,816</b>

The administration and processing expenses represent a proportion of relevant officers' salaries on the basis of time spent on pensions' administration and investment matters.

## 8. Investment expenses

2008/09 £000	2009/10 £000		2010/11 £000
13,266	13,228	Administration, Management and custody	13,127
89	55	Performance Measurement Services	54
332	344	Other Advisory Services	379
<b>13,687</b>	<b>13,627</b>	<b>Total</b>	<b>13,560</b>

# Pension Fund Accounts

## 9. Investments

### 9.1 Investments held by managers

The value of investments held by each manager together with investments in private equity, infrastructure, financing and shareholder activism partnerships on 31 March was as follows:

2009		2010			2011	
£m	%	£m	%		£m	%
146	6.7	224	7.3	Alliance Bernstein	234	6.9
271	12.4	357	11.6	Aviva Investors	396	11.7
160	7.3	248	8.1	Baillie Gifford and Co	293	8.7
218	10.0	1	-	Capital International	-	-
-	-	224	7.3	FIL Pensions Management	244	7.2
97	4.5	154	5.0	First State Investments (UK) Ltd	180	5.3
133	6.1	161	5.2	Goldman Sachs Asset Management International	169	5.0
711	32.6	1,051	34.3	Legal and General Investment Management	1,137	33.6
146	6.7	245	8.0	Marathon Asset Management Ltd	282	8.3
-	-	-	-	Martin Currie Investment Management Ltd	-	-
14	0.6	24	0.8	Mellon Capital Management	30	0.9
-	-	-	-	Mirabaud Investment Management Ltd	-	-
-	-	-	-	Nomura Asset Management UK Ltd	-	-
111	5.1	137	4.5	M&G Investments Alpha Opportunities	144	4.3
48	2.2	46	1.5	M&G Investments Infracapital	54	1.6
-	-	-	-	M&G Investments Financing Fund	7	0.2
-	-	-	-	Partners Group Management II S.à r.l	12	0.4
65	3.0	112	3.7	Private Equity	168	5.0
(9)	-0.4	33	1.1	Record Currency Management	28	0.8
71	3.2	49	1.6	Shareholder activism	5	0.1
<b>2,182</b>	<b>100.0</b>	<b>3,066</b>	<b>100.0</b>		<b>3,383</b>	<b>100.0</b>



# Pension Fund Accounts

## 9.2 Movement in the market value of investments

The table below shows the movement in the market value of the investments held during the financial year, including profits and losses realised on the sales of investments since 1 April.

	Value at 1 April 2009	Value at 1 April 2010	2010/11 Movement				Value at 31 March 2011
			Purchases plus net transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest	149,665	217,771	3,656	(6,146)	10,738	-	226,019
Equities							
UK	237,351	329,583	31,214	(43,941)	27,089	-	343,945
Overseas	1,111,303	1,576,166	430,103	(387,859)	156,504	-	1,774,914
Index Linked	72,068	172,895	13,996	(24,701)	9,649	-	171,839
Managed & Unitised							
PUTS	120,822	186,281	49,838	(9,396)	7,965	-	234,688
Other	325,981	381,123	69,063	(64,461)	21,095	-	406,820
Derivative Contracts	(1,905)	21	-	-	1	-	22
Properties	83,165	117,700	24,072	-	5,748	-	147,520
Cash Deposits	101,600	92,557	33,000	(2,168)	2,168	(48,985)	76,572
Margin Account	2,282	159	-	(6)	6	6	165
	<b>2,202,332</b>	<b>3,074,256</b>	<b>654,942</b>	<b>(538,678)</b>	<b>240,963</b>	<b>(48,979)</b>	<b>3,382,504</b>
Debtors - outstanding sales	7,978	18,687					8,082
Creditors - outstanding purchases	(3,838)	(4,609)					(9,281)
Investment income debtors	7,501	5,721					5,265
Investment income creditors	(165)	(178)					(148)
Derivative Contracts pending fx debtors	1,804	1,610					-
Derivative Contracts pending fx creditors	(33,811)	(28,896)					(3,060)
	<b>2,181,801</b>	<b>3,066,591</b>					<b>3,383,362</b>

For 2010/11, the total transaction costs were **£1.2m** (2009/10: £2.0m and 2008/09: £1.9m).

# Pension Fund Accounts

## 9.3 Analysis of investment assets

An analysis of investment assets at 31 March is shown below.

2009 £000	2010 £000		2011 £000
		<b>Fixed interest securities</b>	
63,278	57,037	UK public sector quoted	57,344
42,409	160,734	UK quoted	168,675
267	-	Overseas public sector	-
43,711	-	Overseas quoted	-
		<b>Equities</b>	
57,807	78,128	UK quoted	71,609
684,967	993,734	Overseas quoted	1,135,418
179,544	251,455	UK unit trusts	272,336
426,336	582,432	Overseas unit trusts	639,496
		<b>Index linked securities</b>	
72,068	172,895	UK public sector quoted	171,839
		<b>Managed funds</b>	
171,542	195,008	UK unquoted	206,455
115,616	128,758	Overseas unquoted	142,024
38,823	57,357	Active currency	58,341
		<b>Derivative Contracts</b>	
4,996	1,631	Derivative Assets	22
(38,908)	(28,896)	Derivative Liabilities	(3,060)
		<b>Property</b>	
21,950	27,650	UK properties (leasehold)	27,445
61,215	90,050	UK properties (freehold)	120,075
120,822	186,281	Property unit trusts	234,688
		<b>Cash deposits</b>	
84,484	80,875	Sterling	40,393
17,116	11,682	Foreign currency	36,179
2,282	159	Margin accounts	165
		<b>Investment accruals</b>	
7,978	18,687	Debtors - outstanding sales	8,082
(3,838)	(4,609)	Creditors - outstanding purchases	(9,281)
7,501	5,721	Income accrual - Debtor	5,265
(165)	(178)	Income accrual - Creditor	(148)
<u>2,181,801</u>	<u>3,066,591</u>	<b>Value at 31 March</b>	<u>3,383,362</u>

# Pension Fund Accounts

## 9.4 Unit trusts/pooled vehicles

The Fund holds the following investments in unit trusts/pooled vehicles at 31 March which are in excess of 5% of the value of the Fund:

2009		2010		Unit trust / pooled vehicle	2011	
£000	%	£000	%		£000	%
179,544	8.1	251,456	8.2	Legal and General - UK Equity Index	272,336	8.0
139,490	6.3	188,021	6.1	Legal and General - Europe (Ex UK) Equity Index	217,569	6.4
139,221	6.3	192,169	6.2	Legal and General - North America Equity Index	213,791	6.3
n/a	n/a	160,734	5.2	Goldman Sachs - UK Sterling Credit Portfolio	168,675	4.9

# Pension Fund Accounts

## 9.5 Single investments

The Fund holds the following single investments which are in excess of 5% of any asset class or type of security:

2009		2010		Asset Type	Asset Name	2011	
£000	%	£000	%			£000	%
<b>FIXED INTEREST</b>							
8,847	14.0%	-	-	UK Govt Fixed Interest	UK Treasury 5.0% 07 Sept 2014	-	-
5,204	8.2%	-	-	UK Govt Fixed Interest	UK Treasury 6.0% 07 Dec 2028	-	-
4,718	7.5%	-	-	UK Govt Fixed Interest	UK Treasury 4.75% 07 Sept 2015	-	-
4,605	7.3%	-	-	UK Govt Fixed Interest	UK Treasury 4.50% 07 Dec 2042	-	-
3,455	5.5%	-	-	UK Govt Fixed Interest	UK Treasury 4.25% 07 Jun 2032	-	-
3,381	5.3%	-	-	UK Govt Fixed Interest	UK Treasury 4.25% 07 Dec 2055	-	-
267	100.0%	-	-	Overseas Govt Fixed Interest	Germany (Fed Rep) 4.25% Bonds 04 July 2039 EUR0.01	-	-
3,075	7.0%	-	-	Overseas Corporate Fixed Interest	European Investment Bank 5.50% 07 Dec 2011	-	-
3,058	7.0%	-	-	Overseas Corporate Fixed Interest	Instituto de Credito Oficial 4.50% 07 Dec 2011	-	-
<b>EQUITIES</b>							
5,768	10.0%	7,831	10.0%	UK Quoted Equities	Vodafone Group	6,395	8.9%
3,133	5.4%	-	-	UK Quoted Equities	SabMiller plc	5,944	8.3%
-	-	5,102	6.5%	UK Quoted Equities	Rio Tinto	5,765	8.1%
-	-	-	-	UK Quoted Equities	Astrazeneca	5,545	7.7%
4,510	7.8%	-	-	UK Quoted Equities	BP Plc	-	-
<b>INDEX LINKED BONDS</b>							
11,157	15.5%	9,861	5.7%	UK Index Linked	UK (Govt) Treasury IL Stock 2.5% 26 July 2016	8,905	5.2%
9,397	13.0%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 2.500% 16 April 2020	-	-
8,096	11.2%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 17 Jul 2024	-	-
6,276	8.7%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 4.125% 22 Jul 2030	-	-
5,111	7.1%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 1.125% 22 Nov 2037	-	-
4,382	6.1%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 2.0% 26 Jan 2035	-	-
4,111	5.7%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	-	-
3,998	5.5%	-	-	UK Index Linked	UK (Govt) Treasury IL Stock 1.25% 22 Nov 2055	-	-
<b>UNIT TRUSTS</b>							
-	-	20,486	11.0%	Unit Trusts	Aviva Investors Property Fund	24,317	10.4%
-	-	20,644	11.1%	Unit Trusts	Lothbury Property Fund	-	-
21,218	17.6%	15,781	8.5%	Unit Trusts	Blackrock UK Property Fund	-	-
10,854	9.0%	9,883	5.3%	Unit Trusts	Capital Residential Fund	-	-
7,242	6.0%	-	-	Unit Trusts	Schroder Property Investment Management Fund	-	-
6,656	5.5%	-	-	Unit Trusts	Henderson UK Retail Warehouse Fund	-	-
6,503	5.4%	-	-	Unit Trusts	Hercules Unit Trust	-	-
6,274	5.2%	-	-	Unit Trusts	Quercus Healthcare Property	-	-
<b>MANAGED FUNDS</b>							
111,081	34.1%	137,435	36.1%	Managed Funds	M&G Alpha Opportunities Fund	144,375	35.5%
47,772	14.7%	45,633	12.0%	Managed Funds	Infracapital Partners	53,913	13.2%
24,370	7.5%	23,998	6.3%	Managed Funds	Mellon Offshore Currency Opp Enhanced UK Equitized Fund	30,053	7.4%
-	-	33,359	8.8%	Managed Funds	Record Currency Alpha US Equitized Fund	28,288	7.0%
-	-	21,653	5.7%	Managed Funds	Goverance of Owners European Focus Fund	-	-
<b>DERIVATIVE CONTRACTS</b>							
-	-	-	-	Derivative Contracts	S&P 500 Emini Index Futures Exp June 11	22	100.0%
2,654	53.1%	-	-	Derivative Contracts	FTSE 100 Index Future Expiry June 2009	-	-
422	8.4%	-	-	Derivative Contracts	UK Long Gilt Future Expiry June 2009	-	-
273	5.5%	-	-	Derivative Contracts	US 10 yr Treasury Note Future Expiry June 2009	-	-
269	5.4%	-	-	Derivative Contracts	DJ Euro Stock 50 Future Expiry June 2009	-	-
<b>PROPERTY</b>							
10,000	12.0%	13,150	11.2%	Property	55-57 Dean Street, London	13,220	9.0%
-	-	-	-	Property	74-82 Western Road	10,600	7.2%
-	-	7,500	6.4%	Property	32-36 High Street, Guildford	8,350	5.7%
7,050	8.5%	7,350	6.2%	Property	Redditch Abbey Retail Park	8,200	5.6%
-	-	-	-	Property	Cardiff Gate Business Park, Cardiff	8,175	5.5%
6,600	7.9%	7,600	6.5%	Property	121 Dunmow Road, Bishops Stortford	7,800	5.3%
6,725	8.1%	6,900	5.9%	Property	Stortford Hall, Bishops Stortford	7,750	5.3%
5,650	6.8%	6,500	5.5%	Property	Victoria Road Retail Park, Wellingborough	-	-
5,000	6.0%	6,100	5.2%	Property	13-15 Magdalen Street, Oxford	-	-
-	-	-	-	Property	Metropolis, Borehamwood	-	-
<b>CASH</b>							
-	-	-	-	Cash	BNY Mellon Euro Liquidity Fund	22,347	29.1%
78,973	76.0%	59,077	63.7%	Cash	BNP Paribas Investment Partners GBP	20,658	26.9%
-	-	-	-	Cash	BNY Mellon Sterling Liquidity Fund	17,924	23.4%
-	-	-	-	Cash	BNP Paribas Investment Partners US\$	4,643	6.1%



## Pension Fund Accounts

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life and Standard Life to the Fund is shown in the table below.

2008/09 £000	2009/10 £000		2010/11 £000
6,355	5,446	Value of AVC fund at beginning of year	6,050
646	365	Employees contributions	421
(768)	1,098	Investment income and change in market value	361
(787)	(859)	Benefits paid and transfers out	(836)
5,446	6,050		5,996

### 11. Current assets and liabilities

31 March 2009 £000 Restated	31 March 2010 £000 Restated		31 March 2011 £000
		Current assets	
14,413	5,065	Cash	
-	-	Cash at bank	540
-	-	Cash on short term deposit <3 months	12,610
		Debtors and payments in advance	
		Contributions due	
278	241	Central Government	1,630
11,380	16,496	Other Local Authorities	9,875
15	23	NHS Bodies	-
20,191	2,231	Public Funded Bodies	1,468
287	346	Other	6,901
		Current liabilities	
		Creditors and receipts in advance	
		Unpaid Benefits	
(112)	(89)	Central Government	(7)
(1,555)	(2,559)	Other Local Authorities	(454)
-	-	NHS Bodies	-
(264)	(819)	Public Funded Bodies	(15)
(37)	(56)	Other	(8,437)
(1,590)	(2,596)	Investment management expenses	(4,533)
		Other liabilities	
-	-	Central Government	(173)
-	-	Receipts in advance	(55)
43,006	18,283	Net total	19,350

# Pension Fund Accounts

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As at the 1 April the Fund put in place a separate bank account arrangement. Before this, the Pension Fund cash was aggregated with the County Council's balances. As such, comparison figures as at 31 March 2009 and 31 March 2010 for cash at bank and cash on deposit cannot be separately identified. In addition the Fund also holds cash in bank and on deposit with the Fund's custodian The Bank of New York Mellon. The settled cash position is shown separately in the Net Asset Statements under the sub heading of Investments.

The contributions accruals for 2008/09 and 2009/10 have been restated in line with best practice.

## 12. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund 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 Fund.

During the year, none of the Essex Pension Fund Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex County Council Pension Fund. There were no material contributions due from employer bodies at the year end which remained outstanding after the due date for payment.

As at the 1 April 2010 the Fund put in place a separate bank account arrangement. Before this, the Pension Fund cash was aggregated with the County Council's balance. Surplus cash is invested by the County Council treasury management team on the sterling money market, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Board on 31 March 2010. This service is provided to the Fund at a cost of **£0.022m**.

During the year to 31 March 2011, the Pension Fund had an average investment balance of **£10.518m** (2010: £17.962m and 2009: £22.683m) earning **£0.111m** interest (£0.116m, 2010 and £0.904m, 2009).

## 13. Nature and Extent of Risks arising

The Fund'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 Pension Fund.
- **Liquidity risk** – the possibility that the Fund might not have funds available to meet its commitments to make payments.
- **Market risk** – the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.

# Pension Fund Accounts

## Credit Risk

The Fund is exposed to credit risk in its operational activities through forward currency contracts, derivative positions (futures) and treasury management activities. Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made and closely monitors the monthly receipt of contributions and annual reconciliation to member records. The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2011 is provided in Note 11.

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Funds appointed Fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2011 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in Note 9.

Counterparty	Total Exposure	
	2011	
	£000	%
Barclays Capital	49,525	3.3%
BNP Paribas Capital Markets	122,149	8.2%
Australian Commonwealth Bank	104,757	7.0%
Credit Suisse AG	164,726	11.0%
Deutsche Bank AG	132,522	8.9%
HSBC	147,100	9.9%
J P Morgan Securities	251,447	16.9%
RBS	100,227	6.7%
Royal Bank of Canada	57,722	3.9%
SG Securities	205,032	13.7%
UBS	119,070	8.0%
Westpac Bank Corp	37,052	2.5%
<b>Total</b>	<b>1,491,329</b>	<b>100.0%</b>



## Pension Fund Accounts

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Futures contracts entered into by the Fund are all exchange traded. At the 31 March 2011 the contracts in place were all traded in the US on the CME. Further details of these futures contracts are provided in note 9. In these transactions the clearing broker Goldman Sachs acts as counterparty to both sides of the contract (buyer and seller). The clearing broker requires both parties to put up an initial amount of cash (variation margin). All positions are then marked to market daily, with margins required to be posted and maintained at all times. This minimises the risk of default by either party. In the event that a client does default, FSA rules state that the broker must make good the position to the extent that it is able, primarily through accessing the other party's variation margin. The ultimate default risk therefore lies with Goldman Sachs and their balance sheet strength but is underpinned by the contractual requirement for variation margin. Goldman Sachs is a registered deposit taking institution and therefore monies posted to it are held under banking regulation rather than in accordance with FSA client money rules.

The Fund has operated a separate bank account since 1 April 2010 with Lloyd's TSB Bank plc, which is also banker to the Administering Authority. The bank holds an A+ long term credit rating with Standard and Poor. Cash is not invested with Lloyds TSB but is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the table below. At 31 March 2011 **£13.150m** was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

The majority of the cash held by the Fund's custodian, the Bank of New York Mellon (BNY Mellon) is swept overnight to one of two AAA rated money market funds. The historical experience of default from AAA rated entities detailed in the table below is nil. As at 31 March 2011, the total balance held in the sterling, US dollar and Euro AAA money market funds was **£69.944m**, with a smaller balance of **£6.477m** held in the BNY Mellon current account. The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

The following table summarises the maximum exposure to credit risk of the cash held with the Administering Authority's Treasury Management Team and the Bank of New York Mellon.

# Pension Fund Accounts

	31 March 2011 £000	Maximum limit per Financial Institution  £000	Historical risk of default  %	Estimated maximum exposure to default and uncollectability  £000
<b>Cash managed by Essex County Council</b>				
Deposit with bank and other financial institutions				
AA Rated	7,610	10,000	0.03%	2
A Rated	5,540	5,000	0.08%	4
<b>Cash managed by The Bank of New York Mellon - Other</b>				
Deposit with bank and other financial institutions				
AAA Rated	69,944	60,000	-	-
AA Rated	6,628	-	0.03%	2
A Rated	165	-	0.08%	-
<b>Total</b>	<b>89,887</b>	<b>75,000</b>		<b>8</b>

The table below provides a breakdown of where the Pension Fund cash is managed:

2008/09 £000	2009/10 £000	Cash	2010/11 £000
		<b>Cash managed externally</b>	
		Cash held on deposit	
		BNP Paribas Investment Partners	
78,973	59,077	Currency - GBP	20,658
2,542	3,290	Currency - US\$	4,643
4,371	1,930	Currency - EURO €	3,524
-	-	BNY Mellon Liquidity Fund	
-	-	Currency - GBP	17,924
-	-	Currency - US\$	848
		Currency - EURO €	22,347
		Cash held in Current Account	
15,664	28,210	The Bank of New York Mellon	6,477
50	50	Barclays plc	151
2,282	159	Cash held in a Margin Account	165
<b>103,882</b>	<b>92,716</b>	<b>Total cash managed externally</b>	<b>76,737</b>
		<b>Cash managed internally</b>	
14,413	5,065	Cash held on deposit	
-	-	Barclays Bank	7,000
-	-	Royal Bank of Scotland Group	5,000
-	-	Santander UK	610
		Cash held in Current Account	
-	-	Lloyds TSB Bank plc	540
<b>14,413</b>	<b>5,065</b>	<b>Total cash managed internally</b>	<b>13,150</b>
<b>118,295</b>	<b>97,781</b>	<b>Total</b>	<b>89,887</b>

# Pension Fund Accounts

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Credit risk will be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market. In addition to passive manager, Legal & General, the Fund has two active bond managers M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM). M&G manage pooled assets against a LIBOR plus benchmark. At 31 March 2011, the average credit quality of this mandate was A+ rated and the portfolio had suffered 4 defaults since inception. GSAM manage pooled assets against the iBoxx Sterling Non Gilts index. At 31 March 2011 the average credit quality of this mandate was an AA- rated and the portfolio had suffered no defaults since inception.

## Liquidity Risk

The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to property and partnership investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on 23 February 2011, 22.5% of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions received. As the Fund is not in the position of a forced seller, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

## Market Risk

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its independent investment consultant (Hymans Robertson LLP) and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles shown in of the Pension Fund Report and Accounts and is also available from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk). Investment risk and strategy are regularly reviewed by the Investment Steering Committee.

Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and to a lesser degree the return it receives on cash held. As detailed above, the Fund has one passive bond mandate with Legal & General. For the M&G and GSAM portfolios bond exposure is actively managed.

Currency risk is the extent to which the pension fund is exposed to fluctuations in exchange rates and the impact these fluctuations have on the Sterling valuation of assets denominated in foreign currency. To partly mitigate this risk the Fund has a currency overlay programme in place the details of which can be found in note 9.

# Pension Fund Accounts

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Price risk is the risk of volatility (+/-) in the price (valuation) of the assets held by the Fund. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Funds overall strategy. The Local Government investment regulations contain prescribed limits to avoid over-concentration in specific areas.

## Custody

The Fund has appointed BNY Mellon as a global custodian with responsibility for safeguarding the assets of the Fund. As at 31 December 2010 BNY Mellon had \$25.0 trillion of assets under custody - making it the world's largest global custodian – and had a credit rating of AA-. The existing custody contract commenced in 2006. The contract is due for re-tender during 2010/11 in which time a procurement process will be undertaken. Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

## Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the Investment Steering Committee on a quarterly. The Fund makes use of a third party performance measurement service BNY Mellon Performance & Risk Analytics Europe Limited. In addition to presenting to the Investment Steering Committee, managers also meet with Fund officers and advisers to review progress

## Sensitivity of Funding Position to Market Conditions and Investment Performance

When preparing the formal valuation the Actuary takes the assets of the fund at market value on the valuation date. Volatility in investment performance as a result of market risk factors can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is predominantly invested in riskier (and historically higher return) assets such as equities and equity-like investments (e.g. property). A rise or fall in the level of equity prices can have a direct impact on the financial position of the Fund.

Less obvious is the effect of anticipated investment performance on the Fund's liability to pay future pension benefits. Here the returns available on government bonds (gilts) are important, as the discount rate that is used to place a value on liabilities is the gilt yield at the valuation date plus a margin of 2.5% per annum (pre retirement) and 1.0% per annum (post retirement). Effectively if the gilt yield rises the discount rate will increase and all other things being equal the value placed on liabilities will fall. If the fund was invested entirely in gilts rather than potentially higher returning assets the discount rate would be lower as no margin for performance over gilts could be assumed.

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At 31 March 2011, Hymans Robertson's assumptions with regard to the long term returns on asset classes were:

Asset class	20 year return % p.a.
UK Equity	7.9%
Overseas / Global Equity	7.6%
Private Equity	9.0%
Fixed Interest Gilts	4.7%
Index-linked Gilts	4.5%
Corporate Bonds	5.5%
LIBOR +	5.0%
Property	5.8%
Infrastructure	5.8%

Given the Fund's long term strategic allocation of assets at the time (re-weighting for Private equity) of:

	%	
10.0%		UK Equity
53.0%		Overseas / Global Equity
6.0%		Private Equity
1.2%		Fixed Interest Gilts
3.8%		Index-linked Gilts
5.5%		Corporate Bonds
6.0%		LIBOR +
12.0%		Property
2.5%		Infrastructure

This would imply a long term strategic expected return of **7.0%** p.a. on an arithmetic weighted average of these individual returns. This does not take account of any expected return from active management (including currency) or the benefit we might expect from diversification (which we expect to come through as 'bonuses'). Using Hymans Robertson's internal asset model (which, in this case, also does not take account of active management, but does allow for the benefits of diversification) some analysis was performed with respect to various expected returns and the probability of achieving that return. The model (based on the current structure) calculates a central expected return of 7.9% p.a. The overall expected return on a portfolio of assets does not solely reflect the arithmetic weighted average of the returns on the individual asset classes. This is due to diversification i.e. when you combine a portfolio of assets which are not fully correlated to each other, the expected portfolio return is greater than the arithmetic combination of the individual returns. This reflects the lower

# Pension Fund Accounts

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volatility of the portfolio compared to the volatility of the sum of the parts. This is sometimes referred to as 'volatility drag'.

The probability of achieving particular levels of out-performance over a 1 year period relative to the liabilities is as follows:

- Probability of achieving liabilities + 1.0% p.a. = 57%
- Probability of achieving liabilities + 2.5% p.a. = 53%
- Probability of achieving liabilities + 3.5% p.a. = 50%

## 14. Further information

The Council publishes a separate Pension Fund Report and Accounts. Copies may be obtained from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk) or contacting:

Group Manager Investments  
PO Box 11  
County Hall  
Chelmsford  
CM1 1LX

Telephone 01245 431301

E-mail [pensions.investments.web@essex.gov.uk](mailto:pensions.investments.web@essex.gov.uk)

# Governance Statement

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## 1. Scope of responsibility

Essex County Council ('the Council') is responsible for ensuring that its business is conducted in accordance with the proper standards and within the law. It must ensure that public money is safeguarded, properly accounted for and used in an economic, efficient and effective manner.

Under the Local Government Act 1999, the Council has a duty to secure continuous improvements in the way it exercises its functions. In doing so the Council must have regard to the economy, efficiency and effectiveness.

In discharging this overarching responsibility, the Council is required to have in place appropriate arrangements for the governance of its affairs, in order to facilitate the effective exercise of its functions; this includes arrangements for the management of the Council's risk.

The principles of good governance are contained within the CIPFA/SOLACE framework 'Delivering good governance in Local Governments'. The Council has approved and adopted a Code of Corporate Governance that is consistent with those principles.

This statement explains how the Council has complied with the Code and has met the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, which relate to the publication of a statement on internal control.

## 2. The purpose of the governance framework

The manner in which the Council engages with and leads the community is directed and controlled by systems, processes, cultures and values, and these are embedded within the governance framework. The Council is able to monitor the achievements of its strategic objectives through the governance framework and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

A significant part of that framework is the system of internal control. Whilst it cannot eliminate all risk arising out of a failure to achieve policies, aims and objectives, it is designed to manage all risks to a reasonable level, thereby providing reasonable assurance of effectiveness. The Council's system of internal control is designed to identify and prioritise the risks of achievement to the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ending 31 March 2011 and remains in place up to the date of approval of the Statement of Accounts scheduled for sign off by the Audit Committee on 26th September 2011.

# Governance Statement

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## 3. The governance framework

This section describes the key elements of the systems and processes that make up the Council's governance arrangements.

### 3.1 The Council's vision

Since 2008, the Council has had in place EssexWorks, which is a four-year work programme that maps out the Council's vision, its purpose and the outcomes for its communities. EssexWorks is fundamental to the Council's vision and in meeting the outcomes it will deliver directly through its services. It plays a key role in meeting the commitments and targets that have been agreed with the Council's partners as part of Essex's Local Area Agreement (LAA). The Council's LAA was refreshed in April 2010 following Secretary of State sign-off, however the Secretary of State has revoked all designations of local improvement targets in LAA's and from April 2011 there is no requirement to prepare a new LAA. However, the Council is currently working with its partners and continuing to deliver the improvements within the LAA's pending a review.

In addition, the EssexWorks Programme is fundamentally linked with and reflected in the Essex Strategy, the Corporate Plan and the Council's budget. The EssexWorks intended outcome for citizens and service users are available on the Council's website.

Since 2009 the Council has had in place a Medium Term Resource Strategy which describes how, working in partnership, the Council will manage its resources (finances, information systems and technology, infrastructure, natural resources, people and property) efficiently over the preceding five years and aligns them with the Council's priorities.

The Council's Corporate Plan was refreshed and approved by the Council in February 2011 and now extends to 2014 and continues to run alongside the EssexWorks Programme. The Corporate Plan sets out the two overarching principles which underpin the work carried out by the Council, namely putting the customer first and delivering value for money. Against these principles are seven priorities that represent the Council's primary purpose and reflect the issues that residents advise matter to their quality of life. In addition these are strengthened by ten pledges which continue to be reviewed annually and ensure the Council moves towards achieving the long-term ambitions of the EssexWorks Programme.

The Cabinet is accountable to full Council for the delivery of the EssexWorks Programme. As a result progress reports are routinely submitted to the Corporate Leadership Team (CLT) setting out the Council's progress towards the outcomes and pledges of the EssexWorks Programme. The Policy and Scrutiny Committees are required to scrutinise the performance of the Council against its priorities as set out in the EssexWorks Programme and the Corporate Plan.



# Governance Statement

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## 3.2 Service Quality

The Council continues to use a performance management framework which sets out the arrangements for ensuring that the Council delivers services in accordance with its objectives and enables it to measure how well it is delivering the outcomes and pledges.

The Council's Corporate Plan continues to be monitored through the use of monthly corporate scorecards and action plans which sit alongside the finance and risk management report. The Council regularly reviews its performance at various levels including the Essex Partnership, Cabinet, Scrutiny Committees, CLT and Directorate Management Team.

The scrutiny arrangements play a key role in ensuring quality is delivered, providing an independent and robust challenge to the Council's objectives and holding the Council to account for its service delivery. Action plans are in place to address weaknesses identified by Internal Audit in the scrutiny arrangements.

The Annual Performance Report completed in 2010 shows the Council's progress in delivering against the EssexWorks priorities, the direction of travel and the Council's performance in comparison to others. This shows that the Council had fulfilled its pledge to upgrade and refurbish local communities, roads and footways and highlighted the recognition of the Care Quality Commission that the Council's Adult Social Care Service was highly performing.

The Council's employees continue to be supported by a comprehensive individual performance management process which was refreshed in 2010. This includes 'My Performance' contracts which define the outcomes required from each employee and is linked to the overarching principles and priorities of the EssexWorks programme, and is essential in enabling the Council to successfully deliver its Corporate Plan. The Council's Corporate Plan is underpinned by six directorate plans which set out how the services within that directorate will deliver the priorities and is used in setting employees' objectives within their 'My Performance' contracts.

The action plan within the 2009/10 AGS stipulated that the Council would deliver a strategy to enable an effective review of Value for Money (VFM). Accordingly, the Council has continued to work towards a VFM strategy that links into the EssexWorks programme. The Council will roll out and embed the VFM strategy in 2011/12, which has as part of its action plan a number of initiatives, including improving on the Councils understanding of the relationship between costs, efficiency and performance.

The Council also has in place a Target Operating Model (TOM) which is representative of the Council's future high level design, acting as a focal point for decisions. It describes the direction the Council must take to build its future organisation. As the Council develops its thinking, the TOM will start to shape, develop and define how its future commissioning based organisation will operate. Every decision the Council makes has to go through a strict scrutiny process to ensure that changes to the way it delivers services are done for the right

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reasons (putting our customers first). As a result the Council will ensure that adequate governance arrangements continue to be in place as the Council's TOM develops.

## 3.3 Key Roles and Responsibilities

The roles and responsibilities for Members of the Executive, Council, Council Committees and Overview and Scrutiny Committees are defined within the Council's Constitution, which was refreshed in 2010. The Constitution also clearly defines the roles and responsibilities of Chief Officers and the statutory roles of the Head of Paid Service, Monitoring Officer, Section 151 Officer and the Scrutiny Officer and incorporates the role profiles of the Leader and Chairman of the Council.

Part 3 of the Council's Constitution sets out the scheme of delegations to Cabinet Members and to Officers. The Council's delegation arrangements are reviewed in response to changes in the configuration of Cabinet responsibilities and re-organisations with the Council Officer core, and these are updated in real time ensuring that changes are recorded quickly. Furthermore the Chief Officers are responsible for ensuring their sub-delegations are accurate and fit for purpose and following the review of the Constitution these are being refreshed and updated as necessary. The protocol on Member/Officer relations contained within Part 5 of the Constitution further defines the day-to-day roles and responsibilities of Officers and Members.

When working in partnership, the Council ensures that Members are clear about their roles and responsibilities, both individually and collectively in relation to the partnership and the authority and this is set out in the Council's LAA and protocols for partnership working, which contains definitions of the role of the Partnership Board Members and these are accessible through the Essex Partnership website.

In addition, the Council also has in place financial regulations which provide a framework to identify the financial responsibilities of the Council and the financial limits assigned to Officers. These also set out the responsibilities in relation to partnerships.

## 3.4 Codes of Conduct and Standards of Behaviour

All employees and Members of the Council must conduct themselves in accordance with the terms of the Officer and Member Code of Conduct, contained within the Code of Corporate Governance and Constitution respectively and all Members have signed up to the Member Code of Conduct. The Officer's Code is available through the 'Working Here' intranet site and the Members Code is available within the Constitution or separately through the newly introduced Members Zone within the Council's intranet site, and both documents were updated in 2010.

The Standards Committee's main function is to promote and maintain high standards of conduct from Members and help Members to follow the Code of Conduct. Its terms of

# Governance Statement

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reference are set out within the Constitution. Records of the Standards Committee meetings and decisions are available via the decisions and meeting database on the Council's website and in July 2010 it presented its annual report to Council, and this was the first year that the Committee acted as the joint committee for the Council and the Fire Authority. This report set out the work of the Committee over the year which included developing procedures necessary for the conduct of hearings, as well as taking the opportunity to refine policies for the assessment of complaints. In undertaking this work the Committee has utilised and built upon the experience of assessing complaints over the year.

The Council has reviewed a number of policies and procedures which sit alongside the Code of Conduct in order to ensure that its staff has accurate information available to them, and that the policies reflect the current position. These include the Purchase Cards, Credits Cards, Gifts and Hospitality, Travel and Subsistence policies, and Officer Declarations of Interest. In addition the Members Allowance Scheme was reviewed in line with independent advice and was agreed by Council in May 2010. Furthermore a follow-up Audit on member's expenses has been completed as part of the 2011/12 audit plan, and received 'substantial assurance' rating.

## 3.5 Decisions, processes and controls

The Council's Corporate Governance Group (CGG) incorporates senior managers from across service areas and includes representatives from legal services, governance, internal audit and risk management and finance. Through 2009, the CGG carried out a rigorous review of the Council's standing orders and Constitution, mapping the findings against best practice identified from three comparable county councils in the UK. This resulted in the Council adopting a Code of Governance which provides a framework comprising of the systems, processes, cultures and values by which the Council directs and controls its business. This includes the newly drafted Constitution which received full Council sign-off in December 2010.

The Corporate Governance Steering Board, whose membership includes the Chief Executive and Leader of the Council, has in place a rolling review programme which continues to review the Council's corporate governance documentation and policies. They receive monthly reports from internal audit in order to ensure that recommendations are implemented, monitored and reviewed where governance deficits have been identified.

The Council's intranet pages were also updated in 2010 and now include a decision making section titled 'How we get things done'. This provides access to information about how the Council deals with particular issues across the organisation and enables easy access to guidance and policies relevant to those areas, this includes 'how we buy things', 'getting decisions made' and 'contracts and contract management'. As set out in the 2009/10 AGS Action Plan, throughout 2010 work has continued in reviewing the Council's Procurement Procedure Rules which will sit within the Code of Governance. The refreshed Procurement Policy, Procedure Rules and Guidance will be rolled out in 2011.

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Article 5 of the Constitution defines the responsibilities for decision making and the principles in accordance with which decisions must be made. They include the definition of key decisions and provide additional guidance to that definition in Part 4.

All agendas, minutes and decisions taken by Cabinet members are available to the public through the Council's website. A new committee management IS system has been implemented which improves the quality of information available and ensures the committee process is efficiently managed.

In addition, the Council's public engagement strategy ensures that the public are engaged in the Council's decision making; in shaping the places they live through consultations, citizens' panels, of which there are 540 members. Up until May 2011 the Council utilised its area forums wherever possible, however the Council is reviewing their effectiveness as part of ongoing partnership arrangement consultations and therefore the Council does not propose to hold any more at this stage.

The Overview and Scrutiny Committees play a key role in developing and maintaining effective scrutiny of decisions carried out within each directorate and encourages constructive challenge and effective mechanisms for decisions and recording the criteria, rationale and considerations on which each decision is based. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the Constitution.

## **3.6 The Audit Committee**

The Council continues to have a close working relationship with both internal and external auditors. The Audit Committee Chairman has signed a letter of compliance setting out an understanding of how those charged with Governance exercise oversight of the management processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

The Council has issued its Risk Assurance Progress Statement 2010/11 which stipulates that the Council's risk appetite is risk enabled. On 28 June 2010 the Draft Corporate Risk Management Strategy was reviewed by the Audit Committee before being approved by CLT on 21 July 2010.

Governance arrangements surrounding risk management were refreshed and approved by the Audit Committee on 17 May 2010 to supplement the operational changes. This included the formation of a number of Risk Management Groups, each of which held differing levels of strategic and operational responsibilities for the identification and management of the Council's risk profile.

The Audit Committee's Terms of Reference have been refreshed as part of the Council's Governance Review and remain set out within the Constitution. In June 2010, the Audit Committee approved the Council's 2009/10 Statement of Accounts and in September 2010 they approved the 2010/11 revised Audit Plan.

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In June 2010 the Audit Commission carried out an Ethical Governance Framework Review, which comprised of a self assessment by the Monitoring Officer, anonymous surveys with members, senior officers and stakeholders, interviews and policy reviews. The key findings set out that there is a strong commitment to the organisation and an improvement in the Council's ethical governance arrangements, which is recognised and supported by Members and Officers. The Review resulted in a robust action plan, against which progress updates are regularly reported to the CGG and the Corporate Governance Steering Board, with additional updates given to the Audit Committee and Standards Committee.

The Council's Grants Management System received a Limited Assurance for the second year in a row. In addition the Internal Audit review of Asset Management provided a Limited Assurance, a decline in opinion from the previous year. There was also a critical finding by Internal Audit in relation to password protection, identified during an audit relating to the disposal of the Council's IT equipment, although it should be noted that the resulting recommendation was promptly implemented. This highlights that further work is required to ensure that all key systems maintain stronger internal controls, and associated recommendations have been promptly implemented.

Visits to schools carried out by Internal Audit have been prioritised following a risk assessment that identified that 5 out of 54 Schools received Limited Assurance Opinions. These relate to weaknesses within the overall financial management and governance arrangements. In order to support Schools and provide assurance to the Chief Financial Officer that schools' financial management is robust and effective, and appropriate controls are in place, the internal audit team will continue to work with the school monitoring and inspection teams.

In 2010/11 the Council carried out 134 audits across its full range of function, services and directorates. Of those completed 43 areas received limited assurance, including Partnership Governance Review, Freedom of Information and Fixed Asset Registers, of which only one received a critical finding.

## **3.7 Compliance with relevant laws and regulations**

The Head of Essex Legal Services, as Monitoring Officer, is responsible for ensuring lawfulness and fairness in decision making. The Section 151 Officer, is responsible for ensuring lawfulness and financial probity and prudence in decision making. Both roles are defined within Part 2 of the Constitution.

The Assistant Director, Internal Audit and Risk Management Consultancy Services is responsible for providing assurance on internal controls, ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud, as well as ensuring that the Risk Management Framework is robust. Assistant Director, Internal Audit and Risk Management Consultancy Services is also a member of the Policy and Standards Council consulting on new processes and their implementation.

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Quarterly meetings are held between each Executive Director, the Assistant Director Financial Strategy and Assistant Director, Internal Audit and Risk Management Consultancy Services to review working processes and practices and consider the system of internal control operating within the specific service areas. Each Executive Director is required to complete an evidence-based Service Assurance Statement (SAS), accompanied by a plan setting out actions to be taken to strengthen any areas of weakness. These Statements are formally signed off by the Executive Director for each service area at the end of the year.

The Council has a strong legal service providing advice throughout the organisation, and is able to seek specialist opinion where necessary. The reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet and CLT must incorporate the comments of both the Section 151 Officer and Monitoring Officer before they are submitted for consideration.

The review of Chief Officers' delegations as part of the Governance Review ensures compliance with the ultra vires doctrine, whilst allowing the Council to utilise its powers.

Accordingly the Council actively recognise the limits of lawful action and observes both the specific requirements of legislation and the general responsibilities placed on it by public law, integrating the key principles of good administrative law into its processes and decision making.

## **3.8 Whistle-blowing and complaints**

The Council is committed to achieving higher standards of integrity and accountability and expects the same commitment from its employees. By providing a framework for employees, consultants or contractors, to raise concerns which they believe are in the public interest and may relate to illegal, improper or unethical conduct.

The Council's whistle-blowing policy continues to be available for staff through the 'Working Here' intranet site, and provides staff with a formal process to raise concerns relating to wrongdoing. The Officer Code of Conduct was refreshed in December 2010 and includes guidance to officers on reporting improper conduct or illegal activities and cross-refers to the whistle-blowing policy.

The Council has a strong counter-fraud team that supports investigations of allegations raised through the whistle-blowing policy and instigates appropriate recovery action where necessary. The counter-fraud team has reviewed and revised the anti-fraud and corruption policy and fraud response plan for managers. It continues to work closely with external agencies including the Audit Commission, Police and Department of Works and Pensions.

The Council values complaints, comments and compliments received from its customers and the feedback obtained is used within its planning processes to help develop the services. The Council has a comprehensive complaints procedure which is accessible by the public

# Governance Statement

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through its website. In addition, the Council has a corporate policy ‘Responding to complaints, comments and compliments’ which sets out the expectations and timescales to be applied in responding to its customers. The accompanying IT system continues to allow tracking of individual complaints and the corporate standards for responses remains high.

## 3.9 Development and training

The Council continues to place significant emphasis on organisational development and support for all employees within an overall framework of organisational value and behaviour.

Staff annual training and development needs are identified through the individual’s ‘My Performance’ process, with a golden thread clearly linking individual objectives to the Council’s overarching priorities. In addition to the Council’s comprehensive induction programme, there are a number of internal training courses available to staff covering a wide range of topics and issues and a schedule of forthcoming corporate training events is available through the ‘Working Here’ intranet page.

The Council also hosts tailor-made senior leadership development programmes, the Emerging Leaders Programme and the Leadership Academy, which are run in conjunction with the Council’s partners. The programmes provide a vehicle to achieve leadership excellence and are vital in supporting the delivery of the EssexWorks programme.

Following the elections in 2010 and a comprehensive induction programme being provided to Members, arrangements are in place for ongoing Member development and this is accessible through the Members’ Zone located on the Council’s intranet site. The Member Development Steering Group has ownership for Members’ development and is responsible for shaping the Member development programme and a new training programme has been rolled out to Members and provides for a range of topics to be addressed. In March 2010, the Member development programme received an assessment of substantial assurance following an internal audit review.

During 2010, the Council provided training to support Members in their community role and their County Council role and this took place in the form of seminars, workshops and drop-in sessions providing greater opportunity for attendance and participation. A total of 14 training courses were held for members and this included Diversity and Equality, Freedom of Information, Code of Conduct, Corporate Risk Management Strategy and Legislation and Fraud Awareness.

## 3.10 Channels of communication

The Council continues to develop clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

# Governance Statement

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The Council has improved its website to ensure that it is accessible to a wide audience, ensuring it includes relevant news articles on its homepage, which are regularly updated. In addition there is also an on-line poll accessible from the Council's homepage, which allows the Council to consult members of the public on topical issues.

The Council also ensures that copies of the agendas, documents, minutes and decisions of its Committees, Cabinet and Council are available through its website and provides a calendar of future meetings to enable public attendance where appropriate.

The Council continued to provide webcasting of Council meetings, which allowed members of the public to view remotely those meetings live or at a convenient time up until September 2010, when this pilot scheme was concluded.

The Council is also making further information available to the public in relation to spending on items in excess of £500 and this information is available via the Council's website and is updated monthly.

Following the Information Commissioner's Office (ICO) Audit in October 2009, in which limited assurance was given, a follow up audit was conducted in October 2010, at which time the ICO considered that the arrangements in place provided reasonable assurance that processes and procedures to mitigate the risks of non compliance with the Data Protection Act were in place.

The Council also ensures that members of the public are aware of the information they can access and provides through the internet site the 'Right to Know', which provides guidance on information available to the public and how they can access it.

Each communication issued by the Council is branded to ensure that it is easily recognised, and the information can be translated into different languages and alternative format. This facility is widely publicised and applies to both printed materials and the Council's website.

The Council continues to ensure that its employees are updated, and up until November 2010 used a bi-monthly magazine called 'Zest', before the Council moved to placing more emphasis on utilising other forms of communication. In addition a seven-day newsletter is circulated via email to all employees and provides updates on topical issues across the Authority. Furthermore 'Jo blogs' a weblog from the Chief Executive, enables quick updates on developments to be provided to employees across the Council through the intranet site. Each year employees are invited to attend the Employee Roadshow which is held twice a year and hosted by the Leader of the Council and the Chief Executive, providing employees with an opportunity to hear the latest news from across the organisation, ask questions and give feedback about issues important to their service areas.

Annually the Council issues its 'Your Voice Employee Engagement Survey' which provides every employee with a chance to take part so that valuable feedback on a range of topics can be captured. The Your Voice survey provides feedback on areas of strength, and identifies



# Governance Statement

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areas of genuine employee concern. It is a completely confidential channel for upward communication, and gives the Council the ability to measure trends in employee engagement over time, and evaluate the effect of changes and initiatives. The results of the Your Voice survey are used to drive real improvements, and in 2010 the Corporate Leadership Team took time to analyse the results, including further consultation with employees to make sure that they took action that would make a real difference.

## 3.11 Partnership Governance

The Council continues to incorporate good governance arrangements in respect of Partnerships and other group working and reflects these in the Council's overall governance arrangements.

When working in partnership the Council ensures that Members are clear about their roles and responsibilities, both individually and collectively in relation to the Partnership and to the Council, through the LAA and the Essex Corporate Framework, both of which are available through the Essex Partnership portal.

The Essex Partnership successfully applied for a Local Improvement Adviser to assist with the review of the Partnership Governance arrangements and there is on-going work being undertaken with the Essex Partnership Secretariat as new ways of working are developed.

Performance indicators are assigned to each thematic partnership with the LAA Performance Management Group maintaining an overview, with monthly LAA performance score cards being submitted. The Partnership's performance is embedded within the Council's performance reporting process, so that process is reported to Members and Senior Officers routinely. The Partnership performance information was published through the Essex Partnership portal.

## 4. Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is formed from the work of the Executive Managers within the Council who have responsibility for the development and maintenance of the governance environment, the Assistant Director, Internal Audit and Risk Management Consultancy Services Annual Report, and from comments received from external auditors and other review agencies and inspectorates.

In the 2009/10 AGS action plan, the Council sought to ensure that the recommendations of Internal Audit were implemented, monitored and reviewed, where governance deficits had been identified. During 2010/11 the Council has carried out a follow up review in Gifts and Hospitality and Declaration of Interests, achieving an opinion of 'limited assurance', which

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was a small improvement on the opinion given in 2009/10. Substantial assurance was returned in the following areas:

- Information Commissioners Data Protection;
- Spendvision; and
- Members Expenses.

The Annual Audit Report includes a review of the effectiveness of internal audit and the effectiveness of the systems of internal control. This reports that there are a number of strong or improving controls in:

- Pensions Investment;
- Journal and virements;
- Treasury management; and
- Schools Control framework.

Some key systems received limited assurance, including Asset Management which showed a decline in assurance from the previous year. IT Assets and Community Transport have recently received No Assurance opinions (in 2011/12). As a result additional work is required to ensure that these systems strengthen their internal controls and address their weaknesses. Appropriate recommendations have been agreed in order to achieve this.

The Annual Audit Report stipulates that overall the Council's systems of internal control were adequate, and the systems of Internal Audit were effective during 2010/11.

The Council has been advised on the implications of the result of the review of the effectiveness of the governance framework through the Corporate Governance Group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 5. Significant governance issues

In February 2010, the former Leader of the Council, Lord Hanningfield resigned from this position following criminal proceedings being instigated by the Crown Prosecution Service. This concerned allegations relating to his expenses claimed from the House of Lords and related to his role as a House of Lords Peer, and not to his position as former Leader of Essex County Council. In May 2011 the former Leader of the Council was convicted of those charges, and was subsequently sentenced to prison for a period of nine months. As a consequence, he is no longer a member of Essex County Council.

Following a rigorous internal audit, the Council had concerns over Lord Hanningfield's expenses incurred while acting as Leader of the Council, and a robust approach has been taken to dealing with the findings. In consultation with the Leader, the Chief Executive has asked Essex Police to investigate the matter.

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The Audit Commission qualified their value for money opinion in 2009/10 because of inadequate arrangements for some aspects of governance. The current Leader has worked very closely with the Chief Executive and Senior Officers since February 2010 to enhance the Council's governance processes.

In the 2009/10 AGS action plan, the Council sought to ensure that recommendations on Safeguarding Children are implemented in line with the agreed Improvement Plan. In March 2011 the Council was subjected to an unannounced Ofsted inspection which showed significant improvements within the Schools, Children and Families directorate. In addition whilst the Service remains a concern for the second year, the Service Assurance Statement showed an improvement in a number of areas over the course of the past year. This is a positive step forward and shows that the Council is continuing to implement the Improvement Plan. However, the Council understands that continuing improvement in this area is vital and will continue to implement the Improvement Plan and keep the same under regular review.

The programme of governance enhancement undertaken in 2010/11 was overseen by the Corporate Governance Steering Board (CGSB). The following activities were delivered:

- The Council adopted a revised Constitution on 14 December 2010;
- New code of governance intranet site: 'How we get things done' has been developed for staff as set out in section 3.5 above;
- A number of Council's policies and procedures were reviewed, updated and re-launched, as set out in section 3.4 above;
- The Members' Scheme of Allowances was reviewed and updated in line as set out in section 3.4 above;
- A follow-up Audit has been conducted on members' expenses as set out in section 3.4 above;
- Policy Development process reviewed to ensure removal of authorisation duplication;
- The Council's CGSB has begun a rolling review of all corporate governance documentation and policies;
- A Value For Money Strategy has been drafted to ensure the Council has the information needed to review value for money and performance effectively, as set out in section 3.2 above;
- The composition of Committee and Cabinet Papers has been reviewed to ensure they are easy to read and understand, and are published in a timely way.

Whilst the systems of internal control were deemed adequate during 2010/11, this was diluted by those matters highlighted above. The Council is committed to continuing to take steps to review and improve its governance arrangements. There are a number of actions relating to the Council's governance enhancement programme to be completed in 2011/12 and regular updates are provided to the CGSB on progress. This programme includes;

- a review of the structure of Cabinet meetings;

# Governance Statement

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- the introduction of performance reporting in relation to publication of formal reports;
- a new Corporate Governance structure to be set up, comprising of two specific policy boards with representation from all services through their governance champions. These policy boards will report to the Corporate Governance Group who in turn report to the Corporate Governance Steering Board, chaired by the Leader of the Council;
- a corporate induction programme for members and officers to be reviewed and redesigned with a clear emphasis on core governance and compliance responsibilities;
- a review of the Councils induction process for all contractors and interim staff to ensure they understand the Councils ethos, values and governance arrangements in relation to their roles; and
- a review of the Council's role as it becomes a commissioning organisation.

The implementation of recommendations made as a result of audit activity linked to a reporting structure on progress will ensure that significant progress is made to enhance the governance arrangements and internal control within the Council.

Appendix A sets out the actions necessary to address those issues highlighted above. The Council is satisfied that these steps will address the need for improvements and will monitor their implementation and operation as part of the annual review process.



**Joanna Killian**  
Chief Executive



**Peter Martin**  
Leader of the Council

## Governance Statement (Appendix A)

This table contains key action points to be implemented during 2011/12:

Findings	Action	Lead Officer
<p><b>1.</b> Ensure the Council implements a strategy to enable effective review of VFM.</p>	<p>Roll out and embed the Councils VFM Strategy.</p>	<p>Margaret Lee, Executive Director for Finance.</p>
<p><b>2.</b> Ensure governance arrangements are in place for the Council's Target Operating Model including implementation of the Council Procurement Procedure Rules and supporting guidance, including the role of the Council as a commissioning organisation.</p>	<p>Continue review and update of governance arrangements.</p>	<p>Margaret Lee, Executive Director for Finance.</p>
<p><b>3.</b> Ensure the Council completes its programme of governance enhancements as outlined above.</p>	<p>Implement action plan</p>	<p>Margaret Lee, Executive Director for Finance.</p>
<p><b>4.</b> Ensure that recommendations of internal audit are implemented, monitored and reviewed, where governance deficits have been identified.</p>	<p>Implement recommendations from Internal Audit</p>	<p>Philip Thomson, as Chair of the Corporate Governance Group.</p>
<p><b>5.</b> Ensure that recommendations on Safeguarding Children are implemented in line with the agreed Improvement Plan</p>	<p>Implement actions on the Improvement Plan</p>	<p>Dave Hill, Executive Director Schools, Children and Families.</p>

## Glossary of terms

Term	Explanation
Accruals	Sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Actuarial gains or losses	Gains and losses that arise in relation to defined benefit pension schemes because events have not coincided with the assumptions previously made by the actuary or because the actuarial assumptions have changed compared to the prior year.
Accrued benefits valuation method	A valuation method in which the Pension scheme's liabilities at the valuation date relate to: <ul style="list-style-type: none"> <li>▪ The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and</li> <li>▪ The accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</li> </ul>
Accumulating Absences Account	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services. The Government has issued regulations which mean that the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.
Additional voluntary contributions	Additional voluntary contributions (AVC's) are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortisation	Amortisation is the writing down of costs to the Income and Expenditure Account over a number of years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Balance Sheet	This is a summary of the financial position of the Council. It shows the balances and reserves at the Council's disposal, long term indebtedness and fixed and net current assets employed. It excludes the balances and reserves relating to the Pension Fund and the Council's Trust Funds.
Billing authority	District and borough councils are responsible for the billing and collection of Council Tax. They calculate the amount to be raised from Council Tax after taking into consideration their needs and those of the County Council and the Police and Fire Authorities.
Cabinet	The Cabinet comprises the Leader of the Council, who is its chairman, and nine other Members appointed by the County Council. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios

# Glossary of terms

Term	Explanation
	are assigned by the Council annually.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> <li>▪ Amounts set aside from revenue resources to repay external loans;</li> <li>▪ The financing of capital payments from capital receipts and revenue reserves; and</li> <li>▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.</li> </ul> <p>The account was created on 1 April 2007 by amalgamating the Council's Capital Financing Account and Fixed Asset Restatement Account as required by the SORP 2007.</p>
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of property, plant and equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.
Capital financing requirement	This is a measure of the Council's underlying need to borrow for capital financing purposes.
Cash equivalent	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Chartered Institute of Public Finance and Accountancy	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and business rates.
Collection Fund Adjustment Account	This account represents the difference between the Collection Fund income included within the Income and Expenditure Account and the amount of Council Tax required by regulation to be credited to the General Fund.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Contingent liability	Contingent liabilities are possible or present obligations that arise from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities are not recognised in the accounts as an item of expenditure.
Council tax	A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).
Creditors	Amounts due, but not yet paid, for work done, goods received or services rendered during

## Glossary of terms

Term	Explanation
	the financial year.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is above the rate of interest payable on the loan being repaid, the Council is compensated by the PWLB for the interest rate differential. This differential is referred to as a 'discount' arising from early settlement of the loan.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.
Donated asset	Donated assets are assets transferred to the Council at nil value or acquired at less than fair value
Dormant company	The term 'dormant' applies to a company that, in legal terms, has no significant accounting transactions during a financial year. Companies can be dormant in order to hold an asset, or to protect the company name. Whilst the company is dormant, various returns and the annual company Balance Sheet must nevertheless be prepared and filed with Companies House.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.



# Glossary of terms

Term	Explanation
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see ‘Leasing’ and ‘Operating Leases’).
Financial instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Financial Instruments Adjustment Account	An account within the Balance Sheet used to manage the difference between the rules for accounting for financial instruments and the statutory provisions for charging amounts to the General Fund Balance.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Investments	<p>A long term investment is intended to be held for use on a continuing basis in the activities of the Council. Investments are so classified only where an intention to hold the investment for the long term (greater than one year) can clearly be demonstrated or where there are restrictions as to the investor’s ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
LAAP bulletin	These are bulletins issued by CIPFA’s Local Authority Accounting Panel (LAAP) on topical accounting issues and developments, to provide clarification upon detailed accounting guidance.
Leasing	A method of acquiring the use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.
Monitoring Officer	The Monitoring Officer is responsible for promoting and maintaining high standards of financial conduct. The Monitoring Officer is also responsible for reporting any actual or potential breaches of the law or maladministration to the Council and/or Cabinet.
National Non Domestic Rates	These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are paid into a national pool. The pool is then divided between all authorities in proportion to their formula grant allocation.
Net Expenditure	Net expenditure is arrived at after deduction of income and specific grants, and includes the costs of support services.
Operating lease	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged

# Glossary of terms

Term	Explanation
	directly to the Income and Expenditure Account (also see Leasing and Finance Leases).
Precept	The amount the County Council requires the Borough / District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium (PWLB)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLB) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is below the rate of interest payable on the loan being repaid, the Council is required to recompense the PWLB for the interest rate differential. This differential is referred to as a 'premium' arising from early settlement of the loan.
Private Finance Initiative	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership	An arrangement where the private sector partner agrees to provide a service to a public sector organisation. The PFI is one form of a PPP.
Public Works Loans Board	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government's own borrowing rate.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.
Reserves	The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.  Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.
Revaluation Reserve	This reserve records the net gains arising on the revaluation of the Council's property, plant and equipment from 1 April 2007. Prior to April 2007, gains and losses were taken to the Fixed Asset Restatement Account. The balance on the Fixed Asset Restatement Account as at 31 March 2007 was transferred to the Capital Adjustment Account on 1 April 2007 in accordance with the SORP 2007.
Revenue provision	The minimum amount which must be charged to the revenue account each year and set aside for repaying external loans, currently 4% of the capital financing requirement.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do

# Glossary of terms

Term	Explanation
	<p>not include termination benefits payable as a result of either:</p> <ul style="list-style-type: none"> <li>▪ an employer’s decision to terminate an employee’s employment before the normal retirement date; or</li> <li>▪ an employee’s decision to accept voluntary redundancy in exchange for those benefits.</li> </ul> <p>This is because these are not given in exchange for services rendered by employees.</p>
Salary	Salary represents the amounts received under contract of employment for services rendered, other than bonuses, allowances, benefits in kind or compensation payments.
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the ‘projected unit method’ reflects the benefits that the employer is committed to provide for service up to the valuation date.
Section 151 Officer	Section 151 of the Local Government Act 1972 requires the Council to appoint an officer responsible for the proper administration of the Council’s financial affairs. The Director for Finance is the Council’s Section 151 Officer.
Senior Officer	<p>A senior officer is defined as an employee whose salary is more than £150,000 per year; or at least £50,000 per year and who is:</p> <ul style="list-style-type: none"> <li>▪ The designated Head of Paid Service, a statutory chief officer or a non statutory chief officer, as defined under the Local Government and Housing Act 1989;</li> <li>▪ Head of staff for a relevant body which does not have a designated Head of Paid Service; or</li> <li>▪ Any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.</li> </ul>
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific government grant	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Termination benefits	Termination benefits are payable as a result of either an employer’s decision to terminate an employee’s employment before the normal retirement date, or an employee’s decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
Trust Fund	Funds administered by the Council for such purposes as prizes, charities and special projects.