

Essex County Council Annual Financial Report 2011/12



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Explanatory Foreword

Section One - Explanatory Foreword

1. Introduction

Through careful financial planning and control, at the end of 2011/12 Essex County Council's finances remain robust.

The budget for 2011/12 was set against a backdrop of austerity for the public sector, introduced by the new Coalition Government during 2010. This meant that the Council needed to make savings of **£100m** to live within its net revenue budget. A significant contribution to the savings required in 2011/12 was made by the Council's on-going transformation programme, which started in 2009/10, with a target of reducing the budget by **£300m** over four years. Further programmes of efficiencies were developed in 2011/12 to ensure that the revenue budget was not over spent, some of which were achieved ahead of schedule. This has enabled the Council to put some funding into reserves, to ease the pressure on future years' budgets, and to support innovative programmes of work that will ensure that services are sustained as more funding reductions bite.

The capital programme was also under spent, primarily as a result of slippage, meaning that schemes for which the funding was allocated will be delivered slightly later than planned. Consequently, the funding will still be used for the purpose for which it was intended.

The budget for 2012/13 requires savings of a further **£123m**. However, the carefully executed efficiency programmes through 2011/12 and into 2012/13, combined with robust reserves, will make this target more achievable without service reductions.

2. Revenue Expenditure

2.1 Background to the 2011/12 Budget

The Council's 2011/12 Revenue Budget was built to reflect the priorities of the people of Essex and to meet statutory obligations; the goal was to deliver the best quality of life in Britain. The Council aimed to achieve this by using its 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 the Council sets out its priority policies, coupled with measurable objectives that demonstrate progress with delivering improved quality of life in Essex. In doing so, the Council aims to respond to the concerns and priorities of its residents and other stakeholders. The Council identified seven key priorities for 2011/12 as part of its analysis based on public consultation – this response was part of the Council's vision 'EssexWorks'. These priorities were as follows:

- Support vulnerable people;
- Increase Educational Achievement and skills;
- Maintain and Improve Transport;

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- Make Communities Safer;
- Promote Sustainable Economic Growth;
- Enhance the Environment and Reduce and Recycle Waste; and
- Promote public health and wellbeing.

The Council made ten 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 Essex's citizens. Meeting these pledges will be a step towards achieving the Council's longer term ambitions.

The ten pledges for 2011/12 were to:

- Put customers first by increasing the volume and scope of customer transactions carried out online by more than 20%;
- Support vulnerable children by increasing the proportion of children in care who are supported in a family environment;
- Support vulnerable adults by protecting the independence of people with dementia or their carers by increasing the uptake of personal budgets or use of technology by a minimum of 20%;
- Increase educational achievement and skills by working with and supporting schools to help them deliver sustainable improvements in English and Maths at all age ranges;
- Maintain and improve the highway network by investing £4m to fix potholes and other damage to restore the road network to its pre-2010/11 winter condition;
- Make communities safer by enabling them to reduce anti-social behaviour and fear of crime through 12 local community engagement schemes and projects;
- Promote sustainable economic growth by investing at least £1m to help Essex firms create jobs and take advantage of new market opportunities, including supporting 250 new apprenticeships;
- Enhance the environment and reduce and recycle waste by holding 100 'Love where you live' events with local communities to create a cleaner, greener Essex;
- Promote public health and wellbeing by providing 150 more sport and health related activities for 30,000 Young People in both schools and their local communities; and
- Deliver value for money by saving £50m from back office and procurement processes in 2011/12

As part of the Council's integrated service and financial planning process, budgets were reviewed to seek to align resources with priorities, and there were ongoing efforts to improve the value for money of services; spending effectively, efficiently and economically.

For 2011/12 budgeted net expenditure originally amounted to **£855.820m**. This budget was financed from Revenue Support Grant (**£66.990m**), non domestic rates (**£216.724m**) and local taxpayers (**£580.531m**), and allowed for a contribution of **£8.425m** to the Council's General Fund

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Balance. As a consequence of a robust review process, savings and efficiencies of **£100m** were identified to allow resources to be directed at addressing the Council's priorities. The budget also allowed for inflationary pressures of **£24m** and provided for new investment of **£85m**.

The Council Tax for band D amounted to **£1,086.75**. This was the same as that for 2010/11.

2.2 Outturn position

The Revenue Budget is aligned to the portfolios of 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.

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

	Budget		Actual net expenditure £000	(Under) / Over spend against final estimate	
	Original £000	Final Estimate £000		£000	%
Adult Social Care	333,457	333,138	331,390	(1,748)	0.52%
Children's Services	193,663	162,177	158,466	(3,711)	2.29%
Highways and Transportation	85,997	96,604	94,287	(2,317)	2.40%
Economic Development and Waste and Recycling	64,047	63,371	62,456	(915)	1.44%
Education and 2012 Games	36,280	77,014	70,442	(6,572)	8.53%
Health and Wellbeing	23,366	23,685	22,875	(810)	3.42%
Environment and Culture	19,314	16,761	16,141	(620)	3.70%
Leader	10,118	9,239	8,408	(831)	8.99%
Communities and Planning	5,838	5,856	5,223	(633)	10.81%
Deputy Leader, Finance and Transformation Programme	4,662	4,237	4,212	(25)	0.59%
Recharged strategic support services	63,656	78,310	78,854	544	0.69%
Building Maintenance	3,960	3,960	3,110	(850)	21.46%
Net expenditure by Portfolios	844,358	874,352	855,864	(18,488)	2.11%
Other operating costs					
Interest, capital financing and dividends	51,020	42,806	42,593	(213)	0.50%
Emergency Contingency	8,000	3,515	-	(3,515)	100.00%
Appropriations to/(from earmarked revenue reserves)	12,890	9,334	15,240	5,906	63.27%
Net expenditure (including operating costs)	916,268	930,007	913,697	(16,310)	
General government grant (excl. Revenue Support Grant)	(60,448)	(79,444)	(80,476)	(1,032)	1.30%
Total net expenditure	855,820	850,563	833,221	(17,342)	2.04%
Contributions to the General Balance					
Planned contribution	8,425	13,682	13,682	-	-
Amounts to be carried forward	-	-	10,163	10,163	100.00%
Underlying underspend	-	-	7,179	7,179	100.00%
Net Total	864,245	864,245	864,245	-	-
Financed by					
Revenue Support Grant	(66,990)	(66,990)	(66,990)	-	-
National non-domestic rates	(216,724)	(216,724)	(216,724)	-	-
Council taxpayers	(580,531)	(580,531)	(580,531)	-	-
Total Financing	(864,245)	(864,245)	(864,245)	-	-

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The outturn position on the Revenue Budget shows an underlying net under spend for the year of **£7.179m**, after carry forward requests of **£10.163m**.

Accordingly, the outturn position reflects:

- A net under spend by services of **£18.488m**. **£2.940m** of this under spend relates to schools and will be retained for their use in a subsequent financial year. Of the remainder of the under spend, Services have requested that **£10.163m** is carried forward for their use in 2012/13;
- The receipt of additional general government grants of **£1.032m**;
- A small under spend of **£213,000** on interest and capital financing; and
- **£3.515m** of the budget set aside as an emergency contingency not being needed to support services' expenditure in 2011/12.
- The appropriation of **£5.906m** into various earmarked reserves.

The presentation of services' expenditure in the above table differs from that provided in the Comprehensive Income and Expenditure Statement, which is shown according to the mandatory service headings specified by the CIPFA Service Reporting Code of Practice 2011/12 (see note 35 to the Statement of Accounts, which commences on page 103, for further details).

3. Capital Expenditure

3.1 Background to the Budget

Capital expenditure was originally estimated to amount to **£221.045m** in 2011/12 to deliver new and improved facilities such as schools and roads. Each major capital project was subject to the Council's programme management governance process, which tracks projects through the phases of development.

The Council determined that it would borrow up to **£43.388m** for capital financing purposes in 2011/12. The remainder of the capital programme was to be financed from grants and contributions (**£171.659m**) and capital receipts and earmarked reserves (**£5.998m**).

3.2 Outturn position

Capital payment guidelines were reduced to **£216.102m** during the year, primarily to take account of slippage in schemes into 2012/13 or subsequent years. In comparison, actual expenditure amounted to **£194.545m**, giving rise to an under spend of **£21.557m**.

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.

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	Approved expenditure £000	Actual expenditure			Variance from approved expenditure over / (under) £000
		Capital Payments £000	Revenue Expenditure funded from Capital £000	Total expenditure £000	
Capital payments					
Adult Social Care	2,788	2,668	120	2,788	-
Children's Services	1,561	107	467	574	(987)
Education and 2012 Games	105,729	42,850	54,293	97,143	(8,586)
Highways and Transportation	83,976	78,138	1,222	79,360	(4,616)
Economic Development and Waste and Recycling	6,384	923	2,003	2,926	(3,458)
Environment and Culture	2,710	100	2,294	2,394	(316)
Communities and Planning	3,226	32	2,831	2,863	(363)
Deputy Leader, Finance and Transformation Programme	9,728	5,980	517	6,497	(3,231)
Total of capital payments financed	216,102	130,798	63,747	194,545	(21,557)
Financed by					
Unsupported Borrowing	(41,044)	(8,727)	(3)	(8,730)	(32,314)
Government grants and contributions	(166,987)	(102,590)	(54,104)	(156,694)	(10,293)
Capital receipts	(5,487)	(15,774)	(7,347)	(23,121)	17,634
Earmarked reserves applied	(2,584)	(3,707)	(2,293)	(6,000)	3,416
Total financing	(216,102)	(130,798)	(63,747)	(194,545)	(21,557)

The under spend largely results from slippage in capital projects. **£17.696m** of the under spend will therefore be carried forward to meet the costs of these projects in 2012/13.

3.3 Capital projects undertaken

The most significant of the capital projects undertaken during 2011/12 were as follows:

Major schemes	Capital payments (£000)
▪ Sadler's Farm junction	26,071
▪ Academy schools	18,779
▪ County roads maintenance	17,023
▪ Education capital maintenance	9,466
▪ Roscommon Way (Canvey Island)	7,296
▪ Passmores School (Harlow)	5,843
▪ Takely School (Prior's Green)	3,778
▪ Willowbrook Primary School (Brentwood)	3,225
▪ Colchester Visual Arts Centre	2,284
▪ Canvey Vocational Centre	1,743

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3.4 Significant disposals

The most significant asset disposals during 2011/12 are as follows:

Significant disposals	Capital receipts (£000)
▪ Former Elmbrook School (Basildon)	969
▪ Coptfold House (Brentwood)	900
▪ Former Nether Priors Residential Home (Halstead)	445
▪ Part disposal of land at Maltings Lane (Witham)	418
▪ Land on Chelmsford Business Park	414

In addition to disposal of the above sites, the Council removed various community schools from its Balance Sheet during the financial year, upon their conversion to foundation, voluntary aided or academy status.

4. Borrowing

4.1 Long term borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital expenditure. In 2011/12, the Council was able to temporarily utilise its cash balances, held for other purposes, to defer the need for additional external borrowing, which is a cost effective means of supporting capital expenditure.

Further details of long term borrowing activities are provided within Note 24 to the Statement of Accounts, which commences on page 84.

4.2 Short term borrowing

The Council undertook short term borrowing during 2011/12 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 to the Statement of Accounts, which commences on page 84.

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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
- Thirdly, 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.

The Council also lent funds to Essex Cares Ltd during 2011/12, 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 to the Statement of Accounts, which commences on page 84.

6. Considerations for 2012/13

6.1 Revenue investment plans

The revenue budget for 2012/13 has been created after a thorough review of priorities, spending pressures, efficiency programmes and the availability of Government funding.

The budget requirement for 2012/13 is estimated at **£855.786m**, which is a reduction of **£8.459m** from the equivalent figure for 2011/12. This is the net result of:

- Increases relating to pressures and projects (**£136m**) and increase in general government grants (**£19.3m**); and
- Decreases relating to efficiencies and savings (**£123m**) and reduction as a result of withdrawing funds from the general fund balance (**£2m**).

The Council Tax for band D amounts to **£1,086.75**. This is the same as that for 2010/11 and 2011/12.

Further details of the Council's revenue investment plans are published in the 2012/13 Revenue Budget, which is published on the Council's web site.

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6.2 Capital investment plans

The capital programme for 2012/13 has been created following a rigorous assessment of schemes against relevant criteria, including those derived from Corporate Plan priorities.

Overall, the capital programme for 2012/13 has been set at **£134.581m**. It is intended to finance the capital programme from a combination of borrowing (**£37.657m**) and from grants, contributions and reserves (**£96.924m**). Each major scheme will be subject to the Council's programme management governance process.

6.3 Borrowing

The Council estimates that it will need to undertake external borrowing of **£49m** in 2012/13 in order to finance its capital programme; the Council will not borrow more than it needs though, and any decision to borrow will be taken in compliance with the limits the Council has set upon the level of its borrowing and its Capital Financing Requirement.

6.4 Investments

The Council will invest any temporarily surplus cash balances it has until these funds are next required. Usually, this means that funds will be invested on a short term basis (up to a maximum period of 364 days), but funds may occasionally be invested for periods beyond 364 days.

7. Conclusion

Through careful planning and management, Essex County Council has been able to close its 2011/12 accounts showing a robust position, which will support the Authority in meeting the financial challenges of 2012/13 and beyond.



Margaret Lee
Executive Director for Finance
27th September 2012

2011/12 Statement of Accounts

Section Two - Statement of Accounts

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Section Two - Introduction

1. Accounting statements

The Council's accounting statements for 2011/12, are set out on pages 16 to 20, 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 21 to 127) to provide further information on the financial performance of the Council during 2011/12.

2. Group Accounts

Group accounts are presented, in addition to the Council's single entity statements, in order to provide a full picture of the Council's economic activities and financial position. The Group Accounts 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 page 128 to 136.

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.

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.

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Further information is provided in the notes to the Pension Fund accounts (see pages 137 to 185).

4. 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 2011/12 financial statements, are described in the Statement of Accounting Policies, which is set out in Note 2, which commences on page 24.

The Council has implemented one new accounting policy in 2011/12 in relation to heritage assets, following adoption of Financial Reporting Standard 30 (FRS 30) into the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. In accordance with the Code of Practice, the Council now:

- Recognises heritage assets in the Balance Sheet where it has information on the cost or value of these assets.
- Discloses details of those heritage assets held where no information on cost or value is available, and the cost of obtaining the information outweighs the benefit that would be derived from it.

Some of the heritage assets recognised in the Balance Sheet were previously categorised as 'community assets' but others are being recognised in the Balance Sheet for the first time. Further details are provided in accounting policy note 2.11 (page 37) and note 18 to the accounts (see page 74).

5. Prior period adjustments

Opening balances and comparative amounts for the prior period have been restated to apply the change in accounting policy for heritage assets retrospectively, and to:

- Correct a mis-statement of impairment charges in relation to property, plant and equipment between the Comprehensive Income and Expenditure Statement, Revaluation Reserve and Capital Adjustment Account; and
- Include capital grants credited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as specific grants, rather than as income.

Further details are provided in note 5 to the accounts (see page 50).

Section Two - Introduction

6. Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 186 to 191.

Section Two - Statement of Responsibilities

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 Code of Practice.
- Kept proper, up to date, accounting records.
- 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 2012 and its expenditure and income for the year then ended.



Margaret Lee, Executive Director for Finance
27th September 2012

Section Two - Statement of Responsibilities

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 24 September 2012.

A handwritten signature in black ink, appearing to read 'Rodney L. Bass', written over a horizontal line.

Cllr Rodney L. Bass CC

Chairman of the Audit Committee (and also Chairman of the Essex Pension Fund Board)

27th September 2012

Section Two - Financial Statements

Introduction

The complete set of financial 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 'unusable' reserves.

The 'Surplus / Deficit on the provision of services' line, which is taken from the Comprehensive Income and Expenditure Statement, is different from the statutory amounts required to be charged 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, 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 of the assets 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 that would only become available to provide services if assets are sold; and reserves that hold adjustments between accounting and funding certain transactions which are permitted under regulations.

- **Cash Flow Statement**

The Cash Flow Statement shows the changes, during the reporting period, in cash and cash equivalents of the Council, net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Notes to the financial statements**

These present information about the basis of preparation of the financial statements and the specific accounting policies used and disclose information that is not presented within the financial statements and is relevant to an understanding of them.

Movement in Reserves Statement

For the years ended 31 March 2011 and 31 March 2012

	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	£000	£000
Balance at 31 March 2010		(194,597)	(33,071)	(11,760)	(7,143)	(246,571)	(1,044,273)	(1,290,844)
Movement in Reserves during 2010/11								
Deficit on Provision of Services		-	40,025	-	-	40,025	-	40,025
Other Comprehensive Expenditure & Income		-	-	-	-	-	(59,412)	(59,412)
Total Comprehensive Expenditure and Income		-	40,025	-	-	40,025	(59,412)	(19,387)
Adjustments between accounting basis & funding under regulations	8	-	(53,457)	(9,206)	(5,866)	(68,529)	68,529	-
Net increase/decrease before transfers to earmarked reserves		-	(13,432)	(9,206)	(5,866)	(28,504)	9,117	(19,387)
Transfers to Earmarked Reserves		(14,512)	14,512	-	-	-	-	-
(Increase) / decrease in 2010/11		(14,512)	1,080	(9,206)	(5,866)	(28,504)	9,117	(19,387)
Balance at 31 March 2011		(209,109)	(31,991)	(20,966)	(13,009)	(275,075)	(1,035,156)	(1,310,231)
Movement in Reserves during 2011/12								
Deficit on Provision of Services		-	52,655	-	-	52,655	-	52,655
Other Comprehensive Expenditure & Income		-	-	-	-	-	178,610	178,610
Total Comprehensive Expenditure and Income		-	52,655	-	-	52,655	178,610	231,265
Adjustments between accounting basis & funding under regulations	8	-	(94,968)	17,791	(7,591)	(84,768)	84,768	-
Net increase/decrease before transfers to earmarked reserves		-	(42,313)	17,791	(7,591)	(32,113)	263,378	231,265
Transfers to Earmarked Reserves		(11,288)	11,288	-	-	-	-	-
(Increase) / decrease in 2011/12		(11,288)	(31,025)	17,791	(7,591)	(32,113)	263,378	231,265
Balance at 31 March 2012		(220,397)	(63,016)	(3,175)	(20,600)	(307,188)	(771,778)	(1,078,966)

Comprehensive Income and Expenditure Statement

For year ended 31st March 2012

2010/11 (restated)				Note	2011/12			
Gross expenditure	Income	Government grants	Net Expenditure Restated		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
533,662	(132,636)	(10,590)	390,436		525,540	(85,317)	(66,881)	373,342
1,521,290	(106,580)	(1,100,326)	314,384		1,292,943	(83,589)	(872,766)	336,588
39,377	(5,835)	(38)	33,504		37,373	(5,606)	(391)	31,376
69,356	(2,211)	(1,176)	65,969		69,189	(2,372)	(75)	66,742
140,259	(35,054)	(3,244)	101,961		147,744	(21,691)	(6,710)	119,343
1,035	(751)	(150)	134		2,797	(673)	(1,764)	360
23,818	(2,964)	(8,002)	12,852		17,647	(2,433)	(2,998)	12,216
7,804	(3,859)	-	3,945		7,365	(3,826)	-	3,539
(119,758)	-	-	(119,758)	7	-	-	-	-
-	-	-	-	7	(72,650)	-	-	(72,650)
6,346	(300)	(47)	5,999		9,169	(15)	(43)	9,111
23,040	(437)	(373)	22,230		20,210	(185)	(74)	19,951
2,246,229	(290,627)	(1,123,946)	831,656		2,057,327	(205,707)	(951,702)	899,918
138,488	-	-	138,488	10	167,796	-	-	167,796
138,580	(76,895)	-	61,685	11	128,742	(87,722)	-	41,020
-	(792,196)	(199,608)	(991,804)	13	-	(796,917)	(259,162)	(1,056,079)
2,523,297	(1,159,718)	(1,323,554)	40,025		2,353,865	(1,090,346)	(1,210,864)	52,655
			(23,054)	33.2				(108,546)
			(36,358)	33.5				287,156
			(59,412)					178,610
			(19,387)					231,265

Section Two - Financial Statements

Balance Sheet as at 31 March 2012

1 April 2010 Restated £000	31 March 2011 Restated £000	Note		31 March 2012 £000
			Property, Plant and Equipment	
			Operational assets	
1,960,841	1,829,784		Land and buildings	1,672,150
6,862	8,483		Vehicles, plant and equipment	54,773
549,082	611,322		Infrastructure	650,213
2,491	2,678		Community assets	3,314
			Non operational assets	
90,380	109,160		Assets under construction	128,593
7,046	5,496		Surplus assets held pending disposal	4,838
2,616,702	2,566,923	17	Total Property, Plant and Equipment	2,513,881
14,287	14,314	18	Heritage assets	14,312
3,810	3,920	19	Investment property	3,831
452	1,326	20	Intangible assets	1,819
11,259	1,042	24	Long term investments	1,693
27,191	26,095	25	Long term debtors	24,342
2,673,701	2,613,620		Long term assets	2,559,878
-	21,354	24	Short term investments	18,665
4,171	3,373	27	Assets held for sale	4,328
162	201		Inventory	184
166,690	157,718	25	Short term debtors	123,540
111,750	85,287	26	Cash and cash equivalents	151,893
282,773	267,933		Current Assets	298,610
(5,068)	(7,821)	24	Short-term borrowing	(8,587)
(280,052)	(234,663)	28	Creditors	(251,344)
(6,237)	(10,892)	30	Provisions (short term)	(7,907)
(13,892)	(24,795)	29	Revenue grant receipts in advance	(18,907)
(66,777)	(96,723)	29	Capital grant receipts in advance	(61,147)
(2,681)	(2,998)	22	Finance Lease obligations (short term)	(3,112)
(374,707)	(377,892)		Current liabilities	(351,004)
(135)	(35)	28	Long term creditors	-
(26,849)	(23,450)	30	Provisions	(21,100)
(323,718)	(361,588)	24	Long term borrowing	(360,449)
			Other long term liabilities	
(119,707)	(117,117)	22	Finance lease obligations	(136,081)
(19,708)	(17,962)		Deferred credits	(17,057)
(800,806)	(673,278)	38	Pension liability	(893,831)
(1,290,923)	(1,193,430)		Long term liabilities	(1,428,518)
1,290,844	1,310,231		Net Assets	1,078,966
			Usable reserves	
(194,597)	(209,109)	9	Earmarked reserves	(220,397)
(33,071)	(31,991)		General Fund Balance	(63,016)
(11,760)	(20,966)		Usable capital receipts reserve	(3,175)
(7,143)	(13,009)		Capital grants unapplied	(20,600)
(246,571)	(275,075)			(307,188)
		33	Unusable reserves	
(115,521)	(120,510)		Revaluation reserve	(218,739)
(1,748,077)	(1,606,446)		Capital Adjustments Account	(1,459,916)
3,382	3,342		Financial Instruments Adjustment Account	3,301
800,806	673,278		Pension reserve	893,831
(7,221)	(6,221)		Deferred capital receipts	(5,221)
(1,501)	(2,915)		Collection Fund Adjustment Account	(2,576)
23,859	24,316		Accumulating Compensated Absences Adjustment Account	17,542
(1,044,273)	(1,035,156)			(771,778)
(1,290,844)	(1,310,231)		Total Reserves	(1,078,966)

These financial statements replace the unaudited financial statements certified by the Executive Director for Finance on 27th June 2012.

Section Two - Financial Statements

Cash Flow Statement

For year ended 31 March 2012

2010/11 £000	Notes		2011/12 £000
(38,568)	34	Operating activities	(86,470)
103,381	↓	Investing activities	67,203
(38,350)		Financing activities	(47,339)
26,463		Net (increase) / decrease in cash and cash equivalents	(66,606)
111,750		Cash and cash equivalents at 1st April	85,287
85,287		Cash and cash equivalents at 31st March	151,893

Section Two - Notes to the Financial Statements

1. Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 17 to 20) and provide further information on the financial performance of the Council during 2011/12. The notes set out within this section are as follows:

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Section Two - Notes to the Financial Statements

2. Accounting policies

2.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year, and its position as at 31 March 2012. The accounting policies 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 2011/12 Statement of Accounts, are set out within the following paragraphs.

2.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, 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 when 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 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.

Section Two - Notes to the Financial Statements

- **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 that can be reliably quantified and which it is probable will be settled by the transfer of economic benefits.

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 potential 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.

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.

Section Two - Notes to the Financial Statements

2.4.3 Contingent assets

Contingent assets are potential 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 and 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.

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 grant receipt in advance.

Section Two - Notes to the Financial Statements

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"> ▪ 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 ▪ 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.
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>

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.

Section Two - Notes to the Financial Statements

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.
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.

Section Two - Notes to the Financial Statements

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.

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

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

Section Two - Notes to the Financial Statements

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 **4.6%** (2010/11: 5.5%). 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
- Changes in the net pensions liability are 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.
 - **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.

Section Two - Notes to the Financial Statements

- **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, recorded 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.

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 who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). 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 the Cost of Services.

Section Two - Notes to the Financial Statements

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*)

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 over a period extending beyond one year, 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

Section Two - Notes to the Financial Statements

Category	De-minimis limit
Schools projects	£2,000
Land	Nil
Highways infrastructure	Nil

Expenditure on furniture and fittings is not capitalised.

The property, plant and equipment assets and long term liabilities of individual foundation, voluntary aided and academy schools are not incorporated into the Council's Balance Sheet.

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.

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

Section Two - Notes to the Financial Statements

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.

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.

Section Two - Notes to the Financial Statements

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.
- 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 disposals are categorised as capital receipts. For all other Property, Plant and Equipment, amounts received for disposals 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 and recorded in the Movement in Reserves Statement. They 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, and are recorded as such 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.

Section Two - Notes to the Financial Statements

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 the Council's 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> <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 – 100 years; Roof – 80 years; Plant and machinery – 30 years; External works – 20 years.</p>
Community assets	Depreciated over 60 years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line, over an expected lifetime ranging between 5 and 20 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"> ▪ Roads and highway lighting – 40 years; ▪ Structures (eg: bridges) – 120 years; ▪ Off-highways drainage – 100 years; and ▪ Other infrastructure – between 15 and 20 years. <p>Additions to assets prior to 2008/09 are depreciated over 30 – 35 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.

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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 Heritage assets

Heritage assets are those held by the Council principally for their contribution to knowledge or culture.

Where the Council has information on the cost or value of its heritage assets, they are recognised in the Balance Sheet. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefit that would be derived from it, the assets are not recognised in the Balance Sheet, but details are disclosed in the notes to the accounts.

The categories of heritage asset held, and the measurement and depreciation bases applied, are as follows:

Asset category	Measurement and depreciation bases
Assets previously classified as Community Assets	<ul style="list-style-type: none">▪ Held at depreciated historical cost.▪ Depreciated over 60 years on a straight line basis.
Archives	<ul style="list-style-type: none">▪ The value of these items is derived from the estimated costs of conservation and repair.▪ These assets are not subject to depreciation.
Fine Art	<ul style="list-style-type: none">▪ Where art work has been subject to formal valuation, it is reported in the Balance Sheet at market value. These pieces of art work are not subject to depreciation.▪ Other art work, that has not been valued, is not recognised in the Balance Sheet.
Other items	<ul style="list-style-type: none">▪ If there is no reliable cost or valuation information for the other heritage assets held by the Council, they are not recognised in the Balance Sheet.

The carrying amount of those heritage assets recognised in the balance sheet are reviewed annually. Where there is evidence of impairment, impairment is recognised and measured in accordance with the Council's general policy on impairment (see paragraph 2.10.4).

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Where heritage assets are disposed of, the sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment and in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see paragraph 2.10.5).

Prior to 2011/12, heritage assets were either classified on the Balance Sheet as community assets, or were not recognised on the Balance Sheet at all. Note 5 illustrates the impact of recognising and recategorising heritage assets in the Balance Sheet retrospectively in 2011/12 and note 18 provides further details on the heritage assets held.

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

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- The Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

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.

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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	2001/02
Clacton Secondary Schools	PFI	2003/04
Building schools for the future	PFI	2011/12

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 measured initially at the same amount as the fair value of the PFI

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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.
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.

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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.

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.

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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 with the Capital Adjustment Account; these adjustments are recorded in the Movement in Reserves Statement.

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 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).

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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 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.

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2.20 Inventory

Inventory is included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventory 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 on demand without penalty on the same working day, or with 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 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

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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
- 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

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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).

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

3. 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 various schools. It is assumed that the Council controls the residual values of the property, plant and machinery, and their facilities, at the end of these 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 **65** (2010/11: 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.

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

The Statement of Accounts contains estimated figures that are based on assumptions made 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 2012 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"> ▪ The loss development factors to predict ultimate losses; ▪ The dates of historical claims data provided; ▪ The basis on which historical years have been re-valued for inflation; and ▪ That the profile of the body of claims is consistent. <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>	At 31 March 2012, the insurance provision amounted to £26.1m . Further details are provided in Note 30 which commences on page 93.

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Item	Uncertainties	Effect if actual results differ from assumptions
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"> the discount rate used; salary increases; changes in retirement ages; mortality rates; and expected return on assets. <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 0.1% increase in the discount rate would decrease the pension liability by £47.448m.</p>
Arrears	<p>At 31 March 2012, sundry debtors amounted to £51.2m. A review of significant balances suggested that impairment for doubtful debts of 19.3% (£9.9m) was appropriate. It is not certain that such an allowance will be sufficient.</p>	<p>If collection rates deteriorate by 1%, an additional £511,000 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.

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5. Prior Period Adjustments

5.1 Context

Opening balances and comparative amounts for the prior period have been restated to:

- Apply the change in accounting policy for heritage assets retrospectively (see accounting policy note 2.11 which commences on page 37); and
- To correct a previous misstatement in relation to impairment charges for property, plant and equipment between the Comprehensive Income and Expenditure Account, Revaluation Reserve and Capital Adjustment Account

The impact of these changes on the Comprehensive Income and Expenditure Statement and opening and closing Balance Sheets for 2010/11 are shown in paragraphs 5.2 to 5.4 below.

In addition to the restatements referred to above, capital grants credited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement have also been reclassified (i.e. from income to specific grants). This restatement had no effect on the net cost of individual services as presented in the Comprehensive Income and Expenditure Statement.

5.2 Restatement of the 2010/11 Comprehensive Income and Expenditure Statement

	2010/11 Statement of Accounts £000	Prior period adjustments		2010/11 Restated £000
		Impairment / revaluation PPE £000	Heritage assets £000	
Adult Social Care	389,775	661	-	390,436
Children's and Education Services	293,574	20,810	-	314,384
Cultural and Related Services	32,848	656	-	33,504
Environmental and Regulatory Services	65,822	147	-	65,969
Highways and Transport Services	101,875	86	-	101,961
Housing Services	(147)	281	-	134
Planning Services	12,852	-	-	12,852
Central Services				
Central services to the public	3,990	(45)	-	3,945
Non distributed costs	5,999	-	-	5,999
Corporate and democratic core	22,230	-	-	22,230
Exceptional Items	(119,758)	-	-	(119,758)
Cost of services	809,060	22,596	-	831,656
Other Operating Expenditure	138,488	-	-	138,488
Financing and Investment Income and Expenditure	61,685	-	-	61,685
Taxation and Non-Specific Grant Income	(991,804)	-	-	(991,804)
(Surplus) / deficit on Provision of Services	17,429	22,596	-	40,025

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5.3 Restatement of the 1 April 2010 Balance Sheet

	1 April 2010 Per 2010/11 Statement of Accounts £000	Prior period adjustments		1 April 2010 Restated £000
		Impairment / revaluation PPE £000	Heritage assets £000	
Property, Plant and Equipment				
Operational assets				
Land and buildings	1,960,841	-	-	1,960,841
Vehicles, plant and equipment	6,862	-	-	6,862
Infrastructure	549,082	-	-	549,082
Community assets	2,616	-	(125)	2,491
Non operational assets				
Assets under construction	90,380	-	-	90,380
Surplus assets held pending disposal	7,046	-	-	7,046
Total Property, Plant and Equipment	2,616,827	-	(125)	2,616,702
Heritage assets	-	-	14,287	14,287
Investment property	3,810	-	-	3,810
Intangible assets	452	-	-	452
Long term investments	11,259	-	-	11,259
Long term debtors	27,191	-	-	27,191
Long term assets	2,659,539	-	14,162	2,673,701
Short term investments	-	-	-	-
Assets held for sale	4,171	-	-	4,171
Inventory	162	-	-	162
Short term debtors	166,690	-	-	166,690
Cash and cash equivalents	111,750	-	-	111,750
Current Assets	282,773	-	-	282,773
Short-term borrowing	(5,068)	-	-	(5,068)
Creditors	(280,052)	-	-	(280,052)
Provisions (short term)	(6,237)	-	-	(6,237)
Revenue grant receipts in advance	(13,892)	-	-	(13,892)
Capital grant receipts in advance	(66,777)	-	-	(66,777)
Finance Lease obligations (short term)	(2,681)	-	-	(2,681)
Current liabilities	(374,707)	-	-	(374,707)
Long term creditors	(135)	-	-	(135)
Provisions	(26,849)	-	-	(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)
Pension liability	(800,806)	-	-	(800,806)
Long term liabilities	(1,290,923)	-	-	(1,290,923)
Net Assets	1,276,682	-	14,162	1,290,844
Usable reserves				
Earmarked reserves	(194,597)	-	-	(194,597)
General Fund Balance	(33,071)	-	-	(33,071)
Usable capital receipts reserve	(11,760)	-	-	(11,760)
Capital grants unapplied	(7,143)	-	-	(7,143)
	(246,571)	-	-	(246,571)
Unusable reserves				
Revaluation reserve	(96,136)	(19,385)	-	(115,521)
Capital Adjustments Account	(1,753,300)	19,385	(14,162)	(1,748,077)
Financial Instruments Adjustment Account	3,382	-	-	3,382
Pension reserve	800,806	-	-	800,806
Deferred capital receipts	(7,221)	-	-	(7,221)
Collection Fund Adjustment Account	(1,501)	-	-	(1,501)
Accumulating Compensated Absences Adjustment Account	23,859	-	-	23,859
	(1,030,111)	-	(14,162)	(1,044,273)
Total Equity	(1,276,682)	-	(14,162)	(1,290,844)

Section Two - Notes to the Financial Statements

5.4 Restatement of 31 March 2011 Balance Sheet

	31 March 2011 Per 2010/11 Statement of Accounts	Prior period adjustments		31 March 2011 Restated
		Impairment / revaluation PPE	Heritage assets	
	£000	£000	£000	£000
Property, Plant and Equipment				
Operational assets				
Land and buildings	1,829,784	-	-	1,829,784
Vehicles, plant and equipment	8,483	-	-	8,483
Infrastructure	611,322	-	-	611,322
Community assets	2,830	-	(152)	2,678
Non operational assets				
Assets under construction	109,160	-	-	109,160
Surplus assets held pending disposal	5,496	-	-	5,496
Total Property, Plant and Equipment	2,567,075	-	(152)	2,566,923
Heritage assets	-	-	14,314	14,314
Investment property	3,920	-	-	3,920
Intangible assets	1,326	-	-	1,326
Long term investments	1,042	-	-	1,042
Long term debtors	26,095	-	-	26,095
Long term assets	2,599,458	-	14,162	2,613,620
Short term investments	21,354	-	-	21,354
Assets held for sale	3,373	-	-	3,373
Inventory	201	-	-	201
Short term debtors	157,718	-	-	157,718
Cash and cash equivalents	85,287	-	-	85,287
Current Assets	267,933	-	-	267,933
Short-term borrowing	(7,821)	-	-	(7,821)
Creditors	(234,663)	-	-	(234,663)
Provisions (short term)	(10,892)	-	-	(10,892)
Revenue grant receipts in advance	(24,795)	-	-	(24,795)
Capital grant receipts in advance	(96,723)	-	-	(96,723)
Finance Lease obligations (short term)	(2,998)	-	-	(2,998)
Current liabilities	(377,892)	-	-	(377,892)
Long term creditors	(35)	-	-	(35)
Provisions	(23,450)	-	-	(23,450)
Long term borrowing	(361,588)	-	-	(361,588)
Other long term liabilities				
Finance lease obligations	(117,117)	-	-	(117,117)
Deferred credits	(17,962)	-	-	(17,962)
Pension liability	(673,278)	-	-	(673,278)
Long term liabilities	(1,193,430)	-	-	(1,193,430)
Net Assets	1,296,069	-	14,162	1,310,231
Usable reserves				
Earmarked reserves	(209,109)	-	-	(209,109)
General Fund Balance	(31,991)	-	-	(31,991)
Usable capital receipts reserve	(20,966)	-	-	(20,966)
Capital grants unapplied	(13,009)	-	-	(13,009)
	(275,075)	-	-	(275,075)
Unusable reserves				
Revaluation reserve	(82,400)	(38,110)	-	(120,510)
Capital Adjustments Account	(1,630,394)	38,110	(14,162)	(1,606,446)
Financial Instruments Adjustment Account	3,342	-	-	3,342
Pension reserve	673,278	-	-	673,278
Deferred capital receipts	(6,221)	-	-	(6,221)
Collection Fund Adjustment Account	(2,915)	-	-	(2,915)
Accumulating Compensated Absences Adjustment Account	24,316	-	-	24,316
	(1,020,994)	-	(14,162)	(1,035,156)
Total Equity	(1,296,069)	-	(14,162)	(1,310,231)

Section Two - Notes to the Financial Statements

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director for Finance on **27th September 2012**. 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 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. 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 gave rise to a past service gain of **£119.758m** which was recognised in the Comprehensive Income and Expenditure Statement in 2010/11 and then transferred from the General Fund Balance and into the Pension Reserve, to reflect a reduction in the year end liability.

During 2011/12, the Council settled pension liabilities in relation to the formation of a number of academy schools. The capitalised gain arising from this settlement amounted to **£72.650m**.

8. 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 – 2010/11 (part one)

2010/11	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	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	33.3							
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>								
Depreciation and impairment of non current assets		-	(83,839)	-	-	(83,839)	83,839	-
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)	-
Adjustments involving the CAA		-	(167,133)	-	-	(167,133)	167,133	-
Adjustments involving the Capital Grants Unapplied Account								
Grants applied to financing (transferred to the CAA)		-	-	-	647	647	(647)	-
Grants and contributions unapplied		-	6,513	-	(6,513)	-	-	-
Adjustments involving the Cap Grants Unapplied A/C		-	6,513	-	(5,866)	647	(647)	-
Adjustments involving the Capital Receipts Reserve								
Sale proceeds (part of gain/loss on disposal)		-	14,996	(14,996)	-	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(1,000)	-	(1,000)	1,000	-
Use of reserve to finance new capital expenditure		-	-	6,790	-	6,790	(6,790)	-
Adjustments involving the Capital Receipts Reserve		-	14,996	(9,206)	-	5,790	(5,790)	-

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

2010/11	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		
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	33.4							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40	(40)	-
Adjustments involving the FIAA		-	40	-	-	40	(40)	-
Adjustments involving the Pensions Reserve	33.5							
Reversal of items debited/credited to the CIES		-	20,205	-	-	20,205	(20,205)	-
Employers' pension contributions payable in the year		-	70,965	-	-	70,965	(70,965)	-
Adjustments involving the Pensions Reserve		-	91,170	-	-	91,170	(91,170)	-
Adjustments involving the Collection Fund Adjustment Account	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)	-
Adjustments involving the Collection Fund Adj Account		-	1,414	-	-	1,414	(1,414)	-
Adjustments involving the Accumulated Absences Account	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	-
Adjustments involving the Accumulated Absences Account		-	(457)	-	-	(457)	457	-
Total adjustments		-	(53,457)	(9,206)	(5,866)	(68,529)	68,529	-

Adjustments between accounting basis and funding under Regulations – 2011/12 (part one)

2011/12	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	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	33.3							
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>								
Depreciation and impairment of non current assets		-	(160,224)	-	-	(160,224)	160,224	-
Revaluation losses on property, plant and equipment		-	-	-	-	-	-	-
Movement in market value of investment properties		-	(89)	-	-	(89)	89	-
Amortisation of intangible assets		-	(635)	-	-	(635)	635	-
Capital grants and contributions applied		-	146,326	-	-	146,326	(146,326)	-
Donated assets		-	16,373	-	-	16,373	(16,373)	-
Revenue expenditure funded from capital under statute		-	(63,747)	-	-	(63,747)	63,747	-
Value of assets disposed of during the year		-	(168,849)	-	-	(168,849)	168,849	-
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>								
Statutory provision for the financing of capital investment		-	34,489	-	-	34,489	(34,489)	-
Capital expenditure charged against the General Fund		-	6,000	-	-	6,000	(6,000)	-
Adjustments involving the CAA		-	(190,356)	-	-	(190,356)	190,356	-
Adjustments involving the Capital Grants Unapplied Account								
Grants applied to financing (transferred to the CAA)		-	-	-	10,388	10,388	(10,388)	-
Grants and contributions unapplied		-	17,979	-	(17,979)	-	-	-
Adjustments involving the Cap Grants Unapplied A/C		-	17,979	-	(7,591)	10,388	(10,388)	-
Adjustments involving the Capital Receipts Reserve								
Sale proceeds (part of gain/loss on disposal)		-	4,330	(4,330)	-	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(1,000)	-	(1,000)	1,000	-
Use of reserve to finance new capital expenditure		-	-	23,121	-	23,121	(23,121)	-
Adjustments involving the Capital Receipts Reserve		-	4,330	17,791	-	22,121	(22,121)	-

Adjustments between accounting basis and funding under Regulations – 2011/12 (part two)

2011/12	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		
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	33.4							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	41	-	-	41	(41)	-
Adjustments involving the FIAA		-	41	-	-	41	(41)	-
Adjustments involving the Pensions Reserve	33.5							
Reversal of items debited/credited to the CIES		-	(771)	-	-	(771)	771	-
Employers' pension contributions payable in the year		-	67,374	-	-	67,374	(67,374)	-
Adjustments involving the Pensions Reserve		-	66,603	-	-	66,603	(66,603)	-
Adjustments involving the Collection Fund Adjustment Account	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		-	(339)	-	-	(339)	339	-
Adjustments involving the Collection Fund Adj Account		-	(339)	-	-	(339)	339	-
Adjustments involving the Accumulated Compensated Absences Adjustment Account	33.8							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	6,774	-	-	6,774	(6,774)	-
Adjustments involving the Accumulated Absences Account		-	6,774	-	-	6,774	(6,774)	-
Total adjustments		-	(94,968)	17,791	(7,591)	(84,768)	84,768	-

Section Two - Notes to the Financial Statements

9. 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:

Reserves	Purpose and usage	Timescale for usage
Schools	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.
Future capital funding	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.
PFI reserves	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.
Grant equalisation reserve	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.
Waste reserve	To smooth the effects of future increases in the costs of waste disposal.	It is anticipated that this reserve will be utilised over a period not extending beyond 2040/41.
Building maintenance	To support the delivery of the annual maintenance programme.	There are no time constraints placed upon the usage of this reserve.
Capital receipts pump priming	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.
Carbon reduction	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
Carry forwards	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	Amounts appropriated into this reserve are usually utilised in the subsequent financial year.

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Reserves	Purpose and usage	Timescale for usage
	case submissions.	
Children's reserve	To help meet the costs of children in the care of the Council.	This reserve has been fully utilised.
Developing partnerships	Used to develop effective partnership working in order to spend more on key services.	Reserve has been fully utilised in 2011/12.
ESF reserve	To meet costs associated with European Social Fund projects.	It is anticipated that this reserve will be utilised in 2012/13.
Essex Art Fund	Used to purchase and commission art by Essex artists.	Reserve has been fully utilised in 2011/12.
Essex Pledges	Used to help meet the costs of achieving the annual pledges for delivery of the priorities outlined in our 'EssexWorks' vision.	This reserve has been fully utilised.
Essex Transport	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.
Health and safety	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.
IMT development	Provides for future costs of developing the Council's information technology strategy.	No time constraints have been placed upon the usage of this reserve.
Insurance	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.
LAA performance reward	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.
Life raft pledges	Used to support Essex attractions during the economic downturn.	Reserve has been fully utilised in 2011/12.
Newton bequest	Funds bequeathed to the Council for use by the Essex Records Office.	There are no time constraints placed upon the usage of this reserve.
Partnerships	To retain unspent contributions from partners and	Usage of these reserves is

Section Two - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
	apply them in subsequent years.	determined by the partnerships.
Personal care	To provide for the costs of personal care for Adults Social Care.	There are no time constraints placed upon the usage of this reserve.
Procurement	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.
Quadrennial elections	Reserve established to meet costs associated with the Council's quadrennial elections.	There are no time constraints placed upon the usage of this reserve.
Redundancy	Used to meet the cost of redundancies arising from transformation of services.	There are no time constraints placed upon the usage of this reserve.
Section 75 reserve	Used to manage the redistribution of Section 75 partnership funds.	Reserve has been fully utilised in 2011/12.
Severe weather	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.
Street lighting	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.
Tendring PPP	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.
Trading activities	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.
Transformation	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.	There are no time constraints placed upon the usage of this reserve.

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

	Balance 1 April 2010	2010/11 movements		Balance 31 March 2011	2011/12 movements		Balance 31 March 2012
		Contributions	Withdrawals		Contributions	Withdrawals	
	£000	£000	£000	£000	£000	£000	£000
Schools	(48,161)	(9,975)	10,756	(47,380)	(2,940)	-	(50,320)
Future capital funding							
General	(3,517)	(212)	940	(2,789)	(6,845)	6,000	(3,634)
Bellhouse landfill site	(61)	-	-	(61)	-	-	(61)
Historic buildings	(120)	-	-	(120)	-	-	(120)
	(3,698)	(212)	940	(2,970)	(6,845)	6,000	(3,815)
Equalisation reserves							
PFI equalisation reserves							
A130 PFI	(51,863)	(5,474)	-	(57,337)	(62)	-	(57,399)
Building Schools for the future	-	-	-	-	(2,185)	-	(2,185)
Clacton secondary schools	(4,685)	(428)	226	(4,887)	(18)	1,081	(3,824)
Debden PFI	(5,533)	(287)	666	(5,154)	(174)	645	(4,683)
Grants equalisation	(5,120)	(7,960)	4,879	(8,201)	(4,372)	2,425	(10,148)
Waste Reserve	(35,428)	(24,310)	17,247	(42,491)	(5,821)	4,258	(44,054)
	(102,629)	(38,459)	23,018	(118,070)	(12,632)	8,409	(122,293)
Other reserves							
Building maintenance	-	(713)	-	(713)	-	-	(713)
Capital receipts pump priming	(866)	(214)	116	(964)	(543)	546	(961)
Carbon reduction	(1,536)	-	-	(1,536)	-	-	(1,536)
Carry forwards	(6,044)	(10,541)	2,784	(13,801)	-	13,801	-
Children's reserve	-	(4,400)	4,400	-	-	-	-
Developing partnerships	(1,500)	-	-	(1,500)	-	1,500	-
ESF	(4,221)	(39)	1,325	(2,935)	-	131	(2,804)
Essex Art Fund	(258)	-	-	(258)	-	258	-
Essex pledges	(7,526)	-	7,526	-	-	-	-
Essex Transport	(1,398)	-	77	(1,321)	-	904	(417)
Health and safety	(1,087)	-	-	(1,087)	-	118	(969)
IMT development	(1,947)	-	1,735	(212)	-	212	-
Insurance	(467)	(2,280)	131	(2,616)	(7,008)	2,741	(6,883)
LAA Performance Reward	(1,873)	(2,368)	-	(4,241)	-	2,408	(1,833)
Life Raft pledges	(728)	-	-	(728)	-	728	-
Newton bequest	(118)	(1)	-	(119)	-	-	(119)
Partnerships	(1,216)	(610)	-	(1,826)	(792)	552	(2,066)
Personal Care reserve	-	(1,800)	-	(1,800)	-	1,800	-
Procurement	-	(24)	-	(24)	-	-	(24)
Quadrennial elections	(594)	-	23	(571)	-	65	(506)
Redundancy	-	-	-	-	(6,901)	3,301	(3,600)
Section 75	-	(674)	-	(674)	-	674	-
Severe weather	(252)	-	-	(252)	-	-	(252)
Street lighting	-	(476)	-	(476)	-	-	(476)
Tendring PPP	(429)	-	7	(422)	-	-	(422)
Trading activities	(2,885)	(56)	1,205	(1,736)	(1,645)	-	(3,381)
Transformation	(5,164)	(412)	4,699	(877)	(17,300)	1,170	(17,007)
	(40,109)	(24,608)	24,028	(40,689)	(34,189)	30,909	(43,969)
Total	(194,597)	(73,254)	58,742	(209,109)	(56,606)	45,318	(220,397)

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10. 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.

2010/11 £000		2011/12 £000
	Precepts and levies	
1,613	Lee Valley Regional Park	1,574
1,300	Environment Agency	1,297
239	Kent & Essex Inshore Fisheries & Conservation Authority	387
<u>3,152</u>		<u>3,258</u>
	(Gains)/losses on the disposal of non current assets	
(14,996)	Disposal proceeds	(4,330)
150,274	Carrying value of assets disposed of during the year	168,849
58	Disposal costs	19
<u>135,336</u>		<u>164,538</u>
<u>138,488</u>	Total Other Operating Expenditure	<u>167,796</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 or academy status during the financial year.

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11. 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.

2010/11		2011/12
£000		£000
	Interest payable and similar charges	
28,473	External interest payable	28,345
(126)	Loan charges grant	(124)
(744)	Contributions by other local authorities towards the repayment of debt	(776)
<u>27,603</u>		<u>27,445</u>
	Interest and investment income	
(2,536)	External interest received	(2,902)
293	Amounts allocated to sums held on deposit	294
<u>(2,243)</u>		<u>(2,608)</u>
	Pensions interest cost and expected return on pension assets	
112,180	Pensions interest	103,025
(74,611)	Expected return on pension assets	(84,073)
<u>37,569</u>		<u>18,952</u>
	Investment properties	
(275)	Movement in the market value of properties	89
(41)	Rental income	(41)
<u>(316)</u>		<u>48</u>
(928)	Net deficit/(surplus) on trading activities	(1,817)
-	Other investment income (Dividends receivable)	(1,000)
<u>61,685</u>	Financing and Investment income & expenditure	<u>41,020</u>

12. 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.

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The nature and purpose of each of these trading activities is as follows:

Trading activity	Purpose
School improvement and advisory service	Delivers advisory and inspection, governor, music and library services to schools.
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	<p>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.</p> <p>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.</p>
Smarte East	Procures framework arrangements for construction projects.
Information Services infrastructure	Monitors the decommissioning and refresh of IT equipment within the County Council.
Legal Services	Provides legal services to a wide range of public sector organisations (with effect from 2011/12).
Library Services	<p>Delivers a library service on behalf of Slough Borough Council (with effect from 2011/12).</p> <p>The County Council has established a company (Library Services (Slough) Ltd), through which the library service is delivered to Slough Borough Council; all costs incurred by Library Services (Slough) Ltd are reimbursed by the County Council.</p> <p>All direct, service management and support service costs incurred by the County Council in relation to the delivery of a library service to Slough Borough Council are included within the Library Services trading account, together with the income received under contract from the Borough Council.</p>

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The following table provides a summary of the financial results of these trading activities in 2011/12.

	Balance at 1 April £000	Movements					Balance at 31 March £000
		Income	Expend- iture	Financing items	Net (Surplus) / deficit £000	Appropriations	
		£000	£000	£000	£000	£000	
2010/11							
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)	-
	(2,885)	(16,526)	15,598	-	(928)	2,077	(1,736)
2011/12							
School improvement and advisory service	(249)	(11,068)	9,956	-	(1,112)	85	(1,276)
School Support (Finance)	-	(1,446)	1,274	-	(172)	12	(160)
School staffing insurance scheme	(1,444)	(4,582)	4,478	-	(104)	-	(1,548)
Smarte East	(43)	(111)	110	-	(1)	-	(44)
Information Services infrastructure	-	(352)	310	-	(42)	-	(42)
Legal Services	-	(9,187)	8,955	-	(232)	75	(157)
Library Services	-	(2,224)	2,070	-	(154)	-	(154)
	(1,736)	(28,970)	27,153	-	(1,817)	172	(3,381)

13. 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.

2010/11 £000		2011/12 £000
Taxation		
(576,773)	Council tax income	(580,193)
(215,423)	Non domestic rates	(216,724)
(792,196)		(796,917)
Non specific grant income		
(125,693)	Non ringfenced government grants	(147,466)
(73,915)	Capital grants and contributions	(111,696)
(199,608)		(259,162)
(991,804)	Taxation and non specific grant income	(1,056,079)

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14. Council Tax income

14.1 Demands on the Collection Fund

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

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

This differs from the amount required by Regulation to be credited to the General Fund though, which requires a reconciling adjustment in the Movement in Reserves Statement which is taken to the Collection Fund Adjustment Account.

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

2010/11 £000		2011/12 £000
Comprehensive Income and Expenditure Statement		
	Financing	
(574,956)	Council Tax precept	(578,685)
(403)	Collection Fund surpluses receivable	(1,847)
(575,359)	Amount received in year	(580,532)
(1,414)	Movement in the Council's share of the Collection Funds	339
(576,773)	Amount credited to the Comprehensive Income and Expenditure Statement	(580,193)
Movement in Reserves Statement		
1,414	Reconciling transaction with the Collection Fund Adjustment Account	(339)
(575,359)	Actual amount credited to the General Fund in the year: Amount payable to the Council under Regulation	(580,532)

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);

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- 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.

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

2009/10 £000	2010/11 £000		2011/12 £000
Current assets			
25,450	26,345	Council tax arrears	27,018
(9,814)	(10,666)	Impairment for doubtful debts	(11,555)
<u>15,636</u>	<u>15,679</u>		<u>15,463</u>
2,885	3,675	Billing authorities	3,745
<u>18,521</u>	<u>19,354</u>	Total assets	<u>19,208</u>
Current liabilities			
(7,898)	(7,741)	Council tax overpayments and pre-payments	(7,920)
(9,122)	(8,698)	Billing authorities	(8,712)
<u>(17,020)</u>	<u>(16,439)</u>	Total current liabilities	<u>(16,632)</u>
<u>1,501</u>	<u>2,915</u>	Total assets less liabilities	<u>2,576</u>
Financed by:			
(1,501)	(2,915)	Collection Fund Adjustment Account	(2,576)
<u>(1,501)</u>	<u>(2,915)</u>	Total reserves	<u>(2,576)</u>

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15. Grant income

15.1 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:

2010/11 £000		2011/12 £000
Non ringfenced grants		
31,281	Revenue Support Grant	66,990
-	Early Intervention Grant	44,904
16,553	Private Finance Initiative Grant	16,949
-	Council Tax grant	14,467
75,393	Area Based Grant	-
-	Local Services Support Grant	3,146
-	New Homes Bonus Grant	1,010
2,466	Local Area Agreement - Performance Reward Grant	-
<u>125,693</u>		<u>147,466</u>
Capital grants and contributions		
	Department of Transport grants	
26,429	Sadlers Farm junction	26,027
-	Direct funding	20,728
871	Integrated transport grant	8,869
5,000	A13	-
218	Other	234
24,033	Homes and Communities Agency - Infrastructure grants	-
2,850	Communities and Local Government grants	382
1,099	Department of Health grants	-
	Department of Education	
102	Standards Fund	45,779
6,785	Other	896
6,528	Other grants and contributions	8,781
<u>73,915</u>		<u>111,696</u>
<u>199,608</u>		<u>259,162</u>

Note:

The prior year comparative figures have been restated on a basis consistent with 2011/12.

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15.2 Amounts credited to Services

An analysis of the specific revenue and capital grants that have been credited to the Net Cost of Services within the Comprehensive Income and Expenditure Statement is as follows:

2010/11			2011/12		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
Department for Education					
-	781,287	781,287	-	744,709	744,709
37,140	120,299	157,439	48,450	16,047	64,497
-	-	-	-	9,461	9,461
-	-	-	-	5,760	5,760
13,544	38,210	51,754	-	220	220
1,522	4,036	5,558	-	1,807	1,807
52,206	943,832	996,038	48,450	778,004	826,454
Department of Health					
-	-	-	-	44,253	44,253
-	-	-	-	18,575	18,575
-	6,235	6,235	-	-	-
-	2,353	2,353	-	-	-
510	885	1,395	-	141	141
510	9,473	9,983	-	62,969	62,969
Skills Funding Agency (formerly Learning and Skills Council)					
-	87,981	87,981	-	29,534	29,534
-	10,036	10,036	-	9,374	9,374
-	1,000	1,000	-	-	-
-	36	36	-	37	37
-	99,053	99,053	-	38,945	38,945
Grants awarded by other bodies					
357	2,211	2,568	304	6,101	6,405
-	4,385	4,385	-	3,746	3,746
-	386	386	-	3,212	3,212
-	6,166	6,166	-	2,314	2,314
-	1,549	1,549	-	2,090	2,090
-	-	-	-	1,641	1,641
-	880	880	-	689	689
-	365	365	-	516	516
1,060	583	1,643	-	178	178
-	-	-	1,764	-	1,764
-	930	930	11	768	779
1,417	17,455	18,872	2,079	21,255	23,334
54,133	1,069,813	1,123,946	50,529	901,173	951,702

Notes:

- In previous years, specific capital grants were credited to the Net Cost of Services as income, but have been credited as specific grants with effect from 2011/12.
- Prior year comparatives have been restated on a basis consistent with 2011/12.

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16. 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 2011/12 are provided in the following table.

2010/11	Notes		2011/12 Total	Deployment in 2011/12	
				Central Expenditure	Individual Schools Budget
£000			£000	£000	£000
(781,164)	(i)	Final DSG for the year	(752,597)		
928	(ii)	Brought forward from previous year	1,050		
-	(iii)	Carry forward to next year agreed in advance	-		
(780,236)	(iv)	Agreed budgeted distribution	(751,547)	(89,227)	(662,320)
784,626	(v)	Actual central expenditure / ISB deployed	744,485	82,165	662,320
(3,340)		Council's contribution for year	(304)	(304)	-
1,050	(vi)	Carry forward to next year	(7,366)	(7,366)	-

Notes:

- (i) The Final DSG for 2011/12 was issued by the Department for Education in July 2011, and was adjusted to take account of schools gaining academy status.
- (ii) The amount brought forward from the previous year was agreed with the Department for Education.
- (iii) No amounts were agreed in advance to be carried forward into next year. Any over or under spends within the Individual Schools Budgets have been carried forward within schools balances. The under spend on central expenditure was reported to the Schools' Forum in May 2012 and has also been carried forward into 2012/13 to support schools budgets in future years.
- (iv) Budgeted distribution of DSG, adjusted for carry forward, as agreed with the Schools Forum. The central expenditure element of the Schools Budget for 2011/12 exceeded the statutory maximum; the planned minor breach was reported to, and approved by, Schools Forum in February 2011.
- (v) Actual amount of central expenditure and the amount of ISB actually distributed to schools.
- (vi) 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.

17. Property, Plant and Equipment

17.1 Movement in balances – 2010/11

	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	
Gross Book Value								
As at 1 April 2010	1,986,889	15,162	695,552	2,506	90,380	7,848	2,798,337	116,687
Additions	1,127	1,704	158	71	157,259	-	160,319	234
Revaluations								-
Inc/(dec) recognised in Revaluation Reserve	(5,807)	-	-	-	-	132	(5,675)	-
Inc/(dec) recognised in Surplus/Deficit on the provision of services	(47,287)	-	-	-	-	(196)	(47,483)	-
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)	-
As at 31 March 2011	1,832,187	19,905	777,942	2,717	109,160	6,056	2,747,967	116,921
Depreciation								
As at 1 April 2010	(26,048)	(8,300)	(146,470)	(15)	-	(802)	(181,635)	(16,580)
Revaluations and restatements	5,859	-	-	-	-	274	6,133	-
Depreciation on impairments	46,539	-	-	-	-	-	46,539	-
Depreciation for the year	(36,809)	(3,122)	(20,150)	(24)	-	(32)	(60,137)	(2,418)
Depreciation on assets sold	8,056	-	-	-	-	-	8,056	-
As at 31 March 2011	(2,403)	(11,422)	(166,620)	(39)	-	(560)	(181,044)	(18,998)
Net book value at 31 March 2010	1,960,841	6,862	549,082	2,491	90,380	7,046	2,616,702	100,107
Net book value at 31 March 2011	1,829,784	8,483	611,322	2,678	109,160	5,496	2,566,923	97,923

17.2 Movement in balances – 2011/12

	Operational Assets				Non-Operational Assets		Total	PFI /PPP Assets included 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	
Gross Book Value								
As at 1 April 2011	1,832,187	19,905	777,942	2,717	109,160	6,056	2,747,967	116,921
Additions	38,374	1,408	1	-	129,782	-	169,565	22,280
Revaluations / impairments								
Inc/(dec) recognised in Revaluation Reserve	116,386	(8,703)	-	302	-	22	108,007	
Inc/(dec) recognised in Surplus/Deficit on the provision of services	(124,357)	12,735	-	8	-	(66)	(111,680)	
Disposals	(165,671)	(4,068)	-	-	-	(379)	(170,118)	-
Reclassification of assets to / from other categories	(49,210)	46,835	-	302	-	(709)	(2,782)	
Transfers to / from assets under construction	45,622	2,253	61,293	49	(110,349)	-	(1,132)	
As at 31 March 2012	1,693,331	70,365	839,236	3,378	128,593	4,924	2,739,827	139,201
Depreciation								
As at 1 April 2011	(2,403)	(11,422)	(166,620)	(39)	-	(560)	(181,044)	(18,998)
Revaluations and restatements	532	(1)	-	8	-	-	539	
Depreciation on impairments	2,139	-	-	(8)	-	-	2,131	
Depreciation for the year	(22,386)	(5,826)	(22,403)	(25)	-	(30)	(50,670)	(2,486)
Depreciation on assets sold	937	1,657	-	-	-	504	3,098	
As at 31 March 2012	(21,181)	(15,592)	(189,023)	(64)	-	(86)	(225,946)	(21,484)
Net book value at 31 March 2011	1,829,784	8,483	611,322	2,678	109,160	5,496	2,566,923	97,923
Net book value at 31 March 2012	1,672,150	54,773	650,213	3,314	128,593	4,838	2,513,881	117,717

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17.3 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 36.

17.4 Capital commitments

At 31st March 2012, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13. The commitments are summarised as follows:

2011		2012
£000		£000
40,676	Highways and Transportation	39,824
17,584	Education (schools)	6,750
284	Other	1,716
58,544		48,290

17.5 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.

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

	Held at historical value £000	Valued at fair value as at					Total cost or valuation £000
		31 March 2008	31 March 2009	31 March 2010	31 March 2011	31 March 2012	
		£000	£000	£000	£000	£000	
Operational Assets							
Land and buildings	-	237,717	489,384	211,937	393,516	360,777	1,693,331
Vehicles, plant & equipment	70,365	-	-	-	-	-	70,365
Infrastructure	839,236	-	-	-	-	-	839,236
Community Assets	3,378	-	-	-	-	-	3,378
Non-Operational Assets							
Surplus Assets	-	-	-	4,924	-	-	4,924
Assets under construction	128,593	-	-	-	-	-	128,593
Gross book value	1,041,572	237,717	489,384	216,861	393,516	360,777	2,739,827

18. Heritage assets

Prior to 2011/12, heritage assets were either recognised in the Balance Sheet as Community Assets or were not recognised in the Balance Sheet at all. However, following integration of FRS 30 into the CIPFA Code of Practice on Local Authority Accounting 2011/12, the following categories of Heritage Asset are now recognised:

- Assets previously held as Community Assets, including listed buildings held for their historical interest;
- Archives, including old maps, historical records, registers and photographs; and
- Art work which has been subject to valuation.

In addition to these items, the Council also holds various pieces of art work and records which are not reflected on the Balance Sheet, because the cost of valuing them would be disproportionate to the benefit derived from having a valuation, or where it is not possible to reliably determine their value.

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The carrying values of the heritage assets reflected on the Balance Sheet are as follows:

	Community assets £000	Archives £000	Art work £000	Total £000
Gross book value				
At 1st April 2010	137	9,371	4,790	14,298
Additions	29	-	-	29
Disposals	-	-	-	-
At 31st March 2011	166	9,371	4,790	14,327
Additions	-	-	-	-
Disposals	-	-	-	-
At 31st March 2012	166	9,371	4,790	14,327
Depreciation				
At 1st April 2010	(11)	-	-	(11)
Depreciation	(2)	-	-	(2)
At 31st March 2011	(13)	-	-	(13)
Depreciation	(2)	-	-	(2)
At 31st March 2012	(15)	-	-	(15)
Net book value				
At 1st April 2010	126	9,371	4,790	14,287
At 31st March 2011	153	9,371	4,790	14,314
At 31st March 2012	151	9,371	4,790	14,312

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19. Investment properties

The rental income from investment properties has been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (see note 11 on page 63).

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

2010/11 £000		2011/12 £000
3,810	Balance as at 1 April	3,920
(165)	Disposals	-
275	Net gains/(losses) from fair value adjustments	(89)
<u>3,920</u>	Balance as at 31 March	<u>3,831</u>

20. Intangible assets

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

2010/11 £000		2011/12 £000
1,886	Gross book value as at 1 April	3,362
-	Additions	2
-	Disposals	(6)
1,476	Transfers from assets under construction	1,132
<u>3,362</u>	Gross book value as at 31 March	<u>4,490</u>
(1,434)	Amortisation as at 1 April	(2,036)
(602)	Amortisation for the year	(638)
-	Amortisation on assets sold	3
<u>(2,036)</u>	Amortisation as at 31 March	<u>(2,671)</u>
452	Net book value as at 1 April	1,326
1,326	Net book value as at 31 March	1,819

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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.

2010/11			Sources of finance	2011/12		
Capital expenditure	Revenue expenditure funded from capital	Total		Capital expenditure	Revenue expenditure funded from capital	Total
£000	£000	£000		£000	£000	£000
30,253	21,292	51,545	Government supported borrowing	-		-
59,985	6,098	66,083	Unsupported Borrowing	8,727	3	8,730
66,850	55,925	122,775	Government grants & contributions	102,590	54,104	156,694
3,322	3,467	6,789	Capital receipts	15,774	7,347	23,121
-	940	940	Earmarked revenue reserves applied	3,707	2,293	6,000
160,410	87,722	248,132	Total	130,798	63,747	194,545

The impact of financing capital expenditure from borrowing (government supported and unsupported) is to increase the Council's 'Capital Financing Requirement', which provides an overall measure of the Council's need to borrow for capital financing purposes. Other factors that affect the Capital Financing Requirement are movements in finance lease liabilities and the annual revenue provision for the repayment of debt. The Capital Financing Requirement (including credit liabilities) amounted to **£861.2m** at 31st March 2012 (£863.9m at 31st March 2011).

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.

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Finance leases

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

31 March 2011 £000		31 March 2012 £000
2,120	Other Land and Buildings	2,112
446	Vehicles and Equipment	238
2,566	Total	2,350

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 2011 £000		31 March 2012 £000
	Net present value of minimum lease payments	
783	Current	299
803	Non Current	1,029
1,586		1,328
(366)	Finance costs payable in future years	(210)
1,220	Minimum lease payments	1,118

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Not later than one year	287	171	224	128
Later than one year and not later than five years	224	179	142	81
Later than five years	709	768	-	1
Total	1,220	1,118	366	210

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.

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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 2011				31 March 2012		
Property £000	Other £000	Total £000		Property £000	Other £000	Total £000
2,564	5,564	8,128	One year	2,446	4,746	7,192
7,637	7,509	15,146	Two to five years	7,174	6,184	13,358
11,060	463	11,523	Over five years	10,401	149	10,550
21,261	13,536	34,797	Total lease rentals	20,021	11,079	31,100

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.

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

31 March 2011 £000		31 March 2012 £000
200	Not later than one year	572
474	Later than one year and not later than five years	463
419	later than five years	443
1,093	Total	1,478

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.

Section Two - Notes to the Financial Statements

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 40. 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 £86m (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>
Debden Park School	<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 £15m.</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>
Clacton Secondary Schools	<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 £34m.</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</p>

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Scheme	Nature and significant terms
	Operator meets agreed performance goals.
Tendring Primary Schools	<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 £15m.</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>
Building schools for the future (BSF)	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>Two of the schools included within this PFI scheme (i.e. Castlevue School and Cornelius Vermuyden School and Arts College) were foundation schools since before financial close of the contract. These schools' governing bodies consented to the Council acting on their behalf, and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement. Upon expiry of the contract, any property interests in respect of these two schools will revert to the schools' governing bodies. This means that control over the services provided and the residual values of these two schools remains with the governing bodies. As a consequence, the Council:</p> <ul style="list-style-type: none"> ▪ Recognises the costs arising under this PFI contract in the Comprehensive Income and Expenditure Statement as they arise, together with any contributions received from the schools; and ▪ Does not recognise the assets or associated liabilities in respect of these schools within its own Balance Sheet. <p>The third school included within this scheme (the Columbus New Model Special School) was a community school at financial close of the contract. In this instance, the Council has control over the services provided, and over the residual value of the school. This means that:</p> <ul style="list-style-type: none"> ▪ The Council carries the assets and associated liability in respect of this school on its own Balance Sheet; and

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Scheme	Nature and significant terms
	<ul style="list-style-type: none"> Accounts for payments for services provided in accordance with accounting policy 2.16.2. <p>Construction costs of this school amounted to £22.3m.</p>

In addition to the schemes referred to above, the Council has entered into a PFI contract for the provision of another school (Woodlands School in Basildon). The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction period). Upon expiry of the contract, it is intended that any property interest 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 **£26m**. Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of **£4m** 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 £000	Debden Park school £000	Clacton secondary schools £000	Tendring primary schools £000	BSF (Columbus Special School) £000	Total £000
Liabilities as at 1 April 2010	(77,924)	(10,760)	(22,017)	(10,710)	-	(121,411)
Liabilities repaid	1,305	372	762	178	-	2,617
Fair value of assets coming into use	-	-	-	-	-	-
Liabilities as at 31 March 2011	(76,619)	(10,388)	(21,255)	(10,532)	-	(118,794)
Liabilities repaid	1,495	375	885	244	-	2,999
Fair value of assets coming into use	-	-	-	-	(22,280)	(22,280)
Liabilities as at 31 March 2012	(75,124)	(10,013)	(20,370)	(10,288)	(22,280)	(138,075)

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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	
	£000	£000	£000	£000	£000	£000	£000
A130 Bypass							
Service charges	1,149	4,889	6,832	7,729	5,117	-	25,716
Interest and similar charges	9,475	39,542	52,610	40,479	4,009	-	146,115
Repayment of liability	1,702	11,034	23,530	34,819	4,039	-	75,124
Lifecycle replacement	-	637	3,297	2,124	6,903	-	12,961
Total	12,326	56,102	86,269	85,151	20,068	-	259,916
Debden Park School							
Service charges	549	2,336	3,264	3,250	-	-	9,399
Interest and similar charges	1,220	4,816	6,001	5,020	-	-	17,057
Repayment of liability	433	1,869	3,418	4,293	-	-	10,013
Lifecycle replacement	256	1,442	1,936	1,994	-	-	5,628
Total	2,458	10,463	14,619	14,557	-	-	42,097
Clacton Secondary Schools							
Service charges	2,164	9,344	13,404	15,626	18,153	14,338	73,029
Interest and similar charges	1,915	6,855	6,615	4,840	3,310	1,984	25,519
Repayment of liability	854	3,296	3,041	3,163	4,300	5,716	20,370
Lifecycle replacement	632	3,038	5,741	5,897	4,690	772	20,770
Total	5,565	22,533	28,801	29,526	30,453	22,810	139,688
Tendring Primary Schools							
Service charges	708	3,012	4,209	4,762	5,387	1,790	19,868
Interest and similar charges	1,651	6,976	9,308	9,707	9,850	2,219	39,711
Repayment of liability	123	579	1,193	2,023	4,748	1,622	10,288
Lifecycle replacement	416	1,766	2,522	3,004	2,073	1,699	11,480
Total	2,898	12,333	17,232	19,496	22,058	7,330	81,347
Building schools for the future (Columbus Special School)							
Service charges	729	2,898	3,906	4,349	4,922	5,202	22,006
Interest and similar charges	2,276	8,177	8,302	6,892	4,683	2,044	32,374
Repayment of liability	-	995	3,037	4,209	5,748	8,291	22,280
Lifecycle replacement	-	180	627	1,119	2,005	1,786	5,717
Total	3,005	12,250	15,872	16,569	17,358	17,323	82,377
	26,252	113,681	162,793	165,299	89,937	47,463	605,425

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.

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24. Financial instruments

24.1 Categories of Financial Instruments

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

31 March 2011			31 March 2012		
Long term £000	Short term £000	Total £000	Long term £000	Short term £000	Total £000
Financial assets - Loans and receivables					
1,042	21,354	22,396	1,693	18,665	20,358
-	85,287	85,287	-	151,893	151,893
26,095	95,217	121,312	24,342	80,899	105,241
27,137	201,858	228,995	26,035	251,457	277,492
Financial liabilities at amortised cost					
(35)	(216,000)	(216,035)	-	(232,334)	(232,334)
(361,588)	(7,821)	(369,409)	(360,449)	(8,587)	(369,036)
(117,117)	(2,998)	(120,115)	(136,081)	(3,112)	(139,193)
(478,740)	(226,819)	(705,559)	(496,530)	(244,033)	(740,563)

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:

2010/11			2011/12		
Loans and receivables £000	Financial liabilities £000	Total £000	Loans and receivables £000	Financial liabilities £000	Total £000
-	27,572	27,572	-	27,424	27,424
-	-	-	-	-	-
-	31	31	-	21	21
-	27,603	27,603	-	27,445	27,445
(2,536)	-	(2,536)	(2,902)	-	(2,902)
-	-	-	-	-	-
-	-	-	-	-	-
(2,536)	-	(2,536)	(2,902)	-	(2,902)
(2,536)	27,603	25,067	(2,902)	27,445	24,543

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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 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 2012. 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 compares the carrying and fair value of the financial instruments held:

31 March 2011			31 March 2012		
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000	
(369,409)	(389,290)	Borrowing	(369,036)	(430,130)	
22,396	22,396	Investments	20,358	20,358	

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 higher than the rates available for similar loans at the balance sheet date.

The fair value of investments is the same as the carrying value.

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.
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments.

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- **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 (i.e. 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 / viability rating** – provides a measure of the likelihood that a bank will require financial assistance from third parties such as its owners, its industry 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.

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- **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 2011/12, this limit was **£50m** (2010/11: £50m).

No credit limits were exceeded during 2011/12 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 2012	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2012	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and other financial institutions				
AAA rated	-	0.000%	0.000%	-
AA rated	11,300	0.028%	0.028%	3
A rated	139,000	0.077%	0.077%	107
	150,300			110
Debtors (contractual)	105,241	11.038%	11.038%	11,616
Potential maximum exposure to credit risk	255,541			11,726

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Of the total amount of debtors at 31 March 2012, the following amounts (analysed by age) are past their due date for payment:

2010/11 £000		2011/12 £000
5,922	Less than three months	6,688
2,966	Three to six months	2,111
7,792	Six months to one year	5,379
13,257	More than one year	14,018
29,937	Total	28,196

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:

2010/11 £000	Repayment period	2011/12				Total £000
		PWLB £000	Money Market £000	Castle Point DC £000	Other £000	
7,821	Less than one year	4,409	937	3	3,238	8,587
7,821	Short term borrowing	4,409	937	3	3,238	8,587
1,122	Between 1 and 2 years	6,164	-	1	-	6,165
8,637	Between 2 - 5 years	3,784	-	2	-	3,786
22,119	Between 5 - 10 years	29,907	-	2	-	29,909
26,026	Between 10 - 25 years	26,921	-	2	-	26,923
47,688	Between 25 - 40 years	48,688	-	-	-	48,688
178,996	Between 40 - 50 years	167,978	-	-	-	167,978
77,000	Over 50 years	-	77,000	-	-	77,000
361,588	Long term borrowing	283,442	77,000	7	-	360,449
369,409	Total borrowing	287,851	77,937	10	3,238	369,036

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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 affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of 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.

According to this assessment strategy, at 31 March 2012, if interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2010/11 £000		2011/12 £000
153	Interest payable on variable rate borrowing	413
(880)	Interest receivable on variable rate investments	(1,051)
(727)	Impact on Comprehensive Income and Expenditure Statement	(638)

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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:

2010/11			2011/12		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
Public sector bodies					
65,033	1	65,034	37,039	-	37,039
13,460	16,501	29,961	14,710	15,930	30,640
1,027	-	1,027	3,727	-	3,727
135	-	135	2	-	2
79,655	16,502	96,157	55,478	15,930	71,408
78,063	9,593	87,656	68,062	8,412	76,474
157,718	26,095	183,813	123,540	24,342	147,882
Total			Total		

Note:

The prior year comparative figures have been restated on a basis consistent with 2011/12.

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

31 March 2010 £000	31 March 2011 £000		31 March 2012 £000
18,152	17,299	Debt outstanding on assets transferred to other bodies	16,414
6,221	6,896	Deferred capital receipts	5,896
2,818	1,900	Other long term debtors	2,032
27,191	26,095	Balance as at 31 March	24,342

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26. Cash and cash equivalents

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

2009/10 £000	2010/11 £000		2011/12 £000
		Amounts that form an integral part of the Council's cash management	
67,031	44,054	Cash repayable on demand	71,380
25,003	15,010	Cash equivalents	60,485
(40,029)	(35,460)	Bank overdraft	(30,064)
694	623	Petty cash balances	378
<hr/> 52,699	<hr/> 24,227		<hr/> 102,179
59,051	61,060	Cash held by schools	49,714
<hr/> 111,750	<hr/> 85,287	Total of cash and cash equivalents	<hr/> 151,893

27. Assets held for sale

The net movement on assets held for sale is:

2010/11 £000		2011/12 £000
4,171	Balance as at 1 April	3,373
3,245	Newly classified as held for sale	3,392
(162)	Revaluations / impairments	-
-	Assets de-classified as held for sale	(610)
(3,881)	Disposals	(1,827)
<hr/> 3,373	Balance as at 31 March	<hr/> 4,328

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28. Creditors

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

2010/11			2011/12		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
Public sector bodies					
2,199	-	2,199	3,418	-	3,418
35,710	-	35,710	32,345	-	32,345
1,523	-	1,523	2,267	-	2,267
393	-	393	375	-	375
39,825	-	39,825	38,405	-	38,405
194,838	35	194,873	212,939	-	212,939
234,663	35	234,698	251,344	-	251,344
Other entities			Other entities		
Total			Total		

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:

2010/11			2011/12		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Department of Education					
10,439	50,740	61,179	4	18,318	18,322
-	-	-	7,366	-	7,366
1,446	3,186	4,632	1,281	2,289	3,570
11,885	53,926	65,811	8,651	20,607	29,258
Other grants					
-	-	-	3,749	-	3,749
5,933	1,310	7,243	332	986	1,318
1,500	-	1,500	1,077	-	1,077
935	-	935	653	-	653
10	1,880	1,890	170	-	170
866	74	940	1,023	-	1,023
9,244	3,264	12,508	7,004	986	7,990
21,129	57,190	78,319	15,655	21,593	37,248
3,666	39,533	43,199	3,252	39,554	42,806
24,795	96,723	121,518	18,907	61,147	80,054
Total of grant receipts in advance			Total of grant receipts in advance		
Developer contributions			Developer contributions		
Total			Total		

Note:

The prior year comparative figures have been restated on a basis consistent with 2011/12.

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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 (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 1977, until they ceased trading in 1992.</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. It is currently not expected that any payments will be received from Independent Insurance.</p>
Restructuring	<p>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.</p>
Carbon reduction commitment	<p>This provision represents the Council's liability to purchase and surrender Carbon Reduction Commitment (CRC) carbon allowances, in accordance with the requirements of the CRC Energy Efficiency Scheme, in respect of CO² emissions in 2011/12.</p>
Highways	<p>This provision relates to claims for compensation in relation to the construction of a road.</p>
Schools' capital provisions	<p>Provision has been made for various loss and expense claims related to construction work at various schools.</p>
Other	<p>Provisions have been established for various minor matters and for one commercially sensitive matter.</p>

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A summary of the provisions held is as follows:

Total of Provisions	Insurance Provision	Restructuring	Carbon Reduction Commitment	Highways provision	Schools' capital provisions	Other provisions	Total
	£000	£000	£000	£000	£000		£000
Balance at 1st April 2010	(30,104)	(195)	-	(1,047)	(437)	(1,303)	(33,086)
Amounts arising	(2,633)	(3,808)	-	(50)	(216)	(882)	(7,589)
Provisions reversed	-	-	-	-	18	256	274
Provisions utilised	4,548	195	-	698	513	105	6,059
Amounts reclassified as current	-	-	-	-	-	-	-
Balance at 31st March 2011	(28,189)	(3,808)	-	(399)	(122)	(1,824)	(34,342)
Amounts arising	(4,628)	(337)	(1,378)	-	-	(51)	(6,394)
Provisions reversed	-	1,744	-	-	-	464	2,208
Provisions utilised	6,717	2,064	-	149	122	469	9,521
Amounts reclassified as current	-	-	-	-	-	-	-
Balance at 31st March 2012	(26,100)	(337)	(1,378)	(250)	-	(942)	(29,007)

These provisions are split between current (amounts expected to be settled within 12 months) and non current (those expected to be settled beyond the next 12 months), as follows:

	Insurance Provision	Restructuring	Carbon Reduction Commitment	Highways provision	Schools' capital provisions	Other provisions	Total
	£000	£000	£000	£000	£000		£000
Current provisions							
Balance at 1st April 2010	(4,548)	(195)	-	(698)	(437)	(359)	(6,237)
Amounts arising	-	(3,808)	-	(50)	(216)	(804)	(4,878)
Provisions reversed	-	-	-	-	18	256	274
Provisions utilised	4,548	195	-	698	513	105	6,059
Amounts reclassified as current	(5,000)	-	-	(349)	-	(761)	(6,110)
Balance at 31st March 2011	(5,000)	(3,808)	-	(399)	(122)	(1,563)	(10,892)
Amounts arising	-	(337)	(1,378)	-	-	(51)	(1,766)
Provisions reversed	-	1,744	-	-	-	464	2,208
Provisions utilised	6,717	2,064	-	149	122	469	9,521
Amounts reclassified as current	(6,717)	-	-	-	-	(261)	(6,978)
Balance at 31st March 2012	(5,000)	(337)	(1,378)	(250)	-	(942)	(7,907)
Non current provisions							
Balance at 1st April 2010	(25,556)	-	-	(349)	-	(944)	(26,849)
Amounts arising	(2,633)	-	-	-	-	(78)	(2,711)
Provisions reversed	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-
Amounts reclassified as current	5,000	-	-	349	-	761	6,110
Balance at 31st March 2011	(23,189)	-	-	-	-	(261)	(23,450)
Amounts arising	(4,628)	-	-	-	-	-	(4,628)
Provisions reversed	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-
Amounts reclassified as current	6,717	-	-	-	-	261	6,978
Balance at 31st March 2012	(21,100)	-	-	-	-	-	(21,100)

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31. Contingent liabilities

31.1 Insurance liabilities

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 (MMI) and Independent Insurance were the Council's insurers. However, it is possible that the Council may be required to settle liabilities in excess of those for which provision has been made.

In relation to MMI, they have been operating under a contingent Scheme of Arrangements dealing with the outstanding claims since they ceased trading in 1992. In the event that this Scheme of Arrangements is triggered, the Council may have to pay back part of all claims for which it has received settlement since 1993. MMI has been party to employers' liability trigger litigation over recent years, and the Supreme Court gave their ruling on this in March 2012, which brought this litigation to a close. It is too soon to know how MMI's financial position will be affected by this judgement but it is possible that the Scheme of Arrangement will be triggered. If the Scheme of Arrangement is triggered the Council, together with other participants in the scheme, will be required to make an initial payment to the Scheme Administrator. Once the claw back is paid, each participant will still be responsible for paying a percentage towards future claims.

31.2 Restructuring costs

It is possible that there will be additional redundancy costs as a result of future service restructures in excess of those for which provision has been made.

32. Usable reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, which is shown on page 17.

33. Unusable reserves

33.1 Introduction

The Council maintains a number of unusable reserves which are held for statutory reasons or to comply with property accounting practice. The Council is not able to use these reserves to provide services. Notes 33.2 to 33.8 explain the purpose of each unusable reserve and the movements in these reserves during the year.

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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.

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

2010/11 Restated £000		2011/12	
		£000	£000
(115,521)	Balance as at 1 April		(120,510)
(23,054)	Revaluation of non current assets (increases)	(116,336)	
-	Revaluation of non current assets (subsequent decreases)	7,790	
(23,054)	(Surplus) / deficit on revaluations		(108,546)
3,871	Depreciation on revaluation gains	957	
14,194	Accumulated gains on assets sold or scrapped	9,360	
18,065	Amounts written off to the Capital Adjustment Account		10,317
(120,510)	Balance as at 31 March		(218,739)

The comparative figures for 2010/11 have been restated to correct a previous misstatement in relation to the impairment of property, plant and equipment. Further details are provided in note 5 (page 50).

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

2010/11 Restated £000		2011/12	
		£000	£000
(1,748,077)	Balance as at 1 April		(1,606,446)
	Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
60,740	Depreciation	51,312	
23,701	Impairment of non current assets	109,547	
-	Donated assets	(16,373)	
87,722	Revenue expenditure financed from capital under statute	63,747	
150,274	Cost / value of assets disposed of during the year	168,849	
322,437			377,082
	Adjusting amounts written out of the Revaluation Reserve		
(3,871)	Difference between fair value and historical cost depreciation	(957)	
(14,194)	Revaluation gains outstanding for assets upon disposal	(9,360)	
(18,065)			(10,317)
304,372	Net written out amount of the cost of non current assets consumed in the year		366,765
	Capital financing applied in the year		
(940)	Revenue reserves applied	(6,000)	
(31,962)	Statutory provision for the financing of capital investment	(34,489)	
(6,790)	Capital receipts applied	(23,121)	
	Capital grants and contributions applied to finance:		
(66,646)	Capital Expenditure	(93,925)	
(55,481)	Revenue expenditure funded from capital	(52,401)	
(647)	Application of grants from the Capital Grants Unapplied Account	(10,388)	
(162,466)			(220,324)
(275)	Movement in market value of investment properties		89
(1,606,446)	Balance as at 31 March		(1,459,916)

The comparative figures for 2010/11 have been restated to correct a previous misstatement in relation to the impairment of property, plant and equipment. Further details are provided in note 5 (page 50).

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33.4 Financial Instruments Adjustment Account

This account is used to manage premiums paid, and 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 are then 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.

2010/11				2011/12		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
8,348	(4,966)	3,382	Balance as at 1 April	8,125	(4,783)	3,342
(127)	19	(108)	Amortisation of premiums / discounts to the General Fund	(128)	18	(110)
(96)	164	68	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	(95)	164	69
8,125	(4,783)	3,342	Balance as at 31 March	7,902	(4,601)	3,301

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 **66** years.

33.5 Pension Reserve

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

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2010/11				2011/12		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
757,831	42,975	800,806	Balance as at 1 April	633,190	40,088	673,278
			Appropriation from Pension Reserve			
58,928	-	58,928	Current service (pension) costs	50,336	-	50,336
(117,382)	(2,337)	(119,719)	Past service cost	-	-	-
3,017	-	3,017	Curtailment	4,133	-	4,133
-	-	-	Settlement	(72,650)	-	(72,650)
109,903	2,277	112,180	Interest cost	100,934	2,091	103,025
(74,611)	-	(74,611)	Expected return on assets	(84,073)	-	(84,073)
(67,815)	(3,150)	(70,965)	Pension costs payable from Council Tax	(64,601)	(2,773)	(67,374)
(87,960)	(3,210)	(91,170)	Total appropriation from Pension Reserve	(65,921)	(682)	(66,603)
(36,681)	323	(36,358)	Actuarial (gain) / loss	290,269	(3,113)	287,156
633,190	40,088	673,278	Balance as at 31 March	857,538	36,293	893,831

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.

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.

2010/11 £000		2011/12 £000
(7,221)	Balance as at 1 April	(6,221)
-	Amounts arising	-
1,000	Amounts received	1,000
(6,221)	Balance as at 31 March	(5,221)

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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.

2010/11 £000		2011/12 £000
(1,501)	Balance at 1 April	(2,915)
	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	
(1,414)		339
<u>(2,915)</u>	Balance as at 31 March	<u>(2,576)</u>

33.8 Accumulated Compensated Absences Adjustment Account

The Accumulated Compensated Absences Adjustment 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.

2010/11 £000		2011/12 £000 £000	
23,859	Balance as at 1 April		24,316
(23,859)	Settlement or cancellation of accrual made at the end of the preceding year	(24,316)	
24,316	Amounts accrued for at the end of the current year	17,542	
<u>457</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>(6,774)</u>
<u>24,316</u>	Balance as at 31 March		<u>17,542</u>

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34. Cash Flows from operating, investing and financing activities

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

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

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

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The cash flows from operating, investing and financing activities include the following items:

2010/11 <i>Restated</i> £000		2011/12 £000
Cash flows from operating activities		
Cash inflows		
(790,782)	Taxation	(797,256)
(1,196,313)	Grants	(1,062,466)
(329,162)	Sales of goods and rendering of services	(242,718)
(2,895)	Interest received	(3,791)
-	Dividends received	(1,000)
Cash outflows		
917,618	Cash paid to and on behalf of employees	751,452
27,677	Interest paid	28,351
1,175,739	Cash paid to suppliers of goods and services	1,102,800
159,550	Other payments for operating activities	138,158
(38,568)	Net inflow of cash from operating activities	(86,470)
Cash flows from investing activities		
Cash inflows		
(14,821)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,830)
(10,217)	Proceeds from short and long term investments	(2,689)
(151,762)	Other receipts from investing activities	(127,154)
Cash outflows		
171,105	Purchase of property, plant and equipment, investment property and intangible assets	138,478
21,354	Purchase of short and long term investments	651
87,722	Other payments for investing activities	63,747
103,381	Net outflow of cash from investing activities	67,203
Cash flows generated from financing activities		
Cash inflows		
(40,780)	Cash receipts of short and long term borrowing	-
-	Other receipts from financing activities	(50,914)
Cash outflows		
2,273	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	3,202
157	Other payments for financing activities	373
(38,350)	Net inflow of cash from financing activities	(47,339)
26,463	Net (increase) / decrease in cash and cash equivalents	(66,606)

Note: The prior year comparatives for cash flows from operating activities have been restated on a basis consistent with 2011/12.

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35. Amounts reported for resource allocation decisions

35.1 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 Service Reporting 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 pension 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 is shown in the following table. Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet members throughout 2011/12.

Analysis of amounts reported for resource allocation in 2010/11

2010/11	Income			Grants	Expenditure						Controllable Net Expenditure £000
	Fees, charges and other service income	Interest and investment income	Corporate amounts		Employee expenses	Other Service expenses	Interest Payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Health and Wellbeing	(9,394)	-	-	-	10,430	23,152	-	-	-	-	24,188
Adult Social Care	(126,164)	-	-	(10,081)	53,743	435,306	-	-	-	-	352,804
Children's Services	(9,816)	-	-	(43,829)	76,257	141,084	-	-	-	-	163,696
Education and 2012 Games	(95,898)	-	-	(1,010,975)	804,969	336,731	5,882	1,614	-	2,963	45,286
Highways and Transportation	(35,054)	-	-	(2,887)	22,911	88,949	7,176	-	-	1,305	82,400
Economic Development, Waste and Recycling	(3,112)	-	-	(1,355)	8,441	57,563	-	-	-	-	61,537
Heritage, Culture and the Arts	(7,016)	-	-	(78)	18,875	11,586	-	-	-	-	23,367
Leader	(426)	-	-	(536)	6,328	6,541	-	-	-	-	11,907
Communities and Planning	(1,567)	-	-	(25)	4,615	3,194	-	-	-	-	6,217
Finance and Transformation	(1,585)	-	(41)	(47)	1,545	3,181	-	1,538	-	-	4,591
	(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
Performance	-	-	-	-	-	-	-	-	-	-	-
Equality and Diversity	-	-	-	-	-	-	-	-	-	-	-
Building Maintenance	-	-	-	-	-	2,689	-	-	-	-	2,689
Operating costs	-	(2,243)	15,195	-	-	-	14,585	-	-	100,937	128,474
Net cost of services (portfolios)	(290,032)	(2,243)	15,154	(1,069,813)	1,008,114	1,194,234	27,643	3,152	58	105,205	991,472

Note:

The prior year comparative figures have been restated on a basis consistent with 2011/12.

Analysis of amounts reported for resource allocation in 2011/12

2011/12	Income			Grants	Expenditure						Controllable Net Expenditure £000
	Fees, charges and other service income	Interest and investment income	Corporate amounts		Employee expenses	Other Service expenses	Interest Payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Health and Wellbeing	(7,325)	-	-	(827)	9,498	21,529	-	-	-	-	22,875
Adult Social Care	(81,030)	-	-	(66,054)	51,066	427,406	-	-	-	-	331,388
Children's Services	(6,751)	-	-	(39,749)	71,088	133,879	-	-	-	-	158,467
Education and 2012 Games	(75,474)	-	-	(786,936)	648,323	275,308	5,805	1,574	-	1,842	70,442
Highways and Transportation	(20,671)	-	-	(6,360)	18,199	94,609	7,014	-	-	1,496	94,287
Environment and Waste	(3,355)	-	-	(742)	6,332	60,221	-	-	-	-	62,456
Heritage, Culture and the Arts	(6,399)	-	-	(257)	15,580	7,172	30	-	-	16	16,142
Leader	(184)	-	-	(74)	4,900	3,767	-	-	-	-	8,409
Communities and Planning	(1,240)	-	-	(131)	3,796	2,798	-	-	-	-	5,223
Finance and Transformation	(1,198)	-	(41)	(43)	1,433	2,377	-	1,684	-	-	4,212
	(203,627)	-	(41)	(901,173)	830,215	1,029,066	12,849	3,258	-	3,354	773,901
Recharged Support Services											
Transport Coordination Centre	-	-	-	-	-	1,137	-	-	-	-	1,137
Car Provision Scheme	-	-	-	-	-	(71)	-	-	-	-	(71)
Democratic Services	-	-	-	-	-	683	-	-	-	-	683
Communications and customer relations	-	-	-	-	-	2,374	-	-	-	-	2,374
Customer Services	-	-	-	-	-	5,239	-	-	-	-	5,239
Facilities Management Service	-	-	-	-	-	19,686	-	-	-	-	19,686
Essex Legal Services	-	-	-	-	-	410	-	-	-	-	410
Asset Management	-	-	-	-	-	2,505	-	-	19	-	2,524
Procurement	-	-	-	-	-	4,076	-	-	-	-	4,076
Human Resources	-	-	-	-	-	6,620	-	-	-	-	6,620
Information Services	-	-	-	-	-	10,191	-	-	-	-	10,191
Finance	-	-	-	-	-	15,389	-	-	-	-	15,389
Transformation Support Unit	-	-	-	-	-	5,658	-	-	-	-	5,658
Insurance Cost Recovery Account	-	-	-	-	-	3,112	-	-	-	-	3,112
Performance	-	-	-	-	-	1,678	-	-	-	-	1,678
Equality and Diversity	-	-	-	-	-	149	-	-	-	-	149
Building Maintenance	-	-	-	-	-	3,110	-	-	-	-	3,110
Operating costs	-	(2,608)	(40,317)	-	-	-	14,637	-	-	86,120	57,832
Net cost of services (portfolios)	(203,627)	(2,608)	(40,358)	(901,173)	830,215	1,111,012	27,486	3,258	19	89,474	913,698

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35.2 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:

2010/11 £000		2011/12 £000
991,472	Net expenditure in the Portfolio Analysis	913,698
23,459	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	149,669
(183,275)	Amounts included the Analysis but not included in the Cost of Services in the Comprehensive Income and Expenditure Statement	(163,449)
831,656	Cost of Services in the Comprehensive Income & Expenditure Statement	899,918

35.3 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 - 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)	(595)	-	(290,627)	-	(290,627)
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)
Total income	(277,121)	(74,508)	61,002	(290,627)	(869,091)	(1,159,718)
Total Government Grants	(1,069,813)	(54,133)	-	(1,123,946)	(199,608)	(1,323,554)
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	-	84,441	-	84,441	-	84,441
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
Total expenditure	2,338,406	152,100	(244,277)	2,246,229	277,068	2,523,297
Surplus or deficit on the provision of services	991,472	23,459	(183,275)	831,656	(791,631)	40,025

Reconciliation to Subjective Analysis - 2011/12

2011/12	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	(203,627)	(2,080)	-	(205,707)	-	(205,707)
Interest and investment income	(2,608)	-	2,608	-	(2,608)	(2,608)
Corporate amounts	(40,358)	-	40,358	-	(85,114)	(85,114)
Income from council tax	-	-	-	-	(580,193)	(580,193)
Income from non domestic rates	-	-	-	-	(216,724)	(216,724)
Total income	(246,593)	(2,080)	42,966	(205,707)	(884,639)	(1,090,346)
Total Government Grants	(901,173)	(50,529)	-	(951,702)	(259,162)	(1,210,864)
Employee expenses	830,215	(6,003)	(86,130)	738,082	-	738,082
Other service expenditure	1,111,012	63,747	-	1,174,759	-	1,174,759
Depreciation, amortisation and impairment	-	160,859	-	160,859	-	160,859
Donated assets	-	(16,373)	-	(16,373)	-	(16,373)
Interest payable and similar charges	27,486	(41)	(27,445)	-	27,445	27,445
Precepts and levies	3,258	-	(3,258)	-	3,258	3,258
Gain or loss on disposal of fixed assets	19	-	(19)	-	164,538	164,538
Corporate amounts	89,474	89	(89,563)	-	101,297	101,297
Total expenditure	2,061,464	202,278	(206,415)	2,057,327	296,538	2,353,865
Surplus or deficit on the provision of services	913,698	149,669	(163,449)	899,918	(847,263)	52,655

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36. 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 and 2011/12. The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

2010/11 <i>Restated</i> £000		2011/12 £000
584	Adult Social Care	551
8,640	Children's and Education Services	9,555
370	Cultural and Related Services	570
145	Environmental and Regulatory Services	36
2,201	Highways and Transport Services	206
-	Housing Services	-
585	Planning Services	509
124	Central Services to the public	-
457	Corporate and democratic core	425
-	Trading activities	168
13,106	Total	12,020

Notes:

- The prior year comparative figures have been restated on a basis consistent with 2011/12.
- The above figures include provision for termination benefits arising from formal plans for the restructuring of certain services, where actual exit packages have yet to be agreed at each 31st March. Provision is raised on the basis of the best estimate of costs; actual costs, arising in 2011/12, were £1.744m lower than the provision raised in 2010/11.

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The numbers of exit packages agreed in each year are set out in the table below:

No. packages agreed in 2010/11			2010/11 Total cost of packages £000	Value of exit packages	No. packages agreed in 2011/12			2011/12 Total cost of packages £000
Compulsory	Other	Total			Compulsory	Other	Total	
350	174	524	3,473	Less than £20,000	723	229	952	5,545
43	85	128	3,583	£20,000 to £39,999	103	46	149	4,007
3	27	30	1,401	£40,000 to £59,999	16	16	32	1,516
3	6	9	643	£60,000 to £79,999	3	7	10	717
-	-	-	-	£80,000 to £99,999	3	5	8	698
2	-	2	459	£100,000 to £349,999	1	6	7	942
401	292	693	9,559	Total no. of agreed packages	849	309	1,158	13,425
			3,547	Other termination benefits				(1,405)
			13,106					12,020

The packages included above are those that have been agreed by the Council. The agreement may be legal, contractual or constructive at the end of the financial year in question. The exit packages include all redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

The Council is required to recognise the costs of termination benefits within the Comprehensive Income and Expenditure Account as it becomes committed to formal restructuring plans, even if individual exit packages have yet to be agreed. For this reason, the total cost of packages agreed may differ from the amounts charged to the Comprehensive Income and Expenditure Account in each year; the 'other termination benefits' line provides a reconciliation between the total cost of packages agreed and the amounts charged to the Comprehensive Income and Expenditure Account.

The above note has been prepared on the basis of packages paid during 2010/11, and on the basis of packages agreed during 2011/12. The Code requires the 2011/12 treatment but due to the complexity of collecting this information this has not been possible in 2010/11

37. 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.

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

2010/11 £000		2011/12 £000
55,962	Employer's contributions	43,945
25,670	Employee contributions	20,612
81,632	Total paid to Department For Education	64,557

These amounts reflect:

- An employer contribution of **14.1%**.
- An employee contribution of **6.4%** of teachers' pensionable pay.

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 2011/12, these amounted to **£2.78m** (2010/11: £3.3m), representing **0.9%** of pensionable pay (0.8% in 2010/11). These costs are accounted for on a defined benefit basis and detailed in note 38.

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.

38. 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%**. Employers are

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required to contribute at rates agreed with 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.

38.1 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:

2010/11			2011/12		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Comprehensive Income and Expenditure Statement					
58,928	-	58,928	50,336	-	50,336
(117,382)	(2,337)	(119,719)	-	-	-
3,017	-	3,017	4,133	-	4,133
-	-	-	(72,650)	-	(72,650)
(55,437)	(2,337)	(57,774)	(18,181)	-	(18,181)
109,903	2,277	112,180	100,934	2,091	103,025
(74,611)	-	(74,611)	(84,073)	-	(84,073)
35,292	2,277	37,569	16,861	2,091	18,952
(20,145)	(60)	(20,205)	(1,320)	2,091	771
87,960	3,210	91,170	65,921	682	66,603
67,815	3,150	70,965	64,601	2,773	67,374
Actual amount charged against the General Fund Balance in the year: employers' contributions payable to the Scheme					

The cumulative value of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is **£633.717m** (2010/11: £346.561m).

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38.2 Assets and liabilities in relation to post-employment benefits

Scheme Liabilities

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

2010/11				2011/12		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,954,983	42,975	1,997,958	Balance as at 1 April	1,900,519	40,088	1,940,607
58,928	-	58,928	Current service cost	50,336	-	50,336
109,903	2,277	112,180	Interest Cost	100,934	2,091	103,025
20,691		20,691	Contributions by scheme participants	18,706		18,706
(65,149)	323	(64,826)	Actuarial (gains) / losses	220,137	(3,113)	217,024
(64,472)	(3,150)	(67,622)	Benefits paid	(64,043)	(2,773)	(66,816)
(117,382)	(2,337)	(119,719)	Past service costs	-	-	-
-		-	Settlements	(123,492)		(123,492)
3,017	-	3,017	Curtailments	4,133	-	4,133
1,900,519	40,088	1,940,607	Balance as at 31 March	2,107,230	36,293	2,143,523

Scheme Assets

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

2010/11				2011/12		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,197,152	-	1,197,152	Balance as at 1 April	1,267,329	-	1,267,329
74,611	-	74,611	Expected return on scheme assets	84,073	-	84,073
(28,468)		(28,468)	Actuarial gains / (losses)	(70,132)		(70,132)
67,815	3,150	70,965	Contributions by the Council	64,601	2,773	67,374
20,691	-	20,691	Contributions by scheme participants	18,706	-	18,706
(64,472)	(3,150)	(67,622)	Benefits paid	(64,043)	(2,773)	(66,816)
-		-	Settlements	(50,842)		(50,842)
1,267,329	-	1,267,329	Balance as at 31 March	1,249,692	-	1,249,692

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 2012 was **3.3%** (31 March 2011: 4.4%);
- 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 2012 the yield was **4.6%** (31st March 2011: 5.1%); and

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- 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 2012, the assumed return on equities was **6.4%** per annum (31 March 2011: 7.5%).

The actual return on the Local Government Pension Scheme assets for the year was a gain of **£13.941m** (2010/11: gain of £116.080m).

Scheme History

	Local Government Pension Scheme			Teachers' Pension Scheme		
	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme
	£000	£000	£000	£000	£000	£000
2007/08	(1,671,192)	1,107,153	(564,039)	-	-	-
2008/09	(1,441,202)	891,470	(549,732)	-	-	-
2009/10	(1,954,983)	1,197,152	(757,831)	(42,975)	-	(42,975)
2010/11	(1,900,519)	1,267,329	(633,190)	(40,088)	-	(40,088)
2011/12	(2,107,230)	1,249,692	(857,538)	(36,293)	-	(36,293)

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 **£893.831m** (2010/11: £673.278m) 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 2013 is **£55.806m**. Expected contributions for the Teachers' unfunded added years awards to 31 March 2013 are **£2.773m**.

38.3 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 Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at 31 March 2010.

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

Assumptions	2010/11	2011/12
▪ Rate of inflation		
- RPI	3.4%	3.3%
- CPI	2.9%	2.5%
▪ Rate of increase in salaries	4.4%	4.3%
▪ Rate of increase in pensions	2.9%	2.5%
▪ Discount rate	5.5%	4.6%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners retiring in 20 years time at 65:		
▪ Male	24.0 years	24.1 years
▪ Female	26.8 years	26.8 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.6 years	22.7 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Female	25.2 years	25.3 years
▪ Commutation of pension for lump sum at retirement:		
- % taking maximum cash	50%	50%
- % taking 3/80 ^{ths} cash	50%	50%
▪ Long term expected rate of return on assets in the scheme:		
- Equities	7.5%	6.4%
- Government bonds	4.4%	3.3%
- Other bonds	5.1%	4.6%
- Property	6.5%	5.4%
- Cash / liquidity	0.5%	0.5%

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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	2010/11	2011/12
▪ Rate of inflation		
- RPI	3.3%	3.3%
- CPI	2.8%	2.5%
▪ Rate of increase in pensions	2.8%	2.5%
▪ Discount rate	5.4%	4.6%
▪ Life expectancy		
- Male	22.6 years	22.7 years
- Female	25.2 years	25.3 years

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

2010/11 %	2011/12 %
70 Equities	70
7 Government bonds	4
10 Other bonds	10
11 Property	14
3 Cash / liquidity	2
<hr/> 100	<hr/> 100

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38.4 History of experience gains and losses

The actuarial gains and losses identified as movements in the Pension Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31st March.

	Difference between expected and actual return on assets %	Experience gains and losses on liabilities %
2007/08	- 11.10%	+ 1.10%
2008/09	- 35.10%	0.00%
2009/10	+ 21.10%	0.00%
2010/11	- 2.20%	+ 2.80%
2011/12	- 5.60%	+ 0.70%

39. Audit costs

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

2010/11 Restated £000		2011/12 £000
441	External audit services carried out by appointed auditor	364
54	Certification of grant claims and returns	62
495		426
(23)	Less: rebates in audit fees	(29)
472	Total fees payable to the appointed auditor	397

Note: the prior year comparatives have been restated to reflect the finally agreed fee associated with the audit of the 2010/11 accounts.

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40. Members' allowances and expenses

The total of allowances and expenses paid to Members of the Council during the year amounted to:

2010/11 £000		2011/12 £000
	Members allowances	
862	Basic allowances	855
761	Special responsibility allowances	677
<hr/> 1,623		<hr/> 1,532
96	Members expenses	90
<hr/> 1,719		<hr/> 1,622

41. 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.

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The number of officers whose remuneration in 2011/12 was £50,000 or more, grouped in rising bands of £5,000, are listed in the following table.

2010/11			Remuneration band		2011/12		
Non-schools	Schools	Total			Non-schools	Schools	Total
127	318	445	£50,000	to £54,999	127	217	344
89	214	303	£55,000	to £59,999	81	180	261
54	165	219	£60,000	to £64,999	42	117	159
40	82	122	£65,000	to £69,999	44	70	114
30	26	56	£70,000	to £74,999	32	23	55
15	16	31	£75,000	to £79,999	20	10	30
19	16	35	£80,000	to £84,999	18	12	30
20	13	33	£85,000	to £89,999	17	6	23
14	10	24	£90,000	to £94,999	11	7	18
15	7	22	£95,000	to £99,999	8	4	12
7	4	11	£100,000	to £104,999	8	-	8
6	4	10	£105,000	to £109,999	7	2	9
3	1	4	£110,000	to £114,999	4	1	5
3	1	4	£115,000	to £119,999	-	-	-
2	1	3	£120,000	to £124,999	3	-	3
1	-	1	£125,000	to £129,999	-	1	1
-	-	-	£130,000	to £134,999	2	-	2
3	1	4	£135,000	to £139,999	2	-	2
1	-	1	£140,000	to £144,999	1	-	1
2	-	2	£150,000	to £154,999	-	-	-
1	-	1	£155,000	to £159,999	3	-	3
4	-	4	£160,000	to £164,999	1	-	1
1	-	1	£170,000	to £174,999	1	-	1
1	-	1	£180,000	to £184,999	1	-	1
-	-	-	£225,000	to £229,999	1	-	1
1	-	1	£240,000	to £244,999	-	-	-
459	879	1,338	Total		434	650	1,084

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42. Senior officers' remuneration

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

	Notes	Remuneration						
		Salaries, fees and 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
		£	£	£	£	£	£	£
2010/11								
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	(viii)	162,000	-	1,167	-	163,167	19,995	183,162
Deputy Chief Executive and Commissioning Director for Adult Social Services - Miss Jennifer Owen	(ix)	162,320	-	841	-	163,161	20,036	183,197
Director of Transformation - Mr Keir Lynch		157,860	4,800	1,099	-	163,759	20,073	183,832
Executive Director for Finance - Mrs Margaret Lee		152,654	4,280	1,099	-	158,033	19,443	177,476
Director for Customer Services Mr Andrew Fairchild	(v)	152,974	-	1,050	-	154,024	18,854	172,878
Executive Director for Schools Children & Families - Mr David Hill	(vi)	75,833	-	472	-	76,305	9,406	85,711
Assistant Chief Executive		122,500	-	1,099	-	123,599	15,480	139,079
County Solicitor	(x)	114,144	2,021	2,288	-	118,453	14,814	133,267
2011/12								
Chief Executive - Ms Joanna Killian	(iv)	225,000	-	744	-	225,744	29,025	254,769
Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		157,000	-	968	-	157,968	19,350	177,318
Executive Director for Commercial Services - Mr Graham Tombs	(viii)	2,492	-	-	140,676	143,168	308	143,476
Deputy Chief Executive and Commissioning Director for Adult Social Services - Miss Jennifer Owen	(ix)	162,000	-	702	-	162,702	19,932	182,634
Director of Transformation - Mr Keir Lynch		157,000	-	968	-	157,968	19,350	177,318
Executive Director for Finance - Mrs Margaret Lee		157,000	-	992	-	157,992	19,350	177,342
Deputy Executive Director & Adult Social Care Director		127,452	-	3,429	-	130,881	16,423	147,304
Executive Director for Schools Children & Families - Mr David Hill	(vi)	182,000	-	968	-	182,968	22,575	205,543
Assistant Director - Corporate law	(xi)	64,615	-	255	-	64,870	8,335	73,205
Assistant Chief Executive		122,500	-	968	-	123,468	15,480	138,948
County Solicitor	(x)	102,820	-	3,408	-	106,228	13,264	119,492

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.
- (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

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been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual.

- (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 fulfilled the role of Chief Executive for Brentwood Borough Council until 31st March 2012, providing strategic management and coordination under a contract for services (see note 43, which commences on page 121, for further details).*
- (v) The Director for Customer Services, Mr Andrew Fairchild, joined the County Council on 12th April 2010 and left on 10th April 2011.*
- (vi) The Executive Director for Schools, Children and Families, Mr David Hill, joined the County Council on 1st November 2010.*
- (vii) 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 **£173,655** in 2010/11 (of which **£150,212** was payable to Mr Newsam in 2010/11).*
- (viii) Mr Graham Tombs, who occupied the post of Executive Director for Commercial Services, left the Council on 6th April 2011.*
- (ix) Ms Jenny Owen, who occupied the post of Deputy Chief Executive and Commissioning Director for Adult Social Services, left the Council on 31st March 2012.*
- (x) The County Solicitor undertook the role of Monitoring Officer for the Council until 10th October 2011.*
- (xi) The Assistant Director – Corporate Law assumed the role of Monitoring Officer with effect from 11th October 2011.*
- (xii) The Council employed various interim and consultancy staff during 2011/12. The following interim staff earned £150,000, or more, during 2011/12 as follows:*
 - Mr Stephen Spence, who was employed as an Information Technology consultant, received **£166,082** (at a cost to the Council of **£195,479**); and*
 - Mr Peter Lewis, who held the position of Interim Assistant Director – Financial Strategy, received **£156,770** (at a cost to the Council of **£182,951**).*

Neither of these interim officers held a position on the Council's Corporate Leadership Team.

43. 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.

Section Two - Notes to the Financial Statements

Related party	Declaration
UK Government	<p>The UK 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 13 and 15.</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 2011/12 is shown in note 40.</p> <p>During 2011/12, 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, a grant of £30,000 was awarded to the Braintree District Museum and Study Centre Trust Ltd; Cllr David John Baugh is a trustee of this Trust. The decision to award this grant was made with proper consideration of members' declarations of interest. Cllr Baugh did not take part in any discussion or decision relating to the giving of this grant.</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 £1.404m for administering the Fund during 2011/12 (2010/11: £1.332m), of which £115,000 was outstanding at 31st March 2012.</p>
Essex Police Authority	<p>The Council provided legal, pension, internal audit and coroners' services to the Essex Police Authority in 2011/12 to the value of £766,000 (2010/11: £864,000).</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 2011/12 was £129,000 (2010/11: £143,000).</p>

Section Two - Notes to the Financial Statements

Related party	Declaration
Essex Probation Board	<p>The Council provided financial and other support services to the Essex Probation Board during 2011/12. The value of the services provided in 2011/21 was £266,000 (2010/11: £288,000), of which £56,000 was outstanding at 31st March 2012.</p> <p>The Council undertakes the management of the Probation Board's surplus cash balances. The Council paid interest of £7,000 (£1,000 of which was outstanding at 31st March 2012) on the amounts borrowed (determined at the prevailing Local Authority Seven Day Rate of interest) (2010/11: £11,000).</p>
London Probation Board	<p>The Council provided legal services to the London Probation Board during 2011/12. The charge levied for these services amounted to £123,000 (2010/11: £258,000), of which £19,000 was outstanding at 31st March 2012.</p>
Brentwood Borough Council	<p>The Council entered into an agreement with Brentwood Borough Council to create a strategic partnership to improve two tier working. This strategic partnership ran for a period of three years until 31st March 2012. The objective was to improve service delivery and enhance the authorities' understanding of each other.</p> <p>For the duration of this strategic partnership, the County Council's Chief Executive, Joanna Killian, also fulfilled 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 paid the County Council £30,000 per annum for this support.</p> <p>In addition, the Borough Council's former Director of Finance was an employee of the County Council, seconded to fulfil this role on a fixed term contract. Costs payable by Brentwood Borough Council in respect of this secondment amounted to £116,000 in 2011/12.</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 128 to 136.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of £39.4m in 2011/12 (2010/11: £36.1m).</p> <p>The Council provided financial and other support services to Essex Cares Ltd during 2011/12. The value of the services provided in 2011/12 was £259,000 (2010/11: £259,000).</p>

Section Two - Notes to the Financial Statements

Related party	Declaration
	The Council also provides cash management support to Essex Cares Ltd. The Council has paid interest of £9,700 (net) on the amounts it borrowed from Essex Cares Ltd (2010/11: received interest of £131,000 on amounts lent); £1,000 of this total was outstanding at 31st March 2012.
Essex Cultural Diversity Project Ltd	Two employees of the Council are on the Board of Trustees for this company, which operates as a charity. The Council awarded funding of £27,500 to this project in 2011/12 for the purpose of developing the arts across the county. This funding represented a significant proportion of the total income generated by the Trust in 2011/12.

44. Partnership arrangements

The Council is involved in a number of partnership arrangements, the most significant of which are follows:

Partnership	Nature of partnership
Local Enterprise Partnership	<p>The strategic aims of this partnership are to</p> <ul style="list-style-type: none"> Secure the growth of the Thames Gateway; Promote investment in coastal communities; Strengthen the rural economy; Strengthen the competitive advantage of strategic growth locations. <p>The Partnership has 45 members (<i>19 businesses, 19 local authorities, 3 higher/further education representatives and a chairperson</i>).</p> <p>The partnership manages a recyclable fund, established from grant awarded by the Department for Communities and Local Government (Growing Places grant). Through the use of this fund, the partnership aims to support economic growth, new enterprise and employment opportunities.</p> <p>Essex County Council is the accountable body for the partnership and for the Growing Places grant.</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</p>

Section Two - Notes to the Financial Statements

Partnership	Nature of partnership
	<p>Service and HMP Chelmsford.</p> <p>West Essex PCT receives funding from the Department of Health. 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>
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 is supported by an Executive Group.</p> <p>The Council accounts for all of the expenditure and income (including funding received from its partners) within its 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>
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"> ▪ Essex and Suffolk County Councils; ▪ Suffolk Coastal, Mid Suffolk, Ipswich, Babergh, Colchester and Tendring District/Borough Councils; ▪ Hutchinson Ports; ▪ British Telecom; and ▪ Harwich Haven Authority. <p>The Council acts as the accountable body for this partnership.</p>

Section Two - Notes to the Financial Statements

45. Trust Funds

At 31 March 2012 the Council acted as sole trustee for 3 trust funds and as administrator for 8 other trust funds (31 March 2011: 3 and 8 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 2011 £000	2011/12 transactions		Balance 31 March 2012 £000
		Income £000	Expenditure £000	
Sole Trustee Funds				
F W Powell scholarship	(30)	-	-	(30)
Kendrick trust	(27)	-	-	(27)
Essex awards (incl. former Florence Knapton and other funds)	(82)	-	1	(81)
	(139)	-	1	(138)
Administrator Funds				
Great and Little Leighs educational trust	(114)	(9)	8	(115)
Paslow common foundation	(93)	(4)	-	(97)
J H Burrows scholarship	(20)	-	-	(20)
Other	(21)	(1)	-	(22)
	(248)	(14)	8	(254)
Total Trust Funds	(387)	(14)	9	(392)

None of these individual funds have been subject to audit.

46. 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.

Section Two - Notes to the Financial Statements

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:

2010/11			2011/12		
Saffron Walden Library	Writtle Library & reading room		Saffron Walden Library	Writtle Library & reading room	
£000	£000		£000	£000	
52	31	Expenditure	57	28	
(49)	(29)	Income	(53)	(26)	
3	2	Total	4	2	
1,619	327	Assets	1,615	325	
(1)	-	Liabilities	(1)	(1)	
1,618	327	Total	1,614	324	

Section Two - Group Accounts

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.

	Page
Group Movement in Reserves Statement	129
Group Comprehensive Income and Expenditure Statement	130
Group Balance Sheet	131
Group Cash Flow Statement	132
Notes to the Group Accounts	133

Note:

The prior year comparatives in the Group Statements reflect a restatement of the Council's single entity accounts, as explained in Note 5, on page 50.

Group Movement in Reserves Statement

For the year ended 31 March 2012

	Notes	Usable Reserves						Total Unusable Reserves	Total Reserves	Analysis of Reserves		
		Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			Total Usable Reserves	Total Authority Reserves	Authority Share of Reserves of Subsidiary
		£000	£000	£000	£000	£000	£000			£000	£000	£000
Balance at 31 March 2010		(194,597)	(33,071)	7,224	(4,469)	(11,760)	(7,143)	(243,816)	(1,044,273)	(1,288,089)	(1,290,844)	2,755
Movement in Reserves during 2010/11												
Deficit on Provision of Services		-	40,025	(7,875)	-	-	-	32,150	-	32,150	40,025	(7,875)
Other Comprehensive Expenditure & Income		-	-	-	1,393	-	-	1,393	(59,412)	(58,019)	(59,412)	1,393
Total Comprehensive Expenditure and Income		-	40,025	(7,875)	1,393	-	-	33,543	(59,412)	(25,869)	(19,387)	(6,482)
Adjustments between accounting basis & funding under regulations		-	(53,457)	-	-	(9,206)	(5,866)	(68,529)	68,529	-	-	-
Net increase/decrease before transfers to earmarked reserves		-	(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	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2010/11		(14,512)	1,080	(7,875)	1,393	(9,206)	(5,866)	(34,986)	9,117	(25,869)	(19,387)	(6,482)
Balance at 31 March 2011		(209,109)	(31,991)	(651)	(3,076)	(20,966)	(13,009)	(278,802)	(1,035,156)	(1,313,958)	(1,310,231)	(3,727)
Movement in Reserves during 2011/12												
Deficit on Provision of Services		-	52,655	(1,229)	-	-	-	51,426	-	51,426	52,655	(1,229)
Other Comprehensive Expenditure & Income		-	-	-	6,539	-	-	6,539	178,610	185,149	178,610	6,539
Total Comprehensive Expenditure and Income		-	52,655	(1,229)	6,539	-	-	57,965	178,610	236,575	231,265	5,310
Adjustments between accounting basis & funding under regulations		-	(94,968)	2,920	(2,920)	17,791	(7,591)	(84,768)	84,768	-	-	-
Net increase/decrease before transfers to earmarked reserves		-	(42,313)	1,691	3,619	17,791	(7,591)	(26,803)	263,378	236,575	231,265	5,310
Transfers to Earmarked Reserves		(11,288)	11,288	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2011/12		(11,288)	(31,025)	1,691	3,619	17,791	(7,591)	(26,803)	263,378	236,575	231,265	5,310
Balance at 31 March 2012		(220,397)	(63,016)	1,040	543	(3,175)	(20,600)	(305,605)	(771,778)	(1,077,383)	(1,078,966)	1,583

Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2012

2010/11 (restated)				Note	2011/12			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
533,023	(137,543)	(10,590)	384,890	Adult Social Care	526,521	(85,118)	(66,881)	374,522
1,521,290	(106,580)	(1,100,326)	314,384	Children's and Education services	1,292,943	(83,589)	(872,766)	336,588
39,377	(5,835)	(38)	33,504	Cultural and related services	37,373	(5,606)	(391)	31,376
69,356	(2,211)	(1,176)	65,969	Environmental and regulatory services	69,189	(2,372)	(75)	66,742
140,259	(35,054)	(3,244)	101,961	Highways, roads and transportation services	147,744	(21,691)	(6,710)	119,343
1,035	(751)	(150)	134	Housing services	2,797	(673)	(1,764)	360
23,818	(2,964)	(8,002)	12,852	Planning services	17,647	(2,433)	(2,998)	12,216
				Central Services				
7,804	(3,859)	-	3,945	Central services to the public	7,365	(3,826)	-	3,539
23,040	(437)	(373)	22,230	Corporate and democratic core	20,210	(185)	(74)	19,951
6,346	(300)	(47)	5,999	Non distributed costs	9,360	(15)	(43)	9,302
(121,552)	-	-	(121,552)	Exceptional Items	(72,650)	-	-	(72,650)
2,243,796	(295,534)	(1,123,946)	824,316	Cost of services	2,058,499	(205,508)	(951,702)	901,289
138,488	-	-	138,488	Other Operating Expenditure	167,796	-	-	167,796
140,928	(79,641)	-	61,287	Financing and Investment Income and Expenditure	125,151	(86,731)	-	38,420
-	(792,196)	(199,608)	(991,804)	Taxation and non specific grant income	-	(796,917)	(259,162)	(1,056,079)
2,523,212	(1,167,371)	(1,323,554)	32,287	Deficit on Provision of Services	2,351,446	(1,089,156)	(1,210,864)	51,426
			(137)	Tax expenses of subsidiary				-
			32,150	Group deficit				51,426
			(23,054)	(Surplus)/deficit arising on revaluation of fixed assets				(108,546)
			(34,965)	Actuarial losses on Pension Fund assets and liabilities				293,695
			(58,019)	Other Comprehensive Income and Expenditure				185,149
			(25,869)	Total Comprehensive Income and Expenditure				236,575

Section Two - Group Accounts

Group Balance Sheet as at 31st March 2012

1 April 2010 Restated £000	31 March 2011 Restated £000	Note	31 March 2012 £000
		Property, Plant and Equipment	
		Operational assets	
1,960,841	1,829,784	Land and buildings	1,672,150
7,022	8,651	Vehicles, plant and equipment	54,957
549,082	611,322	Infrastructure	650,213
2,491	2,678	Community assets	3,314
		Non operational assets	
90,380	109,160	Assets under construction	128,593
7,046	5,496	Surplus assets held pending disposal	4,838
2,616,862	2,567,091	Total Property, Plant and Equipment	2,514,065
14,287	14,314	Heritage assets	14,312
3,810	3,920	Investment property	3,831
97	1,197	Intangible assets	1,942
11,259	1,042	Long term investments	1,693
27,191	26,095	Long term debtors	24,342
2,673,506	2,613,659	Long term assets	2,560,185
(1,691)	21,354	Short term investments	18,665
951	800	Inventory	834
165,057	157,966	Short term debtors	125,170
111,807	85,134	Cash and cash equivalents	152,622
4,171	3,373	Assets held for sale	4,328
280,295	268,627	Current assets	301,619
(5,068)	(6,273)	Short-term borrowing	(7,039)
(278,142)	(234,672)	Creditors	(251,968)
(13,892)	(24,795)	Revenue grant receipts in advance	(18,907)
(66,777)	(96,723)	Capital grant receipts in advance	(61,147)
(6,237)	(10,892)	Provisions (short term)	(7,907)
(2,681)	(2,998)	Finance lease obligations - short term	(3,112)
(372,797)	(376,353)	Current liabilities	(350,080)
(135)	(35)	Long term creditors	-
(33,310)	(27,886)	Provisions	(26,380)
(323,718)	(361,588)	Long term borrowing	(360,449)
(119,707)	(117,117)	Other long term liabilities	
(19,708)	(17,962)	Finance lease obligations - long term	(136,081)
(796,337)	(667,387)	Deferred credits	(17,057)
(1,292,915)	(1,191,975)	Pension liability	(894,374)
1,288,089	1,313,958	Long term liabilities	(1,434,341)
		Net Assets	1,077,383
		Usable reserves	
(194,597)	(209,109)	Earmarked reserves	(220,397)
(33,071)	(31,991)	General Fund Balance	(63,016)
7,224	(651)	Profit and Loss reserve	1,040
(4,469)	(3,076)	Pension reserve	543
(11,760)	(20,966)	Usable capital receipts reserve	(3,175)
(7,143)	(13,009)	Capital grants unapplied	(20,600)
(243,816)	(278,802)		(305,605)
		Unusable reserves	
(115,521)	(120,510)	Revaluation reserve	(218,739)
(1,748,077)	(1,606,446)	Capital Adjustments Account	(1,459,916)
3,382	3,342	Financial Instruments Adjustment Account	3,301
800,806	673,278	Pension reserve	893,831
(7,221)	(6,221)	Deferred capital receipts	(5,221)
(1,501)	(2,915)	Collection Fund Adjustment Account	(2,576)
23,859	24,316	Accumulating Compensated Absences Adjustment Account	17,542
(1,044,273)	(1,035,156)		(771,778)
(1,288,089)	(1,313,958)	Total Reserves	(1,077,383)

Section Two - Group Accounts

Group Cash Flow Statement

2010/11 £000	Notes		2011/12 £000
(40,038)	5 ↓	Operating activities	(87,620)
103,513		Investing activities	67,471
(36,802)		Financing activities	(47,339)
26,673		Net (increase) / decrease in cash and cash equivalents	(67,488)
111,807		Cash and cash equivalents at 1st April	85,134
85,134		Cash and cash equivalents at 31st March	152,622

Section Two - Group Accounts

Notes to the Group Accounts

1. Group boundary

The Council has an interest in a number of entities, the most significant of which is Essex Cares Ltd.

Essex Cares Ltd commenced trading in July 2009 and was established by the Council in order to provide services for people living in the Community who require care, support and assistance. 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.

None of other Local Authority Trading Companies in which the Council has an interest are considered material enough, either when considered individually or in aggregate, to merit consolidation into the Council's Group Accounts.

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.

3. Debtors and creditors

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

4. Defined Benefit Pension Schemes

Note 37 of the Council's single entity accounts explain 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.

Section Two - Group Accounts

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2011/12:

2010/11			2011/12		
Authority £000	Subsidiary £000	Group £000	Authority £000	Subsidiary £000	Group £000
Comprehensive Income and Expenditure Statement					
58,928	1,981	60,909			
(117,382)	(1,792)	(119,174)	50,336	1,836	52,172
3,017	161	3,178	-	-	-
-	-	-	4,133	191	4,324
			(72,650)	-	(72,650)
(55,437)	350	(55,087)	(18,181)	2,027	(16,154)
109,903	2,215	112,118			
(74,611)	(2,744)	(77,355)	100,934	1,780	102,714
			(84,073)	(2,556)	(86,629)
35,292	(529)	34,763	16,861	(776)	16,085
(20,145)	(179)	(20,324)	(1,320)	1,251	(69)
87,960	1,996	89,956			
			65,921	105	66,026
67,815	1,817	69,632	64,601	1,356	65,957

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

2010/11			2011/12		
Authority £000	Subsidiary £000	Group £000	Authority £000	Subsidiary £000	Group £000
1,954,983	38,221	1,993,204	1,900,519	31,242	1,931,761
58,928	1,981	60,909	50,336	1,836	52,172
109,903	2,215	112,118	100,934	1,780	102,714
20,691	739	21,430	18,706	743	19,449
(65,149)	(10,238)	(75,387)	220,137	4,407	224,544
(64,472)	(45)	(64,517)	(64,043)	(460)	(64,503)
(117,382)	(1,792)	(119,174)	-	-	-
-	-	-	(123,492)	-	(123,492)
3,017	161	3,178	4,133	191	4,324
1,900,519	31,242	1,931,761	2,107,230	39,739	2,146,969

Section Two - Group Accounts

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

2010/11				2011/12		
Authority £000	Subsidiary £000	Group £000		Authority £000	Subsidiary £000	Group £000
1,197,152	42,691	1,239,843	Balance as at 1 April	1,267,329	37,133	1,304,462
74,611	2,744	77,355	Expected return on scheme assets	84,073	2,556	86,629
(28,468)	(10,813)	(39,281)	Actuarial gains / (losses)	(70,132)	(2,132)	(72,264)
67,815	1,817	69,632	Contributions by the Council	64,601	1,356	65,957
20,691	739	21,430	Contributions by scheme participants	18,706	743	19,449
(64,472)	(45)	(64,517)	Benefits paid	(64,043)	(460)	(64,503)
-	-	-	Settlements	(50,842)	-	(50,842)
1,267,329	37,133	1,304,462	Balance as at 31 March	1,249,692	39,196	1,288,888

Finally, the Scheme history is as follows:

	Local Government Pension Scheme			Teachers' Pension Scheme		
	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme
	£000	£000	£000	£000	£000	£000
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)	(42,975)	-	(42,975)
2010/11	(1,931,761)	1,304,462	(627,299)	(40,088)	-	(40,088)
2011/12	(2,146,969)	1,288,888	(858,081)	(36,293)	-	(36,293)

Section Two - Group Accounts

5. Cash Flow

The cash flows for operating, investing and financing activities include the following items:

2010/11 £000		2011/12 £000
Cash flows from operating activities		
Cash inflows		
(790,919)	Taxation	(797,256)
(1,196,313)	Grants	(1,062,466)
(367,618)	Sales of goods and rendering of services	(240,146)
(2,897)	Interest received	(3,791)
-	Dividends received	-
Cash outflows		
935,769	Cash paid to and on behalf of employees	751,452
27,677	Interest paid	28,351
1,198,158	Cash paid to suppliers of goods and services	1,098,078
156,105	Other payments for operating activities	138,158
(40,038)	Net inflow of cash from operating activities	(87,620)
Cash flows from investing activities		
Cash inflows		
(14,821)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,830)
-	Proceeds from short and long term investments	(2,689)
(151,762)	Other receipts from investing activities	(127,154)
Cash outflows		
171,237	Purchase of property, plant and equipment, investment property and intangible assets	138,746
11,137	Purchase of short and long term investments	651
87,722	Other payments for investing activities	63,747
103,513	Net outflow of cash from investing activities	67,471
Cash flows generated from financing activities		
Cash inflows		
(39,232)	Cash receipts of short and long term borrowing	-
-	Other receipts from financing activities	(50,914)
Cash outflows		
2,273	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	3,202
157	Other payments for financing activities	373
(36,802)	Net inflow of cash from financing activities	(47,339)
26,673	Net (increase) / decrease in cash and cash equivalents	(67,488)

Section Two - Pension Fund Accounts

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.

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Fund Account	138
Net Asset Statement	139
Notes to the Pension Fund Accounts	140

Section Two - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2012

2010/11 £000	Note		2011/12 £000	£000
		Contributions and Benefits		
		Income		
		Contributions receivable		
(50,353)	5	Member contributions	(48,558)	
(173,106)	5	Employers' contributions	(161,588)	
(27,683)	5	Transfers in from other Pension Funds	(14,192)	
(169)		Other income	(152)	
<u>(251,311)</u>		Total income		<u>(224,490)</u>
		Expenditure		
		Benefits payable		
130,775	5	Pensions	141,174	
43,229		Commutation of pensions & lump sum retirement benefits	33,883	
3,338		Lump sum death benefits	4,752	
		Payments to and on account of Leavers		
15		Refunds of contributions	10	
-		State scheme premiums	1	
17,246	5	Transfers out to other schemes	9,946	
1,816	7	Administration expenses	1,922	
<u>196,419</u>		Total expenditure		<u>191,688</u>
(54,892)		Net additions from dealings with members		<u>(32,802)</u>
		Returns on investments		
(48,977)	6	Investment income	(60,706)	
(240,963)	9	Profit and losses on disposal of investments and changes in market value of investments	(30,690)	
2,134	12	Taxes on income	2,463	
13,560	8	Investment management expenses	16,100	
<u>(274,246)</u>		Net returns on investments		<u>(72,833)</u>
(329,138)		Net (increase)/decrease in the assets available for benefits during the year		<u>(105,635)</u>
(3,084,874)		Net assets as at 1 April		<u>(3,414,012)</u>
<u>(3,414,012)</u>		Net assets as at 31 March		<u>(3,519,647)</u>

Section Two - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31 March 2012

31 March 2011 £000 Restated	Note		31 March 2012	
			£000	£000
	9	Investments at market value		
		Investment assets		
226,019		Fixed interest securities	170,600	
2,118,859		Equities	2,185,607	
171,839		Index linked securities	127,446	
234,688		Property unit trusts	237,865	
126,264		Private Equity	154,424	
65,914		Infrastructure	103,002	
-		Timber	28,181	
58,341		Active currency	25,676	
156,301		Other managed funds	163,410	
22		Derivative contracts	21,653	
147,520		Property	196,040	
76,737		Cash/deposits	68,868	
13,347		Other investment balances	8,085	
<u>3,395,851</u>				3,490,857
		Investment liabilities		
(3,060)		Derivative contracts	(45)	
(9,429)		Other investment balances	(4,611)	
<u>(12,489)</u>				(4,656)
<u>3,383,362</u>		Total Investments		<u>3,486,201</u>
		Long term assets		
12,428		Contributions due from employers		11,081
	11	Current assets and liabilities		
		Current Assets		
13,150		Cash		10,085
18,746		Contributions due from employers and other current assets		19,151
<u>3,427,686</u>				<u>3,526,518</u>
		Current liabilities		
(13,674)		Unpaid benefits and other current liabilities		(6,871)
<u>3,414,012</u>		Net assets of the scheme available to fund benefits		<u>3,519,647</u>

Section Two - Pension Fund Accounts

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 timber 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 financial statements have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2011/12(SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007).

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.

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2011/12 financial year and its position as at 31 March 2012. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2012 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.2.

Section Two - Pension Fund Accounts

3. Actuarial valuation

The contributions payable for 2011/12 were determined by the 2010 Actuarial Valuation.

3.1 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 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.

Section Two - Pension Fund Accounts

The main financial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	Past service liabilities (funding target) <i>Rate per annum</i>	Future service liabilities (common contribution rate) <i>Rate per annum</i>
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.

3.2 Actuarial present value of promised retirement benefits

As highlighted in 3.1 above, an actuarial valuation of the fund is carried out every three years. This formally assesses the assets and liabilities of the employers within the Fund and determines the contributions each employer pays. This is for funding purposes. The assumptions and methodology used are set out in the Actuarial Valuation and Fund Strategy Statement, and are not determined by IAS 19.

Separate to the Actuarial Valuation 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 in the Actuarial Valuation for funding purposes.

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has used a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2010. The discount rate of 4.6% per annum for both before and after retirement has been used (5.5% as at 31 March 2011), rather than the rates as outlined above. The value of the Fund's promised retirement benefits as at 31 March 2012 was **£5,918m** (£5,009m as at 31 March 2011).

Section Two - Pension Fund Accounts

Similar calculations were carried out as per the last actuarial valuation date of 31 March 2010, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.6% 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 **£4,720m**.

4. Accounting conventions

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 5 which commences on page 150).

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 5 which commences on page 150).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

4.1.3 Investment Income

Dividend income

Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Asset Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 12 of the accounting notes that accompany these financial statements.

Section Two - Pension Fund Accounts

Income from fixed interest, index linked securities, cash and short term deposits

Income from fixed interest, index linked securities, cash and short-term deposits is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from other investments

Income from other investments is accounted for on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.

Property related income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease.

Change in market value of investments

The change in market value of investments is recognised as income during the year and 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.

4.2 Fund Account – Expense recognition

4.2.1 Benefits Payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses 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. Any amounts due but not paid are disclosed in the Net Asset Statement as current liabilities.

Other benefits are accounted for on the date the member leaves the Fund or upon death.

4.2.2 Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 12).

Section Two - Pension Fund Accounts

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all fund activities including expenditure on investments and property expenses.

4.2.3 Administration expenses

Administration expenses are accounted for on an accruals basis. All expenses are recognised net of any recoverable VAT. All relevant staff costs including management, accommodation and other overhead costs has been charged direct to the Fund on the basis of time spent on investment related matters and pension administration. In 2011/12 this totalled **£1.299m** (2010/11 £1.182m).

4.2.4 Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in their mandates governing their appointments. Broadly these are based on the market value of investments under their management and therefore increase or reduce as the value of investments change. In addition the Fund has negotiated with the following managers that an element of their fee be performance related subject to them reaching a trigger point:

- First State Investments (UK) Limited
- Marathon Asset Management Limited
- FIL Pensions Management

Performance related fees totalled **£0.423m** in 2011/12 (£0.520m in 2010/11).

When an investment manager's fee invoice has not been received by the balance sheet date a creditor has been raised and the actual invoice amount is shown in current liabilities.

The cost of obtaining investment advice from external consultants is included in investment management charges.

4.3 Net Asset Statement

▪ Financial Assets

Financial assets are included in the Net Asset Statement on a fair value basis as at the financial year end date of 31 March. The financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in fair value of the asset are recognised by the Fund in the Fund Account. Acquisition costs are included in the purchase cost of investments.

Section Two - Pension Fund Accounts

▪ **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.

▪ **Valuation of investments**

The value of investments as shown in the Net Asset Statement has been determined as outlined in the following paragraphs.

▪ **Market Quoted Investments**

In the majority of cases, market quoted equity investments for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

▪ **Unquoted Investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

- For unquoted equity and private equity limited partnerships investments are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. There is usually a time delay in receiving information from the private equity fund managers. In general these are valued as at 31 March 2012 and are compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. In a few cases an estimate of the valuation at 31 March 2012 has been made. The Fund amends the 31 December 2011 valuation for payments made to and payments received from the private equity managers in the period 1 January 2012 to 31 March 2012.
- Investments in unquoted property, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

▪ **Directly held investments**

Directly held investments include investments in limited partnerships, shares in unlisted companies, trust and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pooled or directly held securities is undertaken by the investment manager or responsible entity

Section Two - Pension Fund Accounts

and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

Unit trusts and managed funds are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

- **Value of fixed interest investments**

The value of fixed interest investments in the Fund's investment portfolio are recorded at net market value based on their current yield i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within note 9.

- **Derivatives**

- The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investments activities. The Fund does not hold derivatives for speculative purposes.
- Derivative contracts assets are held at fair value bid price and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (Note 9).
- The value of futures contracts is determined using exchange prices published by the relevant futures exchange e.g.: LIFFE – London International Financial Futures Exchange at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin.
- 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 March.

- **Dividends, Interest and Foreign Currencies**

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

- **Direct Property Investments**

Direct property investments have been valued, at open market value as at 31 March 2012, by Jones Lang LaSalle, Chartered Surveyors. The valuers opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

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- **Cash and Cash Equivalents**

Cash comprises of cash in hand and demand deposits.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- **Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the financial year end date of 31 March. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

- **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.

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.

- **Financial Instruments**

Financial assets are recognised by the Fund on the Balance Sheet only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the balance sheet. Assets are carried in the balance sheet at fair value. The values are based on the bid price.

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Section Two - Pension Fund Accounts

- **Critical judgements in applying accounting policies**

Use of Financial Instruments

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

Unquoted private equity

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2012 was **£154.4m** (£126.3m as at 31 March 2011).

Infrastructure

Overseas infrastructure values are determined in accordance with generally accepted valuation principles in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by M&G Investments are valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines.

The value of infrastructure as at 31 March 2012 was **£103.0m** (£69.5m as at 31 March 2011).

Timber

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2012 was **£28.1m** (£0.0m as at 31 March 2011).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Section Two - Pension Fund Accounts

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Asset Statement. This is shown in Note 3.2.

5. Membership activities

5.1 Membership

31 March 2011 <i>Restated</i>		31 March 2012
43,351	Contributors	42,315
34,723	Deferred pensioners	38,101
30,612	Pensioners	32,269

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

5.2 Pension benefits payable

2010/11 £000 <i>Restated</i>		2011/12 £000
49,311	Administering Authority	52,888
67,784	Scheduled Bodies	74,591
6,519	Admitted Bodies	6,729
4,468	Community Admission Bodies	3,684
2,348	Transferee Admission Bodies	2,872
345	Resolution Bodies	410
<u>130,775</u>		<u>141,174</u>

Section Two - Pension Fund Accounts

5.3 Contributions receivable

5.3.1 By category

Contributions receivable from employers are set out below:

2010/11 £000		2011/12 £000
96,103	Normal	86,582
16	Augmentation	2
71,482	Deficit	66,288
5,505	Other	8,716
173,106		161,588

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

5.3.2 By type

2010/11 (restated)			2011/12	
Member £000	Employer £000		Member £000	Employer £000
17,448	55,855	Administering Authority	16,646	53,696
23,546	89,573	Scheduled Bodies	24,421	84,396
1,478	5,097	Admitted Bodies	1,352	6,322
4,912	15,545	Community Admission Bodies	3,509	10,664
2,740	6,371	Transferee Admission Bodies	2,416	5,869
229	665	Resolution Bodies	214	641
50,353	173,106		48,558	161,588

During 2011/12 no lump sum contributions in respect of the Actuarial deficiency were received. During 2010/11 lump sum contributions in respect of Actuarial deficiency were received from Essex Probation of **£0.1m** and an accrual in respect of the Essex Magistrates Court Committee of **£12.556m**.

Section Two - Pension Fund Accounts

5.4 Transfers in from other pension funds

2010/11 £000		2011/12 £000
705	Group transfers	-
26,978	Individual transfers	14,192
27,683	Total	14,192

No amounts were receivable in respect of group transfers from other schemes in 2011/12. During 2010/11 **£0.7m** was received from Suffolk County Council, Ipswich Museum and **£5,000** was received from Metropolitan Police Superannuation Scheme.

5.5 Transfers out to other schemes

2010/11 £000		2011/12 £000
-	Group transfers	-
17,246	Individual transfers	9,946
17,246	Total	9,946

No amounts were payable in respect of group transfers to other schemes during 2011/12 and 2010/11.

Section Two - Pension Fund Accounts

6. Investment income

6.1 By Type

2010/11 <i>Restated</i> £000		2011/12 £000
29,213	Dividends from equities	34,771
3,156	Income from index linked securities	2,978
6,265	Income from pooled property investments	8,469
8,173	Net rent from properties	10,884
388	Interest from cash deposits	677
720	Other	952
47,915	Total investment income showing net property rent	58,731
	Add back:	
1,062	Property operating expenses	1,975
48,977	Total investment income showing gross property rent	60,706

In line with latest best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis. Please note the 2010/11 figure for net rent from property has been restated to take account of the above guidelines.

6.2 Investment property net rental

2010/11 £000		2011/12 £000
8,969	Rental Income from investment property	12,093
(796)	Direct operating expenses arising from investment property	(1,209)
8,173	Total	10,884

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6.3 Movement in the fair value of investment properties

2010/11			2011/12		
Freehold £000	Leasehold £000	Total £000	Freehold £000	Leasehold £000	Total £000
90,050	27,650	117,700	120,075	27,445	147,520
24,069	3	24,072	36,885	16,401	53,286
-	-	-	(5,958)	-	(5,958)
5,956	(208)	5,748	2,258	(1,066)	1,192
120,075	27,445	147,520	153,260	42,780	196,040
Balance at start of the year			Balance at start of the year		
Additions			Additions		
Disposals			Disposals		
Net gain/loss on fair value			Net gain/loss on fair value		
Balance at end of the year			Balance at end of the year		

7. Administrative expenses

2010/11 £000 Restated	2011/12 £000
1,182 Administration and Processing	1,299
413 Actuarial Fees	253
63 Audit fees	64
150 Legal fees	301
8 Other professional fees	5
1,816	1,922

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 management expenses

2010/11 £000	2011/12 £000
11,742 Management fees	13,377
391 Custody fees	471
54 Performance monitoring services	58
379 Advisory fees	464
994 Other	1,730
13,560 Total	16,100

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9. Investments

9.1 Value of 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:

2011			2012		
£m	%		£m	%	
234	6.9	Alliance Bernstein	213	6.1	
396	11.7	Aviva Investors	463	13.3	
293	8.7	Baillie Gifford and Co	290	8.3	
244	7.2	FIL Pensions Management	241	6.9	
180	5.3	First State Investments (UK) Ltd	192	5.5	
169	5.0	Goldman Sachs Asset Management International	171	4.9	
1,137	33.6	Legal and General Investment Management	1,142	32.8	
282	8.3	Marathon Asset Management Ltd	283	8.1	
30	0.9	Mellon Capital Management	26	0.7	
144	4.3	M&G Investments Alpha Opportunities	147	4.2	
54	1.6	M&G Investments Infracapital	67	1.9	
7	0.2	M&G Investments Financing Fund	14	0.4	
12	0.4	Partners Group Management II S.à r.l	36	1.1	
168	5.0	Private Equity/Other	171	4.9	
28	0.8	Record Currency Management	-	-	
5	0.1	Shareholder activism	2	0.1	
-	-	Stafford Timberland Limited	28	0.8	
3,383	100.0		3,486	100.0	

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9.2 Movement in the market value of investments

9.2.1 Reconciliation of movements in investments and derivatives for the year ended 31 March 2012

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 2011.

	Value at 1 April 2011	2011/12 Movement					Value at 31 March 2012
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK government	57,344	-	(31,718)	(30,000)	4,374	-	-
UK corporate	168,675	-	-	-	1,925	-	170,600
Equities							
UK	343,945	59,515	1,402	(39,127)	3,006	-	368,741
Overseas	1,774,914	462,777	(2,132)	(385,838)	(32,855)	-	1,816,866
Index linked securities	171,839	49,596	(30,898)	(94,797)	31,706	-	127,446
Properties							
Direct property							
UK properties freehold	120,075	36,885	-	(5,958)	2,258	-	153,260
UK properties leasehold	27,445	16,401	-	-	(1,066)	-	42,780
Property unit trusts	234,688	8,496	-	(4,967)	(352)	-	237,865
Private equity							
UK	629	65	-	(283)	(160)	-	251
Overseas	125,635	51,131	-	(32,157)	9,564	-	154,173
Infrastructure							
UK	53,913	10,234	-	(2,358)	4,973	-	66,762
Overseas	12,001	27,126	-	(2,592)	(295)	-	36,240
Timber	-	23,526	-	-	4,655	-	28,181
Active currency	58,341	-	(22,935)	-	(9,730)	-	25,676
Other managed funds							
UK	151,913	12,291	-	(1,205)	(312)	-	162,687
Overseas	4,388	-	-	(2,728)	(937)	-	723
Derivative future contracts	22	-	-	-	(1)	-	21
Cash							
Cash deposits held at the custodian/other							
Sterling	40,393	-	22,935	-	-	(22,377)	40,951
Foreign currency	36,179	-	-	(13,773)	13,773	(8,591)	27,588
Cash deposits held in the margin account							
Sterling	109	-	-	-	-	167	276
Foreign currency	56	-	-	(164)	164	(3)	53
	3,382,504	758,043	(63,346)	(615,947)	30,690	(30,804)	3,461,140
Other investment balances							
Assets							
Amounts receivable for sales of investments	8,082						2,591
Investment income due	5,265						5,494
Liabilities							
Amounts payable for purchase of investments	(9,281)						(4,484)
Investment withholding tax payable	(148)						(127)
Derivative pending foreign currency contracts							
Assets	-						21,632
Liabilities	(3,060)						(45)
	3,383,362						3,486,201

For 2011/12, the total transaction costs were **£1.2m** (2010/11: £1.2m and 2009/10: £2.0m).

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9.2.2 Reconciliation of movements in investments and derivatives for the year ended 31 March 2011

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 2010

	Value at 1 April 2010	2010/11 Movement					Value at 31 March 2011
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK government	57,037	3,656	-	(6,146)	2,797	-	57,344
UK corporate	160,734	-	-	-	7,941	-	168,675
Equities							
UK	329,583	31,214	-	(43,941)	27,089	-	343,945
Overseas	1,576,166	430,103	-	(387,859)	156,504	-	1,774,914
Index linked securities	172,895	13,996	-	(24,701)	9,649	-	171,839
Properties							
Direct property							
UK properties freehold	90,050	24,069	-	-	5,956	-	120,075
UK properties leasehold	27,650	3	-	-	(208)	-	27,445
Property unit trusts	186,281	49,838	-	(9,396)	7,965	-	234,688
Private equity							
UK	704	33	-	(430)	322	-	629
Overseas	90,742	39,826	-	(15,592)	10,659	-	125,635
Infrastructure							
UK	45,633	5,479	-	(1,446)	4,247	-	53,913
Overseas	-	12,533	-	(515)	(17)	-	12,001
Timber	-	-	-	-	-	-	-
Active currency	57,357	-	-	-	984	-	58,341
Other managed funds							
UK	148,671	11,192	-	(8,143)	193	-	151,913
Overseas	38,016	-	-	(38,335)	4,707	-	4,388
Derivative future contracts	21	-	-	-	1	-	22
Cash							
Cash deposits held at the custodian/other							
Sterling	80,875	-	33,000	-	-	(73,482)	40,393
Foreign currency	11,682	-	-	(2,168)	2,168	24,497	36,179
Cash deposits held in the margin account							
Sterling	79	-	-	-	-	30	109
Foreign currency	80	-	-	(6)	6	(24)	56
	3,074,256	621,942	33,000	(538,678)	240,963	(48,979)	3,382,504
Other investment balances							
Assets							
Amounts receivable for sales of investments	18,687						8,082
Investment income due	5,721						5,265
Liabilities							
Amounts payable for purchase of investments	(4,609)						(9,281)
Investment withholding tax payable	(178)						(148)
Derivative pending foreign currency contracts							
Assets	1,610						-
Liabilities	(28,896)						(3,060)
	3,066,591						3,383,362

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9.3 Analysis of investments by asset type

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

2011 £000		2012 £000
	Fixed interest securities	
57,344	UK public sector quoted	-
168,675	UK quoted	170,600
	Equities	
71,609	UK quoted	77,437
1,135,418	Overseas quoted	1,114,687
272,336	UK unit trusts	291,304
639,496	Overseas unit trusts	702,179
171,839	Index linked securities: UK public sector quoted	127,446
	Property	
120,075	UK properties (freehold)	153,260
27,445	UK properties (leasehold)	42,780
234,688	Property unit trusts	237,865
	Private equity	
629	UK unquoted	251
125,635	Overseas unquoted	154,173
	Infrastructure	
53,913	UK unquoted	66,762
12,001	Overseas unquoted	36,240
-	Timber: Overseas unquoted	28,181
58,341	Active currency: UK unquoted	25,676
	Other managed funds	
151,913	UK unquoted	162,687
4,388	Overseas unquoted	723
	Derivative contracts	
22	Assets: Derivative future contracts	21
-	Assets: Derivative pending foreign currency contracts	21,632
(3,060)	Liabilities: Derivative liabilities	(45)
	Cash deposits	
	Cash deposits held at custodian/other	
40,393	Sterling	40,951
36,179	Foreign currency	27,588
	Cash deposits held in margin account at GSAM	
109	Sterling	276
56	Foreign currency	53
	Other investment balances	
	Assets	
8,082	Amounts receivable for sales of investments	2,591
5,265	Investment Income Due	5,494
	Liabilities	
(9,281)	Amounts payable for purchase of investments	(4,484)
(148)	Investment withholding tax payable	(127)
3,383,362	Value at 31 March	3,486,201

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9.4 Analysis of pooled investments representing 5% or more of net assets

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:

2011		Unit trust / pooled vehicle	2012	
£000	%		£000	%
272,336	8.0	Legal and General - UK Equity Index	291,304	8.3
213,791	6.3	Legal and General - North America Equity Index	236,344	6.7
217,569	6.4	Legal and General - Europe (Ex UK) Equity Index	224,240	6.4

9.5 Analysis of single investments 5% or more of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

2011		Asset type / Asset name	2012	
£000	%		£000	%
UK QUOTED EQUITIES				
-	-	BP Plc	11,718	15.1%
5,545	7.7%	Astrazeneca	6,354	8.2%
6,395	8.9%	Vodafone Group	5,574	7.2%
5,944	8.3%	Sabmiller plc	5,411	7.0%
5,765	8.1%	Rio Tinto	-	-
UK INDEX LINKED BONDS				
-	-	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	8,156	6.4%
-	-	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	7,976	6.3%
-	-	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	7,870	6.2%
-	-	UK (Govt) Treasury IL Stock 2.5% 17 Jul 2024	7,545	5.9%
-	-	UK (Govt) Treasury IL Stock 1.25% 22 Nov 2055	6,740	5.3%
-	-	UK (Govt) Treasury IL Stock 1.125% 22 Nov 2037	6,644	5.2%
-	-	UK (Govt) Treasury IL Stock 1.25% 22 Nov 2032	6,621	5.2%
-	-	UK (Govt) Treasury IL Stock 2.0% 26 Jan 2035	6,541	5.1%
8,905	5.2%	UK (Govt) Treasury IL Stock 2.5% 26 July 2016	-	-
PROPERTY				
-	-	48-49 Chancery Lane, London	15,650	8.0%
13,220	9.0%	55-57 Dean Street, London	13,425	6.8%
-	-	971 Great West Road, London	11,400	5.8%
-	-	734-736 Seven Sisters Road, London	11,200	5.7%
10,600	7.2%	74-82 Western Road, London	10,600	5.4%
8,350	5.7%	32-36 High Street, Guildford	-	-
8,200	5.6%	Redditch Abbey Retail Park	-	-
8,175	5.5%	Cardiff Gate Business Park, Cardiff	-	-
7,800	5.3%	121 Dunmow Road, Bishops Stortford	-	-
7,750	5.3%	Stortford Hall, Bishops Stortford	-	-

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2011		Asset type / Asset name	2012	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
24,317	10.4%	Aviva Investors Property Fund	25,486	10.7%
-	-	Lothbury Property Fund	20,833	8.8%
-	-	Blackrock UK Property Fund	15,545	6.5%
-	-	Quercus Healthcare Property	14,107	5.9%
-	-	Theadneedle Investment Strategic Property Fund	12,356	5.2%
PRIVATE EQUITY				
12,851	10.2%	Warburg Pincus Private Equity VIII	12,439	8.0%
11,359	9.0%	CVC European E P Tandem Fund	12,185	7.9%
7,709	6.1%	OHA Strategic Credit Fund Ii (Offshore), L.P	9,954	6.4%
7,495	5.9%	Apollo Overseas Partners VII	9,868	6.4%
9,566	7.6%	Kohlberg TE Investors VI Lp	9,625	6.2%
-	-	New Mountain Partners	7,700	5.0%
14,227	11.3%	Avenue Capital Group	-	-
INFRASTRUCTURE				
53,913	81.8%	Infracapital Partners	66,762	64.8%
12,001	18.2%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	32,447	31.5%
TIMBER				
-	-	Stafford Timberland	28,181	100.0%
ACTIVE CURRENCY				
30,053	51.5%	Mellon Offshore Currency Opp Enhanced UK Equitized Fund	25,676	100.0%
28,288	48.5%	Record Currency Alpha US Equitized Fund	-	-
OTHER MANAGED FUNDS				
144,375	92.4%	M&G Alpha Opportunities Fund	147,102	90.0%
-	-	M&G Financing Fund	13,861	8.5%
DERIVATIVE CONTRACTS				
-	-	S&P 500 Emini Index Futures Exp June 12	21	100.0%
22	100.0%	S&P 500 Emini Index Futures Exp June 11	-	-
CASH				
20,658	26.9%	BNP Paribas Investment Partners GBP Fund	35,060	50.9%
22,347	29.1%	BNY Mellon Euro Liquidity Fund	11,181	16.2%
-	-	BNP Paribas Investment Partners Euro Fund	5,724	8.3%
17,924	23.4%	BNY Mellon Sterling Liquidity Fund	5,535	8.0%
4,643	6.1%	BNP Paribas Investment Partners US\$ Fund	-	-

9.6 Derivative contracts

9.6.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

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9.6.2 Futures

A breakdown of outstanding exchange traded future contracts is as follows

31 March 2011		31 March 2012	
Economic Exposure £000	Market Value £000	Economic Exposure £000	Market Value £000
Assets			
948	22	1,221	21
Liabilities			
-	-	-	-
948	22	1,221	21
Net futures			

9.6.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **57.9%** (56.1% as at 31 March 2011) of the Fund's portfolio is in overseas stock markets as at 31 March 2012. To reduce the volatility associated with fluctuating currency rates (currency risk) the fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

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9.6.4 Analysis of open forward currency contracts as at 31 March 2012

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Due within one month						
Up to one month	GBP	10,375	AUD	15,796	134	
Up to one month	GBP	10,153	CAD	16,065	93	
Up to one month	GBP	13,994	CHF	20,586		(261)
Up to one month	GBP	88,451	EUR	105,658	381	
Up to one month	USD	186	EUR	140		-
Up to one month	AUD	15,796	GBP	10,335		(94)
Up to one month	CAD	16,065	GBP	10,145		(85)
Up to one month	CHF	20,586	GBP	14,324		(69)
Up to one month	EUR	65,728	GBP	55,151		(368)
Up to one month	JPY	5,878,158	GBP	44,523	182	
Up to one month	SEK	71,585	GBP	6,766		(14)
Up to one month	THB	534	GBP	11		-
Up to one month	USD	230,311	GBP	144,836		(688)
Up to one month	GBP	121	HKD	1,510		-
Up to one month	GBP	49,211	JPY	5,863,016	4,621	
Up to one month	GBP	6,676	SEK	71,585		(76)
Up to one month	GBP	149,224	USD	231,182	4,532	
Up to one month	GBP	15	KRW	27,142	15	
Due within one to six months						
One to six months	GBP	33,115	AUD	50,017	910	
One to six months	GBP	33,584	CAD	53,174	315	
One to six months	GBP	48,998	CHF	70,164	347	
One to six months	GBP	185,092	EUR	220,197	1,407	
One to six months	CHF	2,259	GBP	1,568		(2)
One to six months	EUR	13,692	GBP	11,448		(26)
One to six months	GBP	169,190	JPY	21,466,224	5,751	
One to six months	GBP	24,025	SEK	254,232	97	
One to six months	GBP	442,244	USD	699,102	4,485	
Forward currency contracts unsettled as at 31 March 2012					23,270	(1,683)
Net forward currency contracts as at 31 March 2012						21,587

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9.6.5 Analysis of open forward currency contracts as at 31 March 2011

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Due within one month						
Up to one month	AUD	18,606	GBP	11,919	85	
Up to one month	AUD	81	USD	84	-	
Up to one month	CAD	20,884	GBP	13,406		(13)
Up to one month	CHF	20,569	GBP	13,978	48	
Up to one month	CLP	31,773	GBP	43		(2)
Up to one month	DKK	280	GBP	33	-	
Up to one month	EUR	77,234	GBP	68,064	311	
Up to one month	GBP	11,842	AUD	18,606		(161)
Up to one month	GBP	81	BRL	214		(1)
Up to one month	GBP	13,543	CAD	20,884	150	
Up to one month	GBP	13,847	CHF	20,569		(179)
Up to one month	GBP	3	DKK	26		-
Up to one month	GBP	65,830	EUR	78,290		(3,481)
Up to one month	GBP	52,841	JPY	6,808,141	1,595	
Up to one month	GBP	22	MYR	109		-
Up to one month	GBP	9,284	SEK	98,802		(487)
Up to one month	GBP	149,969	USD	232,133	5,153	
Up to one month	JPY	6,939,832	GBP	61,677		(413)
Up to one month	SGD	12	USD	10	-	
Up to one month	TWD	229,540	GBP	143,711		(526)
Due within one to six months						
One to six months	CHF	2,191	GBP	1,463	34	
One to six months	GBP	32,128	AUD	51,626		(927)
One to six months	GBP	36,902	CAD	58,216		(411)
One to six months	GBP	39,851	CHF	59,378		(696)
One to six months	GBP	198,874	EUR	229,910		(4,577)
One to six months	GBP	146,997	JPY	19,345,174	1,175	
One to six months	GBP	21,520	SEK	221,217		(293)
One to six months	GBP	429,392	USD	686,833	492	
One to six months	USD	11,639	GBP	7,205	64	
Forward currency contracts unsettled as at 31 March 2011					9,107	(12,167)
Net forward currency contracts as at 31 March 2011						(3,060)

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10. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

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.

2010/11 £000		2011/12 £000	
6,050	Value of AVC fund at beginning of year	5,996	
421	Employees contributions	383	
361	Investment income and change in market value	307	
(836)	Benefits paid and transfers out	(877)	
<u>5,996</u>		<u>5,809</u>	

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11. Current assets and liabilities

11.1 Analysis of current assets

31 March 2011 £000 <i>Restated</i>		31 March 2012 £000
	Cash Balances	
540	Cash at bank	1,077
12,610	Cash on short term deposits within 3 months	9,008
13,150		10,085
	Debtors and payments in advance	
3,547	Contributions due – employees	3,470
14,033	Contributions due – employers	14,463
1,166	Sundry debtors	1,218
18,746		19,151
31,896	Total	29,236

In line with latest best practice guidelines, contributions due for 2010/11 have been restated to show the proportion due from employees and employers. In addition financial strain debtors have now been split between amounts due within 12 months and amounts due after 12 months.

11.2 Analysis of debtors

31 March 2011 £000 <i>Restated</i>		31 March 2012 £000
	Debtors and payments in advance	
1,618	Central Government	2,222
8,793	Other Local Authorities	13,949
-	NHS Bodies	38
1,440	Public Funded Bodies	1,681
6,895	Other	1,261
18,746	Total	19,151

In line with latest best practice guidelines, contributions due for 2010/11 have been restated to show the proportion due from employees and employers. In addition financial strain debtors have now been split between amounts due within 12 months and amounts due after 12 months.

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11.3 Analysis of long term debtors by duration

31 March 2011 <i>Restated</i> £000		31 March 2012 £000
1,128	Financial strain instalments due beyond 12 months	1,037
11,300	Other employer contributions due beyond 12 months	10,044
12,428	Total	11,081

Long term debtors for 2010/11 have been restated in line with new best practice. Financial strain debtors have now been split between amounts due within 12 months and amounts due after 12 months.

11.4 Analysis of long term debtors

31 March 2011 <i>Restated</i> £000		31 March 2012 £000
11,312	Central Government	10,152
1,082	Other Local Authorities	852
28	Public Funded Bodies	77
6	Other	-
12,428	Total	11,081

Long term debtors for 2010/11 have been restated in line with new best practice. Financial strain debtors have now been split between amounts due within 12 months and amounts due after 12 months.

11.5 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

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11.6 Analysis of current liabilities

31 March 2011 £000 <i>Restated</i>		31 March 2012 £000
	Creditors and receipts in advance	
(64)	Contributions due – employees	(35)
(520)	Contributions due – employers	(208)
(4,533)	Investment manager fees payable	(3,133)
(8,128)	Benefits payable	(2,525)
(374)	Other	(970)
<u>(13,619)</u>		<u>(6,871)</u>
(55)	Receipts in advance	-
<u>(13,674)</u>	Total	<u>(6,871)</u>

11.7 Analysis of creditors

31 March 2011 £000 <i>Restated</i>		31 March 2012 £000
	Creditors and receipts in advance	
(180)	Central Government	(333)
(489)	Other Local Authorities	(1,093)
(15)	Public Funded Bodies	(197)
(12,990)	Other	(5,248)
<u>(13,674)</u>	Total	<u>(6,871)</u>

11.8 Contingent liabilities and contractual commitments

As at 31 March 2012, the Fund had a commitment to contribute a further **£182m** to its existing partnership investments, including private equity, infrastructure, timber and financing (31 March 2011, £221m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

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12. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2010/11 £000		2011/12 £000
435	UK withholding tax	493
1,697	Overseas withholding tax	1,968
2	Payment to HMRC in respect of returned contributions	2
<u>2,134</u>		<u>2,463</u>

13. 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 negotiate freely with the Fund.

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.299m** in 2011/12 (£1.182m in 2010/11) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£53.696m** to the Fund in 2011/12 (£55.855m in 2010/11). No significant amounts were owing to and due to be paid from the Fund in the year.

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 **£0.025m** (£0.022m in 2010/11).

During the year to 31 March 2012, the Pension Fund had an average investment balance of **£8.174m** (£10.518m in 2010/11) earning **£0.940m** interest (£0.111m in 2010/11).

13.1 Governance

Under FRS 8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year each member of the Essex Pension Board and Investment Steering Committee is

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required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors are also entitled to join the Pension Fund. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2011/12, were also members of the LGPS are listed below.

County Councillors	Representative of scheme members
<ul style="list-style-type: none"> ▪ Cllr D. M. Finch 	<ul style="list-style-type: none"> ▪ K. Blackburn
<ul style="list-style-type: none"> ▪ Cllr N. J. Hume 	Representative of small admitted bodies
<ul style="list-style-type: none"> ▪ Cllr A. Jackson 	<ul style="list-style-type: none"> ▪ J. Moore
<ul style="list-style-type: none"> ▪ Cllr M. C. M. Lager 	Representative of the Essex Police Authority
<ul style="list-style-type: none"> ▪ Cllr T. C. Smith-Hughes B.A., A.C.I.B 	<ul style="list-style-type: none"> ▪ S. Walsh

As at 31 March 2012 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2011/12 were the Executive Director for Finance, the Head of Investments, the Pensions Services Manager and the Group Manager Investments. During 2011/12 approximately 3% of the Executive Director for Finance's time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2011/12 was **£160,125**. The 2011/12 current service cost in respect of these personnel was **£64,996**. The current service cost is the increase in the value of the Fund's future liabilities arising out of employees on-going membership of the Fund.

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14. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

14.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement headings. No financial assets were reclassified during the accounting period.

31 March 2011			Asset type	31 March 2012		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
226,019			Fixed interest securities	170,600		
2,118,859			Equities	2,185,607		
171,839			Index linked securities	127,446		
234,688			Pooled unit trusts	237,865		
126,264			Private equity	154,424		
65,914			Infrastructure	99,208		
-			Timber	28,181		
58,341			Active currency	25,676		
156,301			Other managed funds	163,410		
22			Derivative contracts	21,653		
	89,887		Cash		78,953	
13,347			Other investment balances	8,085		
	31,174		Debtors		30,232	
3,171,594	121,061	-		3,222,155	109,185	-
			Financial liabilities			
(3,060)			Derivative contracts	(45)		
(9,429)			Other investments balances	(4,611)		
		(13,674)	Creditors			(6,871)
		-	Borrowing			-
(12,489)	-	(13,674)		(4,656)	-	(6,871)
3,159,105	121,061	(13,674)	Balance at the end of the year	3,217,499	109,185	(6,871)
		3,266,492	Total			3,319,813

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14.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2011 £000		Asset value as at 31 Mar 2012 £000
	Financial assets	
233,041	Fair value through profit and loss	16,009
2,174	Loans and receivables	13,937
<u>235,215</u>		<u>29,946</u>
	Financial liabilities	
-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<u>-</u>		<u>-</u>
<u>235,215</u>	Total	<u>29,946</u>

14.3 Fair value of financial instruments and liabilities

Carry value as at 31 Mar 2011 £000	Fair value as at 31 Mar 2011 £000		Carry value as at 31 Mar 2012 £000	Fair value as at 31 Mar 2012 £000
		Financial assets		
3,171,594	3,171,594	Fair value through profit and loss	3,222,155	3,222,155
121,061	121,061	Loans and receivables	109,185	109,185
<u>3,292,655</u>	<u>3,292,655</u>		<u>3,331,340</u>	<u>3,331,340</u>
		Financial liabilities		
(12,489)	(12,489)	Fair value through profit and loss	(4,656)	(4,656)
-	-	Loans and receivables	-	-
(13,674)	(13,674)	Financial liabilities measured at amortised cost	(6,871)	(6,871)
<u>(26,163)</u>	<u>(26,163)</u>		<u>(11,527)</u>	<u>(11,527)</u>
<u>3,266,492</u>	<u>3,266,492</u>	Total net financial assets	<u>3,319,813</u>	<u>3,319,813</u>

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14.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- **Level 1** – Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments classified as Level 3 are those where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US GAAP. Valuations are usually undertaken annually at the end of December with unaudited valuations provided by the general partner as at 31 March.

The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

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The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Level 1 to 3 based on the level at which the fair value is observable.

Values as at 31 March 2011				Values as at 31 March 2012			
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000	Asset type	Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000	
Financial assets				Financial assets			
2,530,086	449,330	192,178	Fair value through profit and loss	2,513,391	426,951	281,813	
121,061	-	-	Loans and receivables	109,185	-	-	
2,651,147	449,330	192,178		2,622,576	426,951	281,813	
Financial liabilities				Financial liabilities			
(12,489)	-	-	Fair value through profit and loss	(4,656)	-	-	
-	-	-	Loans and receivables	-	-	-	
(13,674)	-	-	Financial liabilities measured at amortised cost	(6,871)	-	-	
(26,163)	-	-		(11,527)	-	-	
2,624,984	449,330	192,178	Total net assets	2,611,049	426,951	281,813	

15. Nature and Extent of Risks arising

15.1 Risk and risk management

The Fund's primarily long term risk is that the Fund assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to maximise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Funds investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; interest rate risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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15.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

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 institutional investment consultant, Hymans Robertson LLP along with two independent advisers 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 which is available from the website www.essexpensionfund.co.uk. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

15.3 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. 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 Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

15.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2012/13.

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

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Asset type	Potential Market movement %
UK bonds	9.9%
UK equities	18.5%
Overseas equities	22.2%
UK index linked bonds	7.8%
Pooled property unit trusts	14.5%
Private equity	29.6%
Infrastructure funds	14.5%
Timber	29.6%
Property	14.5%
Cash	0.8%
Currency active	22.2%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31 Mar 2011 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31 Mar 2012 £000	Percentage change %	Value increase £000	Value decrease £000
76,737	0.8%	77,351	76,123	Cash and equivalents	68,868	0.8%	69,419	68,317
				Investment portfolio assets				
226,019	9.9%	248,395	203,643	UK bonds	170,600	9.9%	187,489	153,711
343,945	18.5%	407,575	280,315	UK equities	368,741	18.5%	436,958	300,524
1,774,914	22.2%	2,168,945	1,380,883	Overseas equities	1,816,866	22.2%	2,220,210	1,413,522
171,839	7.8%	185,242	158,436	UK index linked bonds	127,446	7.8%	137,387	117,505
234,688	14.5%	268,718	200,658	Pooled property unit trusts	237,865	14.5%	272,355	203,375
126,264	29.6%	163,638	88,890	Private equity	154,424	29.6%	200,134	108,714
65,914	14.5%	75,472	56,356	Infrastructure	103,002	14.5%	117,937	88,067
-	-	-	-	Timber	28,181	29.6%	36,523	19,839
58,341	22.2%	71,293	45,389	Active currency	25,676	22.2%	31,376	19,976
156,301	14.5%	178,965	133,637	Other managed funds	163,410	14.5%	187,104	139,716
147,520	14.5%	168,910	126,130	Property	196,040	14.5%	224,466	167,614
(3,038)	-	(3,038)	(3,038)	Net derivative assets	21,608	-	21,608	21,608
5,265	-	5,265	5,265	Investment income due	5,494	-	5,494	5,494
(148)	-	(148)	(148)	WHT payable	(4,484)	-	(4,484)	(4,484)
8,082	-	8,082	8,082	Amounts receivable for sales	2,591	-	2,591	2,591
(9,281)	-	(9,281)	(9,281)	Amounts payable for purchases	(127)	-	(127)	(127)
3,383,362		4,015,383	2,751,341	Total assets available to pay benefits	3,486,201		4,146,440	2,825,962

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15.5 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.

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.

15.6 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and to a lesser degree the return it receives on cash held. The Fund has three bond mandates; one passive bond mandate with Legal & General and two bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed.

The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is shown below. The underlying assets are shown at their fair value.

Asset value as at 31 Mar 2011 £000	Asset type	Asset value as at 31 Mar 2012 £000
76,737	Cash and cash equivalents	68,868
13,150	Cash balances	10,085
226,019	Fixed interest securities	170,600
171,839	Index-linked securities	127,446
487,745	Total assets	376,999

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15.7 Interest rate risk sensitivity analysis

Interest rates over the last 24 months have remained constant but this is not always the case and can vary as a result any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, has undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2011 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2012 £000	Change in year in the net assets to pay benefits	
	+100 BPS £'000	-100 BPS £'000			+100 BPS £'000	-100 BPS £'000
76,737	767	(767)	Cash and cash equivalents	68,868	689	(689)
13,150	132	(132)	Cash balances	10,085	101	(101)
226,019	2,260	(2,260)	Fixed interest securities	170,600	1,706	(1,706)
171,839	1,718	(1,718)	Index-linked securities	127,446	1,274	(1,274)
487,745	4,877	(4,877)	Total change in assets available	376,999	3,770	(3,770)

15.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

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The following table summaries the Fund's currency exposure as at 31 March 2012 and prior year:

Asset value as at 31 Mar 2011 £000	Asset type	Asset value as at 31 Mar 2012 £000
1,135,418	Overseas equities quoted	1,114,687
639,496	Overseas unit trusts	702,179
125,635	Overseas private equity	154,173
12,001	Overseas Infrastructure	36,240
-	Overseas Timber	28,181
4,388	Overseas managed funds unquoted	723
1,916,938	Total overseas assets	2,036,183

15.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of 12% (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a 12% strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2011 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2012 £000	Change in year in the net assets to pay benefits	
	+12% £000	-12% £000			+12% £000	-12% £000
1,135,418	1,271,668	999,168	Overseas equities quoted	1,114,687	1,248,449	980,925
639,496	716,236	562,756	Overseas unit trusts	702,179	786,440	617,918
125,635	140,711	110,559	Overseas private equity	154,173	172,674	135,672
12,001	13,441	10,561	Overseas infrastructure	36,240	40,589	31,891
-	-	-	Overseas timber	28,181	31,563	24,799
4,388	4,915	3,861	Overseas managed funds unquoted	723	810	636
1,916,938	2,146,971	1,686,905	Total change in assets available	2,036,183	2,280,525	1,791,841

15.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

15.11 Commercial

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.

Monthly receipt of contributions is closely monitored by the Contributions team. In addition, member records are updated throughout the year by Pensions Services with any new information provided to them. At the end of the financial year employers are required to provide Pensions Services with an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

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 2012 is provided in Note 11.

15.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's 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 2012 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.

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Exposure at 31 March 2011		Counterparty	Exposure at 31 March 2012	
£000	%		£000	%
49,525	3.3%	Barclays Capital	157,422	10.5%
122,149	8.2%	BNP Paribas Capital Markets	87,791	5.9%
-	-	Citigroup	137,641	9.2%
104,757	7.0%	Australian Commonwealth Bank	185,608	12.4%
164,726	11.0%	Credit Suisse AG	223,750	15.0%
132,522	8.9%	Deutsche Bank AG	143,588	9.6%
147,100	9.9%	HSBC	51,781	3.5%
251,447	16.9%	J P Morgan Securities	212,285	14.2%
100,227	6.7%	RBS	114,075	7.6%
57,722	3.9%	Royal Bank of Canada	78,739	5.3%
-	-	SEB	9,840	0.7%
205,032	13.7%	SG Securities	-	-
119,070	8.0%	UBS	87,944	5.9%
37,052	2.5%	Westpac Bank Corp	3,593	0.2%
1,491,329	100.0%	Total	1,494,057	100.0%

15.13 Futures

Futures contracts entered into by the Fund are all exchange traded. As a consequence, credit risk is minimised as counterparties are recognised financial institutions with acceptable credit ratings determined by a recognised rating agency. At the 31 March 2012 the contracts in place were all traded in the US on the Chicago Mercantile Exchange (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.

15.14 Bonds

Credit risk will also 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.

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In addition to the passive manager, Legal & General, the Fund has two active bond managers M&G and GSAM the former also manage a financing fund.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2012, the average credit quality of the M&G bond mandate was A- rated (A+ rated as at 31 March 2011) and the portfolio had suffered 4 defaults since inception, none have been experienced in the financial year ended 31 March 2012. The average credit rating of the financing fund was BB rated as at 31 March 2012 (BB rated as at 31 March 2011), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2012 had an average credit quality of AA+ (AA- rated as at 31 March 2011) and has suffered two defaults since inception both occurring 2011/12.

15.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The bank holds an A (A+ in 2010/11) long term credit rating with Standard and Poors. 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 following tables. At 31 March 2012 **£10.085m** (£13.150m as at 31 March 2011) 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.

Cash managed externally – 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 2012, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£58.716m** with a smaller balance of **£9.761m** held in the BNY Mellon current account (£69.944m and £6.477m as at 31 March 2011 respectively). 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.

Section Two - Pension Fund Accounts

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

31 March 2011			31 March 2012	
£000	Rating		Rating	£000
Cash managed externally				
Cash held on deposit				
28,825	AAA	BNP Paribas Investment Partners	AAA	40,851
41,119	AAA	BNY Mellon Liquidity Fund	AAA	17,865
Cash held in Current Account				
6,477	AA	The Bank of New York Mellon	AA	9,761
151	AA	Barclays plc	A+	62
Cash held in a Margin Account				
165	A	Goldman Sachs	A-	329
<u>76,737</u>		Total cash managed externally		<u>68,868</u>
Cash managed internally				
Cash held on deposit				
7,000	AA-	Barclays Bank	A+	3,002
5,000	A+	Royal Bank of Scotland Group	A	3,004
610	AA	Santander UK	AA	-
-		Svenska Handelsbanken	AA-	3,001
Cash held in Current Account				
540	A+	Lloyds TSB Bank plc	A	1,078
<u>13,150</u>		Total cash managed internally		<u>10,085</u>
<u>89,887</u>		Total		<u>78,953</u>

Section Two - Pension Fund Accounts

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.

31 March 2011		31 March 2012	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
Cash managed externally					
	Deposit with bank and other financial institutions				
69,944	AAA Rated	58,716	60,000	-	-
6,628	AA Rated	9,761	-	0.03%	3
165	A Rated	391	-	0.08%	-
76,737	Total cash managed externally	68,868			3
Cash managed internally					
	Deposit with bank and other financial institutions				
7,610	AA Rated	3,001	10,000	0.03%	1
5,540	A Rated	7,084	5,000	0.08%	6
13,150	Total cash managed internally	10,085			7
89,887	Total cash	78,953			10

15.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. 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 alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on 22 February 2012, 27.0% 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 illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2012 had immediate access to its pension fund cash holdings held internally and externally of **£78.953m** (£89.887m as at 31 March 2011). These monies are primarily invested on an over night basis on the money market.

Section Two - Pension Fund Accounts

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Funds cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts. In consultation with its institutional consultants, Hymans Robertson, the Fund is currently preparing a future cash flow forecast modelling tool which will incorporate the affects of the potential regulatory changes to the future of the scheme which is due to take effect in 2014/15.

15.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

15.18 Custody

In 2006 the Fund appointed BNY Mellon as a global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2012 BNY Mellon had \$26.6 trillion of assets under custody making it the world's largest global custodian and had a credit rating of AA-. During 2011/12 the Fund underwent a retender process in respect of its custody services. BNY Mellon was unsuccessful in retaining the contract. The new custodian's contract will commence from October 2012. Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

15.19 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 ISC on a quarterly basis. The Fund makes use of a third party performance measurement service BNY Mellon Performance & Risk Analytics Europe Limited. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

15.20 Post Balance Sheet Event

As at 31 March 2012, two employing bodies within the Fund, Connaught Partnership Ltd and Chelmsford Agency for Volunteering were subject to liquidation proceedings. Subsequent to the balance sheet date, a payment of **£440,000** was made in respect of Connaught Partnership Ltd and **£11,000** was received in respect of Chelmsford Agency for Volunteering.

Section Two - Pension Fund Accounts

16. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website www.essexpensionfund.co.uk or by contacting:

Group Manager Investments

County Hall

Chelmsford

CM1 1LX

Telephone 01245 431301

E-mail pensions.investments.web@essex.gov.uk

Section Two - Glossary

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	<p>A valuation method in which the Pension scheme's liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"> ▪ 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 ▪ 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.
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.

Section Two - Glossary

Term	Explanation
Cabinet	The Cabinet comprises the Leader of the Council, who is its chairman, and nine other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader annually and are reported to the Council.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> ▪ Amounts set aside from revenue resources to repay external loans; ▪ The financing of capital payments from capital receipts and revenue reserves; and ▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007. <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

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Term	Explanation
	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 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.

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Term	Explanation
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.
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.

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Term	Explanation
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 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	<p>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.</p> <p>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.</p>
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.

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Term	Explanation
Retirement benefits	<p>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 not include termination benefits payable as a result of either:</p> <ul style="list-style-type: none"> 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. <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"> 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; Head of staff for a relevant body which does not have a designated Head of Paid Service; or 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.
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.

Annual Governance Statement

Section Three – Governance Statement

1. Scope and 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 2011 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 Annual Governance Statement reflects the governance framework in place at the Council for the year ending 31 March 2012 and up to the date of approval of the Statement of Accounts scheduled for sign off by the Audit Committee on 24 September 2012.

Section Three – Governance Statement

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 had in place EssexWorks, which was a four-year work programme that outlines the Council's vision, its purpose and the outcomes for its communities. In February 2012 the Council introduced the new EssexWorks Corporate Plan and Commitment for the period 2012 - 2017 which outlines the Council's vision for Essex commitment to the county, marking the first step in a new partnership bringing together public bodies and Essex's citizens and communities.

When the Council approved the EssexWorks Corporate Plan the EssexWorks Budget 2012/13, to support the delivery of objectives, was also presented and approved. The EssexWorks intended outcomes 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 Corporate Plan sets out the key priorities which underpin the work carried out by the Council, namely:

- enabling every individual to achieve their ambitions by supporting a world-class education and skills offer in the county;
- securing the infrastructure and environment to enable businesses to grow;
- improving public health and wellbeing;
- protecting and safeguarding vulnerable people; and
- giving people a greater say and a greater role in building safer and stronger communities.

The Cabinet is accountable to full Council for the delivery of the Corporate Plan. The Corporate Leadership Team (CLT) is responsible for delivery and report progress to the Political Leadership Team at regular intervals. The Policy and Scrutiny Committees are empowered to scrutinise the performance of the Council against its priorities as set out in the EssexWorks Corporate Plan and Commitment.

Section Three – Governance Statement

3.2 Service Quality

The Council continues to use a performance management framework which sets out the arrangements for ensuring the Council is delivering against the priorities and outcomes it has committed to and how it will measure its progress.

The Council's Corporate Plan and enablers to deliver those outcomes continues to be monitored and acted upon through the Balanced Scorecard framework which has been embedded at an organisational wide, directorate and service level. Financial information is a key part of those Scorecards and the organisation is seeing risk as embedded into the framework around priorities and outcomes. Progress is regularly reviewed at various levels including Cabinet, Scrutiny, Operations Board and Directorate Leadership Teams. Each of these play a key role in ensuring that progress is reviewed and acted upon and in particular Scrutiny continues to play a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of the Council's objectives and holding Cabinet to account for delivery.

In addition, the Council approach to sector led improvement is helping the continued review and improvement of services. The Council has played an active role in shaping both the national, regional and local approaches being developed by the Local Government Association, Association of Directors of Children's Services and Association of Directors of Adult Social Services. This framework has, and continues to form the basis for activity to support improvement throughout the organisation including external peer review, self-assessment and benchmarking between organisations to support the continuous drive for value for money.

Children's Services were removed from Government intervention in January 2012. This followed a successful peer review and an Ofsted inspection which resulted in a judgement of "adequate". As a result of the removal of government intervention, the requirement for a formal Children's Services Improvement Board to oversee improvements was removed. To ensure that progress continues, performance improves, and risks are managed, a number of robust measures are now in place to continue the work previously undertaken by the Children's Services Improvement Board.

The joint finance and performance 2010/11 Annual Report completed in 2011 is a public facing report using accessible language to demonstrate where tax payers money was spent, progress in delivering the 2010/11 EssexWorks Pledges and Priorities, the impact of the achievements and where further focus on improvement was needed. The report was accompanied by the 2010/11 Performance Indicator Results, an annexe setting out year end results for each of the measures identified in the 2010/11 Budget and Corporate Plan, including, progress over time, progress against target and how Essex compared to its statistical neighbours.

The Council also published the Adult Social Care Local Account which described the performance of the Council in delivering adult social care services for 2010/11.

The Council's employees continue to be supported by a comprehensive individual performance management process. This includes 'My Performance' contracts which define the outcomes

Section Three – Governance Statement

required from each employee and is linked to the overarching principles and priorities of the EssexWorks Corporate Plan, and is essential in enabling the Council to successfully deliver its Corporate Business Plan. The Council's Corporate Business Plan is underpinned by seven 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. New values and behaviours have been established to support the delivery of the vision and priorities.

The action plan within the 2010/11 AGS stipulated that the Council would deliver a strategy to enable an effective review of Value for Money (VFM). The Council published the VFM strategy in 2011/12. The Council has continued to review service delivery to ensure Value for Money through its EssexWorks Transformation programme.

3.3 Key Roles and Responsibilities

The roles and responsibilities for Members of the Council, the Executive, Council Committees and Overview and Scrutiny Committees are defined within the Council's Constitution. 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 Chairman of the Council and Leader of the Cabinet.

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 authorising officers in pursuance of their delegations. 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.

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. Financial regulations were revised and approved at full council in February 2012. These also set out the responsibilities in relation to partnerships and commissioning arrangements.

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 Codes 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 Standards Committee's main function is to promote and maintain high standards of conduct by Members and to help Members follow the Code of Conduct. The Committee's terms of reference are set out in the Constitution. Records of the Standards Committee's meetings and decisions are available via the decisions and meeting database on the Council's website. In July

Section Three – Governance Statement

2011 it presented its annual report to Council. This was the second year that the Committee had been constituted as a joint committee for the Council and the Fire Authority and this arrangement has worked well. This report set out the work of the Committee over the year which included monitoring procedures and policies for training and the assessment of complaints. In undertaking this work the Committee has utilised and built upon its experience of assessing complaints over the year. The Committee suspended one ECC member following a conduct hearing.

The Localism Act 2011 introduces major changes to these arrangements. Standards for England and its oversight of local authorities has been abolished. On a date to be appointed (but probably later this year) statutory standards committees and the nationally prescribed code are likely to be withdrawn. Authorities and members will continue to be under a duty to maintain high standards of conduct but individual authorities will have greater discretion over their Code and monitoring arrangements. Regulations are awaited on certain aspects of the new arrangements but Members have received a number of reports from the Monitoring Officer and are well advanced with their consideration of options.

3.5 Decisions, Processes and Controls

Building on the role of the Corporate Governance Group in the previous year, a revised Corporate Governance policy development process was implemented by the Corporate Governance project in the form of a structure of three Corporate Governance-focused boards. This was completed by May 2011, and was supported by an integrated forward plan and a corporate governance dashboard. It consisted of the following groups:

- The **Corporate Governance Steering Board**, forming the most senior body in the Corporate Governance structure and escalating items to Council through the authority of the Leader (and/or Cabinet) or the Chief Executive. It is made up of Councillors and Senior officers including the Leader and Chief Executive and includes opposition Councillors. It was originally established to monitor progress at implementing the Corporate Governance Action Plan and this remit has expanded through the year to include all corporate governance issues.
- The **Corporate Governance Group** (CGG), forming the second most senior body in the Corporate Governance structure and reporting to the Corporate Governance Steering Board (CGSB). Its remit includes all corporate governance issues and it is attended by senior officers.
- The **Corporate and Operational Policy Development** Group (COPDG), attended by all of the Governance Champions nominated by each Directorate Leadership Team. Their role focused on: providing operational perspectives and input as policy was developed or proposed; picking up potential governance issues in their directorates and escalating them; and publicising or taking a lead on corporate governance issues and initiatives in their directorates.

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- The **Information Policy Development Group** is administered within Information Services and is attended by Information Champions from across the Council among others. It deals with Information Policy to maintain an effective information governance framework and escalates items to CGG as necessary.

The effectiveness of the new structure was reviewed in January 2012 and the Corporate Governance Group's role and remit was taken forward into the creation of an Operations Board, consisting of senior officers from across the Council and with a wider remit, in March 2012. In part this is a recognition of the transition from a project-led Corporate Governance improvement approach to a business-as-usual approach, recognising the progress made. Also as part of this review the COPDG ceased meeting regularly in March 2012 in favour of remaining as a virtual network of Governance Champions, recognising that the role they had played during the life of the Corporate Governance project should be taken on by the Operations Board. The move towards an Operations Board has provided an effective route for development and sign-off of cross-cutting policy including corporate governance policy.

The Council's 'How We Get Things Done' intranet channel continued to be updated in real time, providing access to information about how the Council deals with particular issues across the organisation and enabling easy access to guidance and policies relevant to those areas. This includes 'how we buy things', 'getting decisions made' and 'contracts and contract management'. Procurement Policies and Procedures were reissued in 2011/12 supported by the Council's Procurement Strategy 2011/12 – 2013/14

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.

The Council's public engagement strategy aims to involve the public in the Council's decision making. Involvement occurs in many different ways: through surveys, online tools, focus groups of the citizens' panel, deliberative workshops, stakeholder forums, service user groups, the local involvement network for health and social care, the new healthwatch pathfinder, giving evidence to scrutiny committees, and formal consultation documents. The strategy is being revised now to streamline these activities and increase their impact.

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. The Audit Commission Review of the Council's Governance Arrangements for 2010/11 highlighted the need to review scrutiny

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arrangements to instil confidence in the process from members, officers and the public. This review has been commissioned and will be undertaken in 2012/13.

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 2011/12 which stipulates that the Council's risk appetite is risk enabled. On 28 June 2011 the Draft Corporate Risk Management Strategy 2011/12 was reviewed by the Audit Committee before being approved by CLT in June 2011.

Governance arrangements surrounding risk management were reviewed by the Audit Committee on 12th December 2011 with a 2012/13 action plan outlined to include a refresh of membership of the Corporate Risk Management Group and a review of the Corporate Risk Management Strategy.

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 September 2011, the Audit Committee approved the Council's 2010/11 Statement of Accounts.

In 2011/12 the Council carried out 121 audits (including schools) across its full range of function, services and directorates. Of those completed 25 areas received 'Limited Assurance' and 2 received 'No Assurance' opinion (*see section 4, which commences on page 204*). Remedial recommendations have been agreed by the relevant services to strengthen internal controls.

Internal Audit reviews found key fundamental systems to be satisfactory with the exception of Grants Management which received a Limited Assurance opinion for the third year in a row. In the 14 March 2012 Audit Committee, Grants Management was raised by the External Auditor as a concern. The Interim Assistant Director Financial Strategy was charged with providing the Audit Committee with a progress report on actions to address the identified weaknesses.

Internal Audit school visits are prioritised based on a risk assessment of all schools with 49 reports being issued in 2011/12. 41 schools visited received Substantial Assurance opinions while 7 Schools received Limited Assurance opinions and 1 school received an opinion of No Assurance. Internal Audit is continuing to work with this school to improve controls where weaknesses within the control system were identified. The main issues emerging from the site visits which have led to Limited or No Assurance opinions relate to weaknesses within the overall financial management and governance arrangements. Procurement related issues are becoming increasingly apparent from the site visits conducted this year.

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3.7 Compliance with relevant laws and regulations

The Assistant Director Corporate Law, as Monitoring Officer, is responsible for ensuring lawfulness and fairness in decision making. The Executive Director for Finance, as 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 Section 151 Officer is a member of the Corporate Leadership Team. Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Assistant Director, Internal Audit and Risk Management Consultancy Services (from April 2012 the Head of Internal Audit) 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 evaluating that the Risk Management Framework is robust.

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. An analysis of the SAS highlighted “Good” controls across all services. This includes SCF which improved from “Of concern” in 2010/11 to “Good” in 2011/12.

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 recognises 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 high 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.

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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. To strengthen existing arrangements the Council commissioned an external company Expolink in 2011/12 to receive whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through agreed protocol. This arrangement was active from October 2011 and has been supported with an internal publicity programme called the 'Speak Up campaign' and direct contact with contractors. These arrangements have also been explained in the governance e-learning training (How We Behave and Anti-Fraud & Corruption – see 3.9 below).

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 undertaken awareness activities during the year and the arrangements for referrals to the team are articulated in the governance e-learning training (How We Behave and Anti-Fraud & Corruption). It continues to work closely with external agencies including the Audit Commission, Police and Department of Work 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 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. Response performance is reported and monitored via the Corporate Governance Scorecard.

3.9 Development and training

The Council has developed and commenced the roll out of a comprehensive governance e-learning programme which is mandatory for Officers and strongly recommended to Members. The modules are:

- How decisions are made at ECC - (Released January 2012)
- How we behave - (Released February 2012)
- Information Governance - (Released March 2012)
- Anti-fraud and Corruption - (Released April 2012)
- Equality & Diversity - (Released May 2012)

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.

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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.

During 2011/12 a comprehensive development and briefing programme has been provided to Members. The Member Development Steering Group continues to have ownership for Members' development. In December 2011 the Council formally committed to the East of England Member Development Charter, which provides a robust and structured framework to enhance and hone Member Development. As part of the commitment to the Charter, in 2011 all Members received a Personal Development Plan Questionnaire. Following this personal development interviews and plans are being put in place for each Member, with a significant number of plans having already been put in place.

As part of the member development programme for 2011/12, the Council provided development sessions to support Members in their various roles, these took place in the form of seminars, workshops and drop-in sessions, this has led to increased attendance and awareness of the sessions. A total of 41 sessions took place which included Freedom of Information, Diversity and Equality, the Localism Act and those around transformation and issues such as education and health and wellbeing

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.

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 has made 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. In accordance with the requirements of the Localism Bill the Council has also published its Pay Policy Statement on the website.

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.

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All 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; for example 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 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 2011 the Corporate Leadership Team took time to analyse the results and implement action plans to enable positive change.

3.11 Partnership Governance

A consultation was held (13 April -13 June 2011) on the future of partnership working in Essex following Central Government's decision to end the statutory duty to prepare a Local Area Agreement and its associated performance regime and reward grant mechanism.

The consultation recognised the value of partnership working in the County but was clear that no direct replacement for the LAA was required. Instead it was felt that the emerging countywide thematic partnerships should be responsible for setting their own priorities within the context of the Essex Strategy, these partnerships are as follows:

- Health and Wellbeing Board
- South East Local Enterprise Partnership
- Safer Essex

Where strategic level overview across all partnerships was required it was decided that these discussions should take place at the existing Essex Leaders and Chief Executives Group rather than maintain duplicate arrangements through discussions at Essex Management Board and Essex Partnership Forum, which had been created primarily to oversee the delivery of the LAA.

The Essex Strategy, our Sustainable Communities Strategy, remains the partnerships high level outcomes framework and was reviewed and refreshed in 2010 and is live until 2018

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In December 2011 Essex became one of four national 'Whole Place Community Budget' pilots. This programme of work means by October 2012 we will "Develop an operational plan which sets out what a single budget, or options for pooling and aligning resources, for the place would look like, the outcomes that would be delivered, governance arrangements, the redesign of services required to achieve the outcomes and how new financial approaches would work. It will identify what would need to happen locally to implement the options identified and what would need to be changed centrally." (Whitehall Prospectus October 2011). Partnership Governance arrangements are therefore likely to change further as a result of this programme of work.

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's Internal Audit Annual Report, and from comments received from external auditors and other review agencies and inspectorates. Inside the year the project-focused response to previous audit recommendations, in the form of the Corporate Governance project, was completed and became 'business as usual'. The new post of Corporate Governance Manager was created and filled to support the Council's ongoing governance arrangements.

A review of governance arrangements was published by the Audit Commission in 2011/12 providing an assessment of the Council's response, as at October 2011, to governance issues previously highlighted by the Audit Commission. The report concluded that: 'The Council has recognised the need to improve ethical governance arrangements and has invested significant resources in order to achieve this. Since his appointment in 2010, the new Leader of the Council has overseen the implementation of a range of policies and procedures which have improved the quality of governance. The Council recognised a real and sustainable culture change is required and some progress has been made towards this'.

Seven recommendations arose from the Audit Commission's report and progress achieved by the end of 2011/12 was monitored by the Corporate Governance Steering Board and Audit Committee. The matters raised which were still outstanding at the end of March 2012 were:

- Following a review of the Chauffeur's terms and conditions, the actions arising had not yet been fully completed.
- There is a planned review in 2012/13 of the Council's scrutiny function to ensure it is effective and adds value.

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The Internal Audit Annual Report provided an overall opinion of 'Substantial Assurance' for the systems of internal control. Areas of strong or improving controls were identified in the following areas:

- Pensions investment (Full Assurance);
- Pensions administration (Full Assurance);
- Treasury management (Full Assurance 4th year);
- Majority of the schools audited continue to maintain strong controls with 84% receiving Substantial Assurance opinion.
- Gifts and hospitality (moving to Substantial Assurance from Limited Assurance)

However, some systems received 'No Assurance' opinions, namely:

- Data Sharing
- An Essex Primary School

IT Assets was reported as 'No Assurance' opinion in the 2010/11 AGS, a subsequent comprehensive follow-up review in 2011/12 returned a 'Limited Assurance' opinion, but with a positive direction of travel. Similarly Community Transport reported a 'No Assurance' opinion in 2010/11 a follow-up review in 2011/12 returned a 'Substantial Assurance' opinion.

Freedom of Information returned a 'Limited Assurance' opinion, although significant remedial actions were undertaken through the corporate governance work stream in 2011/12, as the Internal Audit review was completed in April 2011. Subject Access Requests (SAR) also received a 'Limited Assurance' opinion.

The necessary remedial recommendations have been agreed with the relevant service areas to effect the necessary control improvements for all the aforementioned reviews.

In 2011/12 three referrals (being a 25% reduction from 2010/11) were made to the Information Commissioners Office (ICO) in respect of information breaches. These were considered jointly by the ICO who ruled that they would not take any formal action against ECC. However, the Council have proactively undertaken a review of all incidents for the year and prepared a corporate approach to help reduce the risk of further incidents.

5. Significant governance issues

The 2010/11 Annual Governance Statement reported:

'Following a rigorous internal audit, the Council had concerns over the 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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During 2011/12 the Police investigation of the former Leader of the Council, Lord Hanningfield continued and remains ongoing. The Leader has commissioned a report from the Monitoring Officer to provide transparency on these matters and provide assurance that any necessary improvement processes have been addressed. The Leader has also stated at Full Council on 12 July 2011 his intention to publish all relevant information at the appropriate time.

However, as these matters do not relate to current year activity there are no significant governance issues identified during the year.

6. Future Action

In recognition of the need for continuous improvement in a changing environment, and to ensure that all outstanding actions are implemented, we have produced an Action Plan detailing key action points for implementation in 2012/13 (see Appendix A).



Joanna Killian
Chief Executive



Cllr Peter Martin
Leader of the Council

Section Three - Governance Statement (Appendix A)

This table contains key action points to be implemented during 2012/13:

Findings	Action	Lead Officer
1. The 2010/11 AGS Action Plan recognised the need to ensure governance arrangements are in place for the Council's Target Operating Model (TOM). A number of actions have been undertaken and there are ongoing work streams to support this is not complete.	To develop appropriate governance arrangements reflecting the TOM once agreed. Review the Council's arrangements for good governance of companies and informal partnerships.	Assistant Director Corporate Law Assistant Director Corporate Law
2. The implementation of the corporate governance project has been overseen by the Corporate Governance Steering Board. These matters now need to be embedded as business as usual.	Successfully embed the outcomes of the corporate governance project into business as usual. Complete the actions arising from the review of the Chauffeur's terms and conditions.	Corporate Governance Manager Deputy Chief Executive
3. To maintain and build on recent project-driven improvements to our corporate governance framework, the framework should be reviewed and a workplan adopted as 'business as usual' which ensures that the various parts of the framework will stay up-to-date and fit for purpose, proportionate to risk.	Review the corporate governance framework and adopt a work plan for the organisation which ensures that the various parts of the framework are updated, fit for purpose and allocated to an appropriate senior officer for on-going management and maintenance.	Corporate Governance Manager
4. Ensure the Council's scrutiny function is effective and adds value.	Review the Council's scrutiny function to ensure it is effective and adds value.	Assistant Director Corporate Law
5. Need to enhance current recommendation tracking arrangements to enable 'real-time' monitoring of progress of internal and external audit recommendations.	Implement an improved automated system for the tracking of internal and external audit recommendations	Head of Internal Audit

Independent Auditor's Report

Section Four - Independent Auditor's Report

Independent Auditors Report to the Members of Essex County Council

1. Opinion on the financial statements

1.1 Introduction

I have audited the financial statements of Essex County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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.

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

1.3 Scope of the audit of the financial statements

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

Section Four - Independent Auditor's Report

1.4 Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Essex County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

1.5 Opinion on other matters

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

1.6 Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects.

2. Opinion on the pension fund financial statements

2.1 Introduction

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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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.

2.2 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, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

2.3 Scope of the audit of the financial statements

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

2.4 Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

2.5 Opinion on other matters

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

Section Four - Independent Auditor's Report

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

3.1 Respective responsibilities of the Authority and the auditor

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

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.

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

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 2011, 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 2012.

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.

Section Four - Independent Auditor's Report

4. Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, 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 ended 31 March 2012.

5. Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Rob Murray
District Auditor

3rd Floor, Eastbrook
Shaftesbury Road
Cambridge, CB2 8BF

28th September 2012