

A scenic photograph of a park with a church tower in the background. The church has a prominent white spire with a weather vane. The foreground is filled with tall, green grass and a black metal fence. A person is walking on a path in the middle ground. The sky is blue with some clouds.

# Essex County Council Statement of Accounts 2017/18



Essex County Council





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# **Narrative Report 2017/18**



Essex County Council

# Narrative Report

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The purpose of the Narrative Report is to provide information on the Council, its main objectives and strategies and the principal risks it faces. The content of the Narrative Report is as follows:

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# Narrative Report

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## Introduction

### *About Essex County Council*

Essex County Council (ECC) is one of the largest of the **27** county councils in England, covering an area of around **346,000** hectares, with a population of around **1.4m** people and comprising **70** electoral divisions. The Council forms the upper tier of local government within Essex (excluding Southend and Thurrock).

### *Our Services*

The following core services are provided by the Council:

- **Children's and Families** (including the safeguarding of children, looked after children, services to vulnerable children and young people and their families and adoption and fostering services);
- **Culture, Communities and Customer** (including heritage, culture and the arts, tourism, libraries and community hubs, registration of births, deaths and marriages, trading standards, coroners and community safety and community resilience);
- **Economic Growth, Skills, Infrastructure and Digital Economy** (including matters of strategic, regional or countywide significance in relation to integrated spatial development and economic growth, economic development and regeneration, enterprise, international trade and inward investment, localities, skills and apprenticeships, transport strategy and infrastructure commissioning);
- **Education** (including early years and pre-school, mainstream schools and education, special educational needs provision, school improvement, raising the participation age, youth services and careers advice and school crossing patrols);
- **Environment and Waste** (including waste minimisation, disposal and recycling, built and historic environment, country parks and green spaces, flood management and rural affairs);
- **Health and Adult Social Care** (including services for older people, people with physical or learning disabilities and the homeless and public health, mental health services, child health related matters and drug and alcohol action);
- **Highways** (including highways maintenance, street lighting, traffic regulation and road safety, parking, cycling and public rights of way); and
- **Housing, Planning and Property** (including housing growth and strategy, strategic spatial planning, minerals and waste planning, property and gypsies and travellers).

These services are either provided directly by the Council or are commissioned from and delivered by other organisations. Most of these services are mandatory, meaning that the Council must provide them because it is under a statutory duty to do so.

# Narrative Report

## Our leadership and workforce

The decisions that affect the services we provide and the policies we adopt are made by our Councillors. There are **75** Councillors at Essex County Council, who are elected in local elections based on their political affiliations, to represent **70** areas known as divisions. The last local election was on **4<sup>th</sup> May 2017**; our current Councillors are serving for a four year term, effective from this date.

Full Council is a meeting of all **75** council members and it is at these meetings that councillors decide the overall policies of the County Council and set the Council's annual revenue budget and capital programme. The full Council is also responsible for electing a **Leader** of the Council.

The current **Leader** is Cllr David Finch. Cllr David Finch is responsible for the strategic direction, policies and priorities of the Council, including the overall corporate revenue and capital budget strategy. The Leader is also responsible for appointing nine other Councillors to form a **Cabinet**. The Councillors who make up the Cabinet provide collective and individual leadership, undertake lead responsibility for allocated portfolios and contribute towards the strategic direction of the Council. One of the nine Cabinet Members appointed by the Leader fulfils the role of **Deputy Leader**. The current **Deputy Leader** is Cllr Kevin Bentley.

Overview and scrutiny committees hold our Cabinet to account for the decisions made on behalf of the Council.

Senior officers, led by our **Chief Executive** Gavin Jones (our Head of Paid Services) and our Executive Directors are responsible for:

- Advising Councillors on policy;
- Implementing Councillors' decisions; and
- Service performance.

Together, these officers form our **Corporate Leadership Team**.

Our workforce is aligned to our Corporate Leadership Team.

Overall, our workforce comprises **13,681** 'full time equivalent' employees. Of this total, **7,840** are employed within our locally maintained schools. Our non schools' workforce therefore comprises **5,841** 'full time equivalent' employees as at 31<sup>st</sup> March 2018.

| 2016/17       | Workforce numbers (full time equivalents) | 2017/18       |
|---------------|---|---------------|
| 961           | Adult Social Care                         | 1,032         |
| 1,167         | Children and Families                     | 1,198         |
| 1,636         | Corporate and Customer Services           | 1,547         |
| 665           | Corporate Development                     | 600           |
| 417           | Economy, Localities and Public Health     | 399           |
| 594           | Education                                 | 558           |
| 401           | Infrastructure and Environment            | 404           |
| 94            | Organisation Development and People       | 103           |
| <b>5,935</b>  | <b>Sub total - non schools</b>            | <b>5,841</b>  |
| 8,661         | Schools                                   | 7,840         |
| <b>14,596</b> | <b>Total</b>                              | <b>13,681</b> |

# Narrative Report

## Vision for Essex

The [Future of Essex](#) is a single, shared vision for Essex that has been created by working together with our partners across Essex – residents, businesses, the voluntary sector, schools, universities and other public service partners.

It is a long-term statement of ambition and aspiration for Essex:

- A statement of values and beliefs that represent Essex's identity and spirit.
- A statement of priorities for Essex that we can aspire to achieve together.
- An expression of shared pride in and ambition for our county bringing together public services, businesses and residents.
- A declaration of ambitions and aspirations for our shared future.
- A narrative to define and promote our county externally.

The [Future of Essex](#) is not an Essex County Council document, but the agreed ambitions (as shown in the adjacent diagram) have informed the Council's organisational strategy.



## Organisation Strategy

### Strategic aims

The Council's [Organisation Strategy](#) sets out our areas of focus over the four year period 2017-21. It articulates how we will achieve better outcomes for Essex, and secure the ambitions set out in the [Vision for Essex](#).

Our overarching ambition is for Essex to be the best local authority in the country – because that is what the people of Essex deserve. This ambition translates into four strategic aims (as summarised in the adjacent diagram).





# Narrative Report

## Strategic priorities

There are a number of strategic priorities associated with each of these strategic aims:



## Building blocks

Everything we are seeking to achieve in our Organisation Strategy is built on four key building blocks:

- **Our People** are our most important asset. We will be demanding a lot from our employees over the next few years as we shift the culture and have the best employees in local government.
- Our transformation will be underpinned by securing the benefits of **digital approaches** to service and outcome improvements. We will use digital to rethink current provision and fundamentally re-imagine what we do and how we do it.
- **Commissioning** is a key capability for the organisation. Our redesign process has focussed on ensuring that commissioning, as a capability, is built into our DNA.
- Essex County Council is embedded in one of the most complex public policy systems in the country. We have a large number of **partners** who are critical to our ability to secure key outcomes.

# Narrative Report

## Our performance

This year, we have been preparing the Council to achieve the ambitions in our **Organisation Strategy**. This has meant a year of significant change, where we have restructured to work in new ways, to improve our efficiency and impact. We have improved our practices to successfully reduce delayed transfers from hospital into social care, and have explored how we can better use data to improve our care planning. We have also explored new ways of generating income, including investing in a commercial property portfolio, improving our detection of tax fraud and launching the Essex Lottery, with the sole intention of generating funding for local causes across Essex.

We have delivered many strategies and projects with our partners and residents too, to improve the lives of the people of Essex, including the development of strategies to guide dementia, mental health and disability support across Essex. We have also consulted on our Chelmsford and Colchester Park and Ride services and the provision of a Mobile Library Service.

We have developed a set of performance measures to track progress against our strategic priorities. The following tables highlight some of our achievements in 2017/18.

### *Enable inclusive economic growth*

Key indicators of our performance in 2017/18 against this strategic aim and the associated priorities are as follows:

|                              | Performance measures  | Target | 2016/17 | 2017/18 |
|------------------------------|---|--------|---------|---------|
| Help people in Essex prosper | Percentage of pupils at good or outstanding schools (primary, secondary, special and Pupil Referral Units)                        | 100%   | 93.9%   | 94.5%   |
|                              | Percentage of pupils that have achieved 'at least expected standard' in reading, writing and maths at Key Stage 2                 | 66%    | 56%     | 63%     |
|                              | Percentage of 'disadvantaged' pupils that have achieved 'at least expected standard' in reading, writing and maths at Key Stage 2 | 53%    | 38%     | 47%     |
|                              | Average Progress 8 score at Key Stage 4 – all pupils  | 0.08   | 0.00    | -0.04   |
|                              | Average Progress 8 score at Key Stage 4 – 'disadvantaged' pupils  | -0.26  | -0.41   | -0.35   |
|                              | Proportion of residents aged 16 to 64 with level 3 or above qualifications  | 54.9%  | 53.4%   | 50.5%   |
|                              | Proportion of residents aged 16 to 64 with no qualification   | 7.5%   | 7.8%    | 6.7%    |
|                              | Total apprenticeship starts in Essex  | 11,750 | 11,750  | 11,370  |

# Narrative Report

|  | Performance measures   | Target   | 2016/17 | 2017/18 |
|--|--|----------|---------|---------|
| Enable Essex to attract and grow large firms | Number of new jobs created as a result of inward investment  | 1,100    | 1,738   | 1,472   |
|  | Total industrial floor space available with over 10,000 square foot  | 1.8m     | 2.0m    | 1.7m    |
|  | Journey time reliability on interurban roads   | 93.5%    | 94.9%   | 93.9%   |
|  | Number of local units with employment of 250+  | 195      | 195     | 200     |
|  | Number of businesses enabled with superfast (30MB+) broadband as part of the superfast Essex broadband programme | 852      | 679     | 627     |
|  | Total number using public transport (bus)  | 41.7m    | 31.1m   | 31m     |
|  | Total number of jobs in Essex  | 668,000  | 667,000 | 684,000 |
|  | Real gross value added growth rate for Greater Essex   | 1.8%     | 3.6%    | 1.7%    |
|  | Employment rate for Essex – proportion of residents aged from 16 to 64 who were in work                          | 76.8%    | 75.9%   | 77.9%   |
| Econ. develop                                | Median net weekly household income in Essex  | Baseline | £620    | £740    |

## Helping people get the best start and age well

Key indicators of our performance in 2017/18 against this strategic aim and the associated priorities are as follows:

|   | Performance measures   | Target | 2016/17      | 2017/18              |
|---|--|--------|--------------|----------------------|
| Keep vulnerable children safer                      | Stability of placements of Children in Care: percentage of placements, 3 or more in year   | 10%    | 8.6%         | 7.4%                 |
|   | Percentage of eligible disadvantaged 2 year olds in Essex who are in receipt of free early education entitlement for 2 year olds | 74%    | 74%          | 71.3%                |
| Vulnerable adults living independent of social care | Percentage of people self-caring after reablement  | 71%    | 66%          | 62%                  |
|   | Number of residential care starts per 100,000 of population  | 356    | 304          | 216                  |
|   | Number of social care attributed delayed transfers of care (per day per population)  | 2.6    | 5.7          | 2.5                  |
|   | Increase the proportion of carers who find it easy to find information about support   | 59%    | 59%          | Reported bi-annually |
|   | The percentage of enquiries resulting in a reduction of risk to the service user   | 80%    | Not measured | 82%                  |

# Narrative Report

|   | Performance measures  | Target    | 2016/17      | 2017/18   |
|---|---|-----------|--------------|-----------|
| Vulnerable adults living independent of social care | Care Quality Commission assessed providers rated 'good' or 'outstanding'                          | 90%       | 83%          | 85%       |
|   | Numbers of new houses and accommodation solutions for vulnerable adults – older people            | 60        | 130          | 60        |
|   | Number of new houses and accommodation solutions for vulnerable adults – adults with a disability | 11        | -            | 57        |
| Improve health                                      | Differential in life expectancy across different areas of Essex (women)                           | 5.4 years | 5.5 years    | 5.8 years |
|   | Differential in life expectancy across different areas of Essex (men)                             | 7.1 years | 7.2 years    | 7.5 years |
|   | Percentage of adults classified as overweight or obese  | 65.6%     | Not measured | 61.9%     |

## *Helping people to create great places to grow up, live and work*

Key indicators of our performance in 2017/18 against this strategic aim and the associated priorities are as follows:

|   | Performance measure   | Target   | 2016/17      | 2017/18           |
|---|---|----------|--------------|-------------------|
| Stronger and safer communities                    | Residents agree that our local area is a place where people from different backgrounds get on well together | 80%      | 68%          | Not yet available |
|   | Percentage of residents not lonely (perception of isolation)  | 65%      | 65%          | Not yet available |
|   | Residents that have offered unpaid help to any group, club or organisation                                  | 35 - 40% | 35%          | Not yet available |
|   | Residents that agree they can influence decisions in their local area                                       | 22 – 27% | 22%          | Not yet available |
| Sustainable development & protect the environment | Percentage of respondents who said they were satisfied with ECC parks and open spaces                       | 78%      | Not measured | 78%               |
|   | Total domestic energy consumption per household (KWh)   | 16,484   | 17,125       | 17,036            |
|   | Total household waste collected per household (kg)  | 1,098    | 1,098        | 1,052             |
|   | Percentage of household waste sent for reuse, recycling or composting                                       | 53%      | 53.5%        | 53.2%             |



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|                     | Performance measure                | Target | 2016/17 | 2017/18           |
|---------------------|------------------------------------|--------|---------|-------------------|
| Growing communities | Jobs per household                 | 1.09   | 1.10    | 1.12              |
|                     | Net housing additions across Essex | 6,504  | 5,124   | TBC<br>(Oct 2018) |

## *Transform the Council to achieve more with less*

Key indicators of our performance in 2017/18 against this strategic aim and the associated priorities are as follows:

|             | Performance measures         | Target | 2016/17 | 2017/18 |
|-------------|------------------------------|--------|---------|---------|
| Limit costs | Council tax collection rates | 98.5%  | 97.9%   | 97.6%   |
|             | Forecast annual Council Tax  | £597m  | £570m   | £597m   |

Further information on our performance is provided in the Essex Annual Report for 2017/18 which is available on the Council's website.

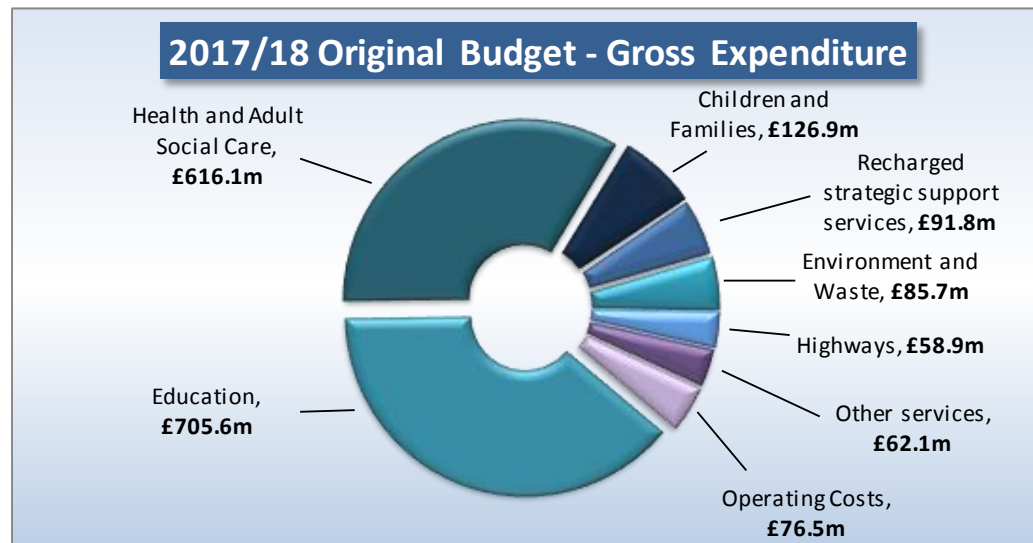
## Revenue spending

### *Revenue spending plans for 2017/18*

Our budget for the provision of services in 2017/18 was set against a backdrop of considerable financial challenge, due to the Government's on-going austerity programme of national reductions in public sector spending, compounded by inflationary pressures and an increasing demand for our services.

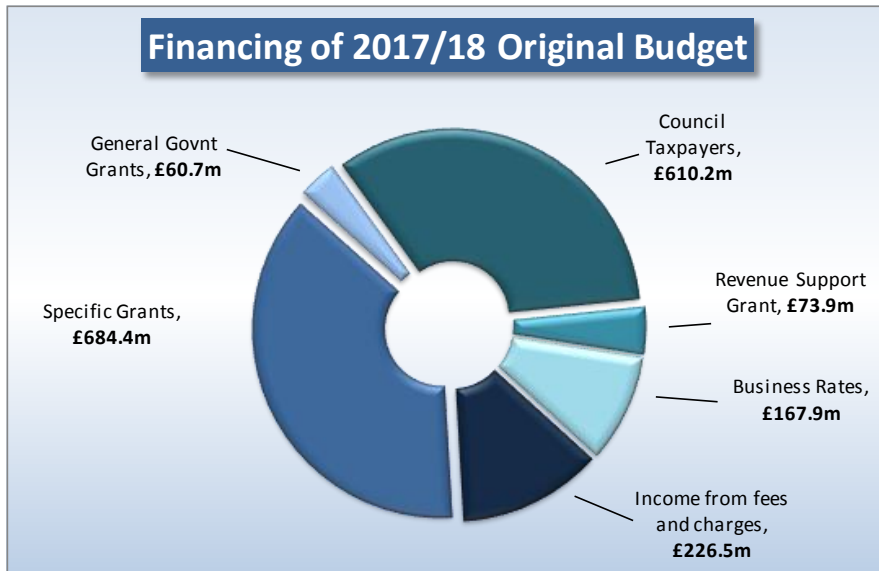
In total, we planned to spend some **£1,823.6m** on commissioning services this year.

This spending plan was aligned to the Council's Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet.



# Narrative Report

We intended to finance **£971.6m** of our spending from income from fees and charges (**£226.5m**) and from specific (**£684.4m**) and general (**£60.7m**) government grants. The net budget, after allowing for specific and general government grants and income from fees and charges, originally amounted to **£852m**.



The net budget was financed from:

- Revenue Support Grant (**£73.9m**);
- Business rates (*including business rates 'top up' grant*) (**£167.9m**); and
- Local taxpayers (**£610.2m**).

The Council was able to freeze the core council tax for the fifth time in six years, by achieving savings and efficiencies in the back office and transforming the way services are delivered.

The Council Tax for a band D property was set at **£1,163.70** (compared with £1,130.13 in 2016/17), which equated to an increase of under **65p** per household per week. The Council levied the Government's social care precept of **3%** in 2017/18, which must be spent on the provision of adult social care; this is included in the Council Tax figure of **£1,163.70**.

## Year end position

The Cabinet monitored actual spending against the approved budget throughout the year, and reviewed the overall position on a quarterly basis.

Through careful financial planning and appropriate management action, the Council delivered a moderate under spend of **£4.893m (0.6%)** against a very challenging backdrop. At the first quarter stage, the financial position was a forecast over spend of **£4.881m**, primarily driven by pressures in Adult Social Care, but targeted management action to manage risk and reduce over spends enabled the recovery of that position.

Actual net expenditure compared with the final approved budget for the Cabinet Members' portfolios is shown below, together with the planned and actual financing of that expenditure:

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|   | Budget           |                        | Actual net expenditure<br>£000 | Over / (under) spend against final estimate<br>£000 |
|---|------------------|------------------------|--------------------------------|---|
|   | Original<br>£000 | Final Estimate<br>£000 |                                |   |
| Children and Families   | 113,212          | 109,108                | 114,337                        | 5,229   |
| Culture, Communities and Customer                                   | 18,642           | 19,592                 | 19,576                         | (16)  |
| Economic Growth, Skills, Infrastructure and Digital Economy         | 6,984            | 7,825                  | 7,640                          | (185)   |
| Education   |                  |                        |                                |   |
| Dedicated Schools Budget  | (3,063)          | 1,143                  | 6,799                          | 5,656   |
| Non Dedicated Schools Budget  | 77,404           | 72,516                 | 73,457                         | 941   |
| Environment and Waste   | 75,384           | 77,249                 | 78,493                         | 1,244   |
| Health and Adult Social Care  | 421,823          | 425,510                | 409,107                        | (16,403)  |
| Highways  | 42,828           | 42,287                 | 41,367                         | (920)   |
| Housing, Planning and Property                                      | 4,003            | 3,646                  | 3,594                          | (52)  |
| Leader  | 6,611            | 10,189                 | 9,911                          | (278)   |
| Resources   | 15,775           | 16,420                 | 14,749                         | (1,671)   |
| Recharged strategic support services                                | 70,724           | 93,513                 | 89,884                         | (3,629)   |
| <b>Net expenditure by Portfolios</b>                                | <b>850,327</b>   | <b>878,998</b>         | <b>868,914</b>                 | <b>(10,084)</b>                                     |
| Other operating costs   |                  |                        |                                |   |
| Emergency Contingency   | 4,000            | 4,000                  | -                              | (4,000)   |
| Interest, capital financing and dividends                           | 44,854           | 43,707                 | 36,783                         | (6,924)   |
| Appropriations to / (from) earmarked reserves and restricted funds: |                  |                        |                                |   |
| Proposed appropriations   | 13,476           | (14,063)               | 1,088                          | 15,151  |
| Underlying under spend  | -                | -                      | 4,893                          | 4,893   |
| <b>Total net expenditure</b>  | <b>912,657</b>   | <b>912,642</b>         | <b>911,678</b>                 | <b>(964)</b>  |
| General government grants (excl. RSG)                               | (60,694)         | (60,592)               | (59,585)                       | 1,007   |
| General Balance - contribution / (withdrawal)                       | -                | (87)                   | (87)                           | -   |
| <b>Net Total</b>  | <b>851,963</b>   | <b>851,963</b>         | <b>852,006</b>                 | <b>43</b>   |
| <b>Financed by</b>  |                  |                        |                                |   |
| Revenue Support Grant (RSG)   | (73,876)         | (73,876)               | (73,876)                       | -   |
| Business rates (incl. business rates top up grant)                  | (167,829)        | (167,829)              | (168,531)                      | (702)   |
| Council taxpayers   | (610,258)        | (610,258)              | (609,599)                      | 659   |
| <b>Total Financing</b>  | <b>(851,963)</b> | <b>(851,963)</b>       | <b>(852,006)</b>               | <b>(43)</b>   |

The net under spend of **£4.893m** reflects:

- A net under spend by services of **£10.084m** (increasing to **£15.740m** when the Dedicated Schools Budget is excluded). This is concentrated in the Health and Social Care and Resources portfolios.
- The Emergency Contingency of **£4m** not being needed.
- A net under spend of **£6.924m** on interest, capital financing and dividends, largely as a result of revising the Council's policy for the repayment of debt.
- The receipt of less income from general government grants, council tax and non domestic rates than budgeted (**£964,000**).
- Proposals to appropriate **£15.151m** (net) into earmarked revenue reserves (including **£16.395m** into the Carry Forwards reserve, representing unspent budget that will be used to support service expenditure in 2018/19, some of which was planned and the re-profiling endorsed in advance of the year end).

The net under spend of **£4.893m** was appropriated into the Transformation Reserve.

Despite ending the year in an under spend position, there remain some significant underlying issues that require focus in the short and medium term to ensure financial sustainability, notably:

# Narrative Report

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- A **£5.229m** over spend in Children's and Families, driven by increased numbers and complexity of placements. A sustainability programme has been put in place to support Children's and Families to create and maintain a sector leading service that has the interests of vulnerable families and children at its heart, combined with a passion for delivering and sustaining optimum value for money for the tax payer; and
- A significant pressure within the high needs and early years' block within Education, funded by the Dedicated Schools Grant, which is over spent by **£5.096m** (see Note 15 of our Statement of Accounts, on page 76). The main drivers for this budgetary pressure are increased demand for higher education Health Care Plans and provision in Special Schools, and an historic shortfall in funding for three and four year olds. The position is under review with Education and the Schools' Forum.

## *Revenue spending plans for 2018/19 and beyond*

The 2018/19 budget has been set against a backdrop of the eighth year of austerity. There are significant reductions in central government funding and increasing demand for social care services.

The Council accepted the government's offer of a four year settlement in 2016/17, in return for an efficiency plan. This settlement has provided the Council with certainty over some central government funding streams until 2019/20. Revenue Support Grant funding from central government has reduced significantly over this period, and falls to zero by 2020/21. Revenue Support Grant in 2018/19 will be **£46m** – this is **38%** lower than the amount received in 2017/18, and is equivalent to **5%** of total funding.

In the Provisional Finance Settlement for 2017/18 it was announced that social care authorities could increase the adult social care precept, provided that the total increase by 2019/20 does not exceed **6%**. The Council raised the adult social care precept by **3%** in 2017/18 and by **2%** in 2018/19, and intends to raise it by a further **1%** in 2019/20. The **2%** increase will yield an estimated **£12m** in 2018/19 which, whilst being a contribution to the financial pressures relating to social care, is not sufficient to meet the costs of inflation and demographic growth.

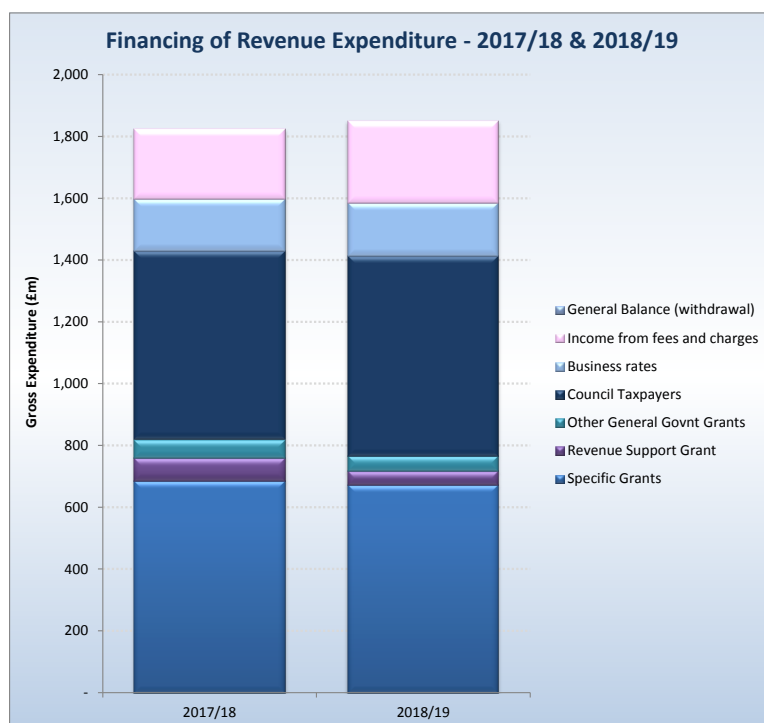


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At **£1,850.6m**, budgeted expenditure in 2018/19 is **£27.0m** higher than that originally planned for 2017/18.

The Council implemented a **2.99%** increase in core council tax in 2018/19 (in addition to a **2%** social care precept). The 2018/19 council tax for a band D property is **£1,221.75** (compared with **£1,163.70** in 2017/18).

There are a number of risks associated with the 2018/19 budget, including the assumed full delivery of **£59m** of budget savings, some of which are at higher risk of non delivery.



The extent and management of social care demand is a significant risk, given that people live for longer and may have more care needs, and we are experiencing more cases and more complex cases within Children's Services too.

The Council has a control environment that will help to manage and minimise the risks inherent in the budget, including its approach to financial planning, regular reporting to Members and Senior Officers, using performance reporting as an early warning system, and the internal audit function assessing controls and processes.

The total savings required over the medium term period amounts to **£127m**. There will be a continued focus on commercialism, effective contract management and working with partners to secure value for money in delivering our strategic aims and priorities. This is about operating our services in ways that generate value for residents, where residents are willing to pay a fair price where they can afford to do so. We are also investing in our digital capability to make optimum use of digital solutions to drive the transformation and improve efficiency. The [Capital Programme](#) similarly has elements which result in greater revenues, thus reducing the burden on taxpayers.

The funding position beyond 2019/20 is not clear. The Council is working with central government on the design of the new Business Rates Retention scheme which is due to be implemented in 2020/21. The new scheme will mean that more business rates are retained locally by local authorities. This will be a significant change to the way we are funded, but will provide greater financial independence, and incentives to push for local growth and pioneer new models of public service delivery. Importantly, it will also improve local accountability as locally raised tax becomes the core funding source.

Work will continue throughout 2018/19 to identify options for balancing the 2019/20 and future years' budgets. The Council is fully cognisant of the challenges it faces, and is determined to transform how it operates to tackle the enormous financial challenges

# Narrative Report

Further details of the Council's revenue investment plans are included in the [Essex County Council Organisation Plan 2018/19](#), which is available on the Council's website.

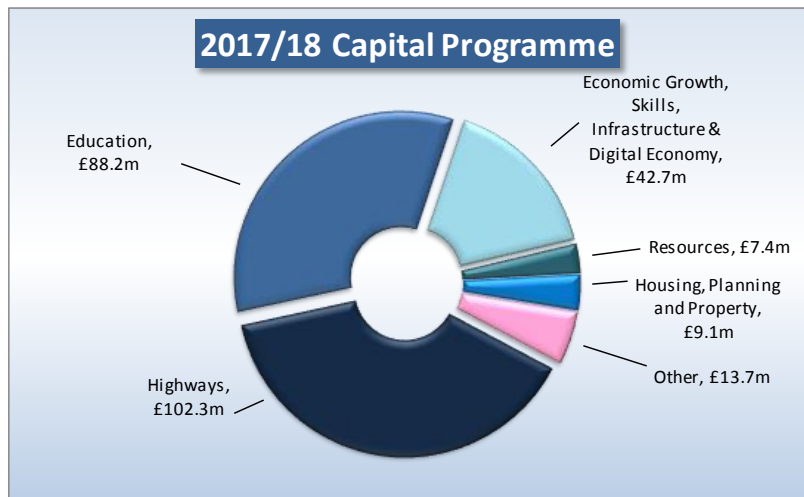
## Capital investment

### *Background to the 2017/18 Capital Programme*

Capital expenditure forms a large part of our spending on the provision of services and, in line with our revenue budget setting process, our Capital Programme for 2017/18 was compiled to maximise and make the best use of the available funding to deliver projects that represent the key priorities of the Council.

Overall, the Capital Programme for 2017/18 was originally set at **£263.4m**. The capital programme comprised a diverse portfolio of activity, with elements that generate income and growth, drive savings and ensure the quality of infrastructure, for the benefit of Essex residents:

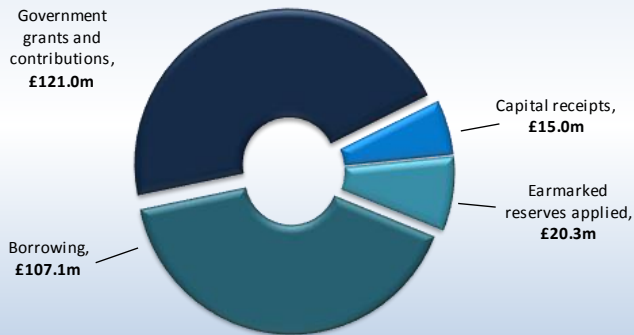
- **Invest to Grow (£124m)** – including economic growth schemes in infrastructure and highways, and the creation of new school places to meet additional demand from demographic changes and new housing developments;
- **Invest to maintain (£115m)** – projects intended to maintain but extend the life of our assets, including highways maintenance schemes countywide; and
- **Invest to save / generate return (£24m)** – schemes that generate a return or saving, including accommodation for older people and people with disabilities, and the Essex Housing Programme.



This programme was aligned to the Council's Cabinet Members, according to their specific responsibilities for discharging the functions for the Cabinet (as illustrated above).

# Narrative Report

## Financing of Original 2017/18 Capital Programme



It was intended to finance the 2017/18 Capital Programme from a combination of borrowing (£107.1m) and from grants, contributions, capital receipts and reserves (£156.3m).

The grants for 2017/18 included funding from the Local Growth Fund (LGF) deal managed by the South East Local Enterprise Partnership (SELEP) which covers Essex, Southend, Thurrock, Kent, Medway and East Sussex.

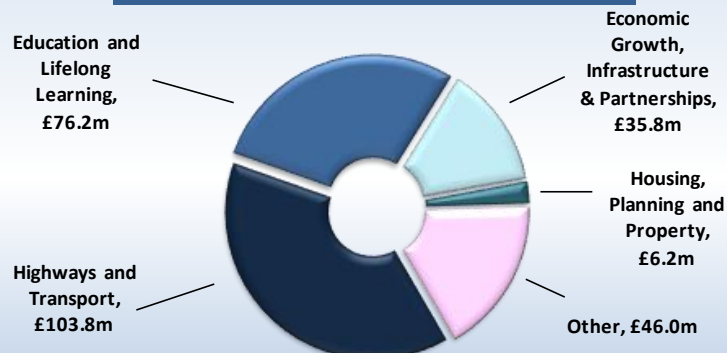
## 2017/18 Outturn position

The final approved capital payments budget amounted to **£279.477m**.

In comparison, actual expenditure amounted to **£268.023m**. This was **£11.454m** lower than budgeted.

During 2017/18, over **500** schemes were undertaken, including:

## Actual Capital Expenditure 2017/18



- Treating over **500** miles of road length (further than from London to Edinburgh) to rectify carriageway and structural defects, and improve road drainage across the County.
- Creating **3,000** new school places across Essex through completed school expansions and the relocation and new build of Glenwood Special School which created **95** new school places for children with special needs;
- The provision of grant funding to **11** providers to create **327** new early years and childcare places across the county;
- **162** BT Cabinets, giving **17,132** premises access to Superfast speeds for the first time, and completed **17** full fibre projects, giving **539** properties access to speeds of over 300mb.
- Deploying the Gigaclear 1,000mb service to an additional **2,072** homes and business in the Epping Forest area; and

# Narrative Report

- Commencement of work on the Knowledge Gateway in Colchester, which will provide space and hands on start up support to **50** businesses and organisation as part of the Knowledge Gateway business park development at the Colchester Campus.

The end of year position is set out in the following table, which compares actual expenditure with the final approved budget for each Cabinet Member's portfolio, and shows how the expenditure has been financed.

|   | Original<br>approved<br>expenditure | Final<br>approved<br>expenditure | Actual<br>Capital<br>Payments | Variance<br>from approved<br>expenditure<br>over / (under) |
|---|-------------------------------------|----------------------------------|-------------------------------|--|
|   | £000                                | £000                             | £000                          | £000   |
| <b>Capital payments</b>                                   |                                     |                                  |                               |  |
| Children's and Families                                   | 550                                 | 500                              | 351                           | (149)  |
| Culture, Communities and Customer                         | 1,701                               | 862                              | 305                           | (557)  |
| Economic Growth, Skills, Infrastructure & Digital Economy | 42,682                              | 37,444                           | 35,801                        | (1,643)  |
| Education   | 88,146                              | 80,390                           | 76,217                        | (4,173)  |
| Environment and Waste                                     | 6,897                               | 7,615                            | 8,052                         | 437  |
| Health and Adult Social Care                              | 4,591                               | 4,818                            | 3,546                         | (1,272)  |
| Highways  | 102,325                             | 106,757                          | 103,783                       | (2,974)  |
| Housing, Planning and Property                            | 9,113                               | 6,664                            | 6,184                         | (480)  |
| Leader  | -                                   | -                                | -                             | -  |
| Resources   | 7,351                               | 34,427                           | 33,784                        | (643)  |
| <b>Total of capital payments financed</b>                 | <b>263,356</b>                      | <b>279,477</b>                   | <b>268,023</b>                | <b>(11,454)</b>  |
| <b>Financed by</b>  |                                     |                                  |                               |  |
| Borrowing   | (107,087)                           | (121,661)                        | (117,093)                     | 4,568  |
| Government grants and contributions                       | (121,003)                           | (135,522)                        | (128,226)                     | 7,296  |
| Capital receipts  | (15,000)                            | (7,862)                          | (7,878)                       | (16)   |
| Earmarked reserves applied                                | (20,266)                            | (14,432)                         | (14,826)                      | (394)  |
| <b>Total financing</b>                                    | <b>(263,356)</b>                    | <b>(279,477)</b>                 | <b>(268,023)</b>              | <b>11,454</b>  |

During 2017/18, we disposed of some of our land and buildings – the sale proceeds were used to partly fund our capital investment programme. The most significant asset disposals during 2017/18 were as follows:

| Significant disposals                         | Capital receipts (£000) |
|---|-------------------------|
| ▪ 2 Beaufort Road, New Dukes Way (Chelmsford) | 1,650                   |
| ▪ Northbrooks House (Harlow)                  | 1,450                   |
| ▪ Writtle Wick Family Centre (Chelmsford)     | 880                     |
| ▪ John Ray House (Braintree)                  | 482                     |
| ▪ Olaf's Cottage (South Woodham Ferrers)      | 440                     |

At 31st March 2018, we have **£3.795m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£45.003m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

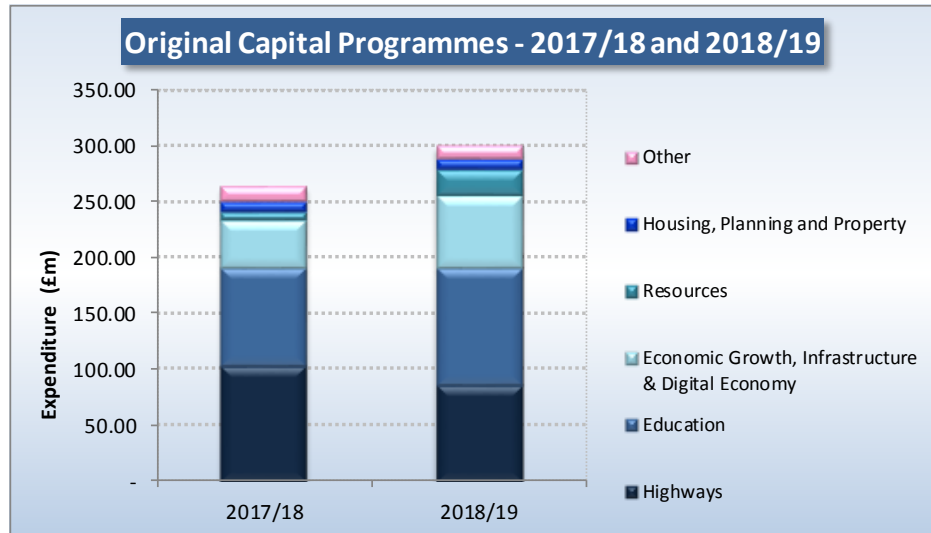


# Narrative Report

## Capital investment plans for 2018/19

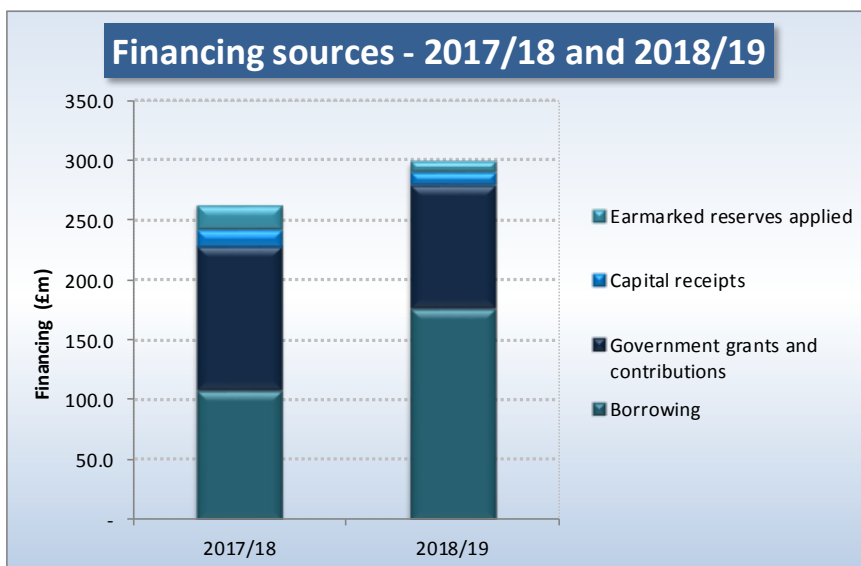
Overall, the Capital Programme for 2018/19 has been set at **£298.6m**.

This Capital Programme will deliver our biggest ever education programme (creating in excess of **2,750** new primary and secondary school places). We will also continue on our five year investment programme to provide **400** new school places for children with special educational needs.



The programme also enables the Council to bring forward ambitious housing schemes and redevelop redundant council property to provide much needed new homes across the county, supporting independent living schemes for older people and adults with disabilities.

The Council will also deliver a range of schemes to enhance, maintain and deliver new assets. Schemes such as superfast broadband and investment in libraries to make them more community based and a package of highways maintenance and road congestion schemes countywide to support economic growth. There is also major investment with further education organisations to help address the gap in the skills sector, such as at Stansted Airport.



The 2018/19 Capital Programme will be financed from a combination of borrowing (**£175.6m**) and from grants, contributions, capital receipts and reserves (**£123.0m**).

Our longer term Capital Programme aspirations are significant too, recognising that investment is essential to transform our capacity to meet future needs, generate additional income (including capital receipts) and deliver revenue savings.

# Narrative Report

We will continue to develop a future programme of investment which is affordable within the financial envelope available and will help us to transform service delivery to improve the quality of life for our residents.

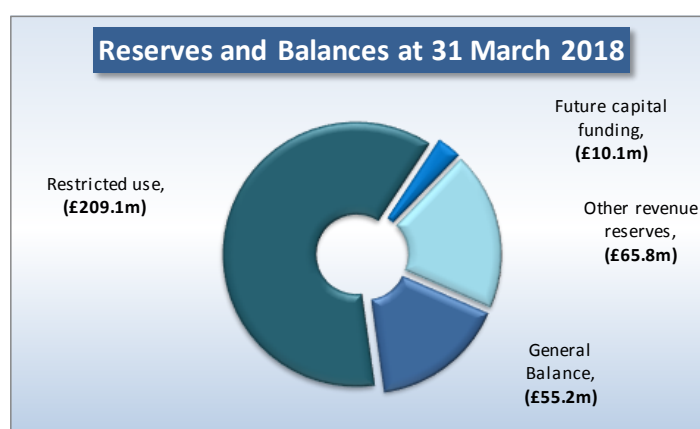
Further details of the Council's capital investment plans are included in the [Essex County Council Organisation Plan 2018/19](#), which is available on the Council's website.

## Revenue Reserves and Balances

Much has been written in the media about the reserves and balances held by local councils. However, our revenue reserves play an important part in the financial strategy of the Council, by ensuring we have some resilience to cope with unpredictable financial pressures and long term contractual commitments.

A substantial amount of the Council's reserves are 'restricted use' funds (**£209.120m**).

This means they are ring-fenced very specifically to long term contractual commitments such as Private Finance Initiative schemes, or they are funds held on behalf of others (including schools and partnerships) and are not available to support spending by the Council.



These reserves are important in terms of risk management, as they have the potential to alleviate pressure on remaining reserves. However, they should not be considered available to support more general pressures facing the Council.

A further **£65.816m** of our reserves provide a cushion against the significant risks the Council faces and a source of funding to change the way the Council provides services and achieves future efficiencies. A further **£10.061m** has been earmarked for funding future capital investment.

The remainder (**£55.212m**) is the General Balance, which is not ring-fenced and provides a working balance to protect the Council against unexpected cost pressures. This is particularly critical during volatile economic times. With further major funding reductions every year to 2020/21, coupled with economic uncertainty and increasing demand for services, this will remain under close review. The current balance is sufficient to fund **22** days of operational expenditure.

The continued provision of adequate reserves is essential. Without these, it may be necessary to take remedial urgent action in-year to mitigate challenges that arise, which could lead to longer term consequences.

Further details on the reserves held by the Council are provided within the Statement of Accounts (see page 68).

# Narrative Report

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## Cash Flow management

The Council primarily undertakes external borrowing in order to manage the cash flow implications of incurring capital expenditure that it does not immediately fund from cash resources, and to manage fluctuations in its cash flows more generally too. Separately, the Council has cash resources, which it has set aside for longer term purposes (such as funds set aside in reserves and balances) and working capital balances, that can either be invested or temporarily utilised to defer the need for external borrowing.

Some short term loans were secured during 2017/18, primarily in accordance with the Council's agreement to temporarily borrow the surplus cash balances of Essex Cares Ltd (which is a wholly owned subsidiary of the Council). In addition, two longer term loans were secured in 2017/18; **£4.210m** from Salix Finance Ltd as part of its energy efficiency loans programme (related to upgrade to LED street lighting) and **£1.373m** from the South East Local Enterprise Partnership. No other long term borrowing was necessary in 2017/18, largely because the Council had secured loans in 2016/17 in anticipation of the significant increase in its Capital Financing Requirement in 2017/18 (*see page 81 for further details*).

Any cash balances the Council held during 2017/18 were invested until they were required to meet outgoings. This meant that funds were mainly invested for less than 1 year, but some funds were invested for longer periods. Funds were invested with other local authorities, money market funds and bodies with high credit ratings. Further details are provided in the Statement of Accounts (see page 87).

The Council also lent funds to Essex Cares Ltd, as part of its agreement to provide treasury management support to the company.

## Statement of Accounts

The Council is required by statute to prepare a Statement of Accounts in accordance with proper practices in relation to accounts, defined to include the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (i.e. the 'Code of Practice'). The Statement of Accounts for 2017/18 is presented within this publication, commencing on page 24.

The key aim of the Statement of Accounts is to provide a 'true and fair' view of the Council's financial position at 31st March 2018 and of its income and expenditure for the 2017/18 financial year. The Statement of Accounts is therefore an essential feature of public accountability, reporting on the Council's use of funds raised from the public and provided by central government and confirming the availability of balances and reserves for future use.

The primary Financial Statements (shown on pages 30 to 35) summarise the financial effects of transactions and events that occurred during 2017/18. All other information included within the Statement of Accounts is intended to aid interpretation of the financial statements and/or to provide further information on the financial performance of the Council during 2017/18.

# Narrative Report

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The primary financial statements comprise:

- **Comprehensive Income and Expenditure Statement** – presents information on resources generated and consumed during the year, based on generally accepted accounting practice;
- **Movement in Reserves Statement** – presents the financial resources available to the Council to support future service delivery and cope with unexpected events;
- **Balance Sheet** – summarises the financial position of the Council at 31st March 2018 including the net assets it has available after settling its liabilities, and its reserves; and
- **Cash Flow Statement** – shows the changes in cash and cash equivalents during 2017/18.

Whilst the presentation of these financial statements is largely defined by the CIPFA Code of Practice and other proper practices, the service groupings in the Comprehensive Income and Expenditure Statement are those used by the Council for taking financial decisions and monitoring financial performance.

The accounting cost in the year of providing services (as presented in the Comprehensive Income and Expenditure Statement) differs from the amount to be funded from taxation. For this reason, the Expenditure and Funding Analysis (shown in Note 6 of the Statement of Accounts, on page 60) provides a reconciliation between the accounting cost of service provision and the amounts spent under the Council's rules for monitoring expenditure against the funding in the annual budget. The reasons for the differences between the two sets of figures are also explained in Note 6.

Accounting policies (see pages 38 to 53) explain how the financial effects of transactions and other events are reflected in the financial statements. The Council has to make certain judgements about complex transactions or those involving uncertainty about future events when applying its accounting policies. Explanations are provided (see page 53) of the judgements made in 2017/18.

Other notes to the accounts (see pages 57 to 128) provide further information on the Council's financial performance and, where relevant, detailed analysis of the amounts provided in the primary financial statements. Information relating to transactions and events is included in these notes if it is material to the Council's financial statements. Information is considered material if omitting it or misstating it could influence decisions made on the basis of the information presented.

Group accounts are presented in the Statement of Accounts in addition to the Council's own accounts. The Group accounts consolidate the Council's own accounts with those of Essex Cares Ltd (which is a company wholly owned by the Council). The Group Accounts therefore provide a full picture of the Council's economic activities and financial position.

## Annual Governance Statement

Our Annual Governance Statement (which commences on page 203 of this publication) summarises the outcome of our review of the Governance Framework that has been in place during 2017/18. The



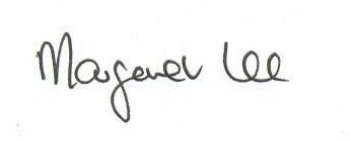
# Narrative Report

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statement demonstrates that we have in place effective arrangements for the governance of our organisation and that we are satisfied that we have a robust system of internal control, which is a critical component of our overall governance arrangements.

## Conclusion

Through careful planning and management, Essex County Council has been able to close its 2017/18 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2018/19 and beyond. Whilst a balanced budget has been set for 2018/19, the projections for future years currently indicate a gap between the Council's expected funding streams and the Council's expenditure. It is therefore essential that the Council continues with its Transformation and Efficiency programme to identify further savings opportunities to ensure future balanced budgets are able to be set.



**Margaret Lee**

**Executive Director, Corporate and Customer Services**

**30<sup>th</sup> July 2018**

# Statement of Accounts 2017/18



Essex County Council

# Statement of Accounts

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# Statement of Accounts - Introduction

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## Financial Statements

The Council's financial statements for 2017/18 are set out on pages 30 to 35, and comprise:

- **Comprehensive Income and Expenditure Statement** – shows the accounting cost of providing services in the year;
- **Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the Council, analysed into usable and unusable reserves;
- **Balance Sheet** – shows the value of assets and liabilities recognised by the Council; and
- **Cash Flow Statement** – shows changes in cash and cash equivalents during the year.

The financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the Council.

## Notes to the Accounts

Supplementary information is set out within the notes to the accounts (see pages 36 to 128) to provide further detail on the financial performance of the Council during 2017/18.

The notes to the accounts include the Council's accounting policies. The 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 2017/18 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in **Note 1** to the Accounts, which commences on page 38.

The notes to the accounts also include an **Expenditure and Funding Analysis** (see *Note 6, commencing on page 60*). The Expenditure and Funding Analysis provides a reconciliation between how annual expenditure is funded from resources and the accounting cost of providing services in the year.

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

# Statement of Accounts - Introduction

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These statements, together with explanatory notes and accounting policies, are set out on page 129 to 143.

## Pension Fund

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

The Essex Pension Fund accounts 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.

The Pension Fund accounts are set out on pages 144 to 196.

## Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 197 to 202.

# Statement of Accounts - Statement of Responsibilities

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## 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, Corporate and Customer Services**.
- 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, Governance and Standards Committee**.

## Executive Director, Corporate and Customer Services' responsibilities

The Executive Director, Corporate and Customer Services 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, Corporate and Customer Services has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates which were reasonable and prudent.
- Complied with the Code of Practice.

The Executive Director, Corporate and Customer Services has also:

- Kept proper, up to date, accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Executive Director, Corporate and Customer Services' 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 31st March 2018 and its expenditure and income for the year then ended.



**Margaret Lee**

**Executive Director, Corporate and Customer Services**

**30th July 2018**



# Statement of Accounts - Statement of Responsibilities

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## Chairman of the Audit, Governance and Standards Committee's certificate

I confirm that this Statement of Accounts was considered and approved by the Audit, Governance and Standards Committee at its meeting on **30<sup>th</sup> July 2018**.

A handwritten signature in dark ink, appearing to read 'Terry Cutmore', with a long, sweeping horizontal line extending from the end of the signature across the page.

**Cllr Terry Cutmore**

**Chairman of the Audit, Governance and Standards Committee**

**30<sup>th</sup> July 2018**

# Statement of Accounts - Financial Statements

---

## Introduction

The financial statements comprise:

- **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. The Council raises 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.

- **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 Statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amount chargeable to council tax for the year.

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 are undertaken by the Council.

- **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. They also disclose information that is not presented within the financial statements but is relevant to an understanding of them.

The Expenditure and Funding Analysis, which is presented in Note 6 to the Accounts, provides a reconciliation between the accounting cost of providing services in accordance with generally accepted accounting practices (as presented in the Comprehensive Income and Expenditure Statement), and the amounts to be funded from taxation.

# Comprehensive Income and Expenditure Statement

For year ended 31st March 2018

| 2016/17           |                   |              |                 | Note | 2017/18           |                   |              |                 |
|-------------------|-------------------|--------------|-----------------|------|-------------------|-------------------|--------------|-----------------|
| Gross expenditure | Government grants | Other income | Net Expenditure |      | Gross expenditure | Government grants | Other income | Net expenditure |
| £000              | £000              | £000         | £000            |      | £000              | £000              | £000         | £000            |
| 127,686           | (9,904)           | (2,598)      | 115,184         |      | 138,920           | (11,678)          | (6,717)      | 120,525         |
| 32,019            | (90)              | (6,815)      | 25,114          |      | 29,133            | (326)             | (6,497)      | 22,310          |
| 14,694            | -                 | (1,345)      | 13,349          |      | 11,796            | (2,519)           | (1,429)      | 7,848           |
|                   |                   |              |                 |      |                   |                   |              |                 |
| 604,700           | (556,446)         | (44,944)     | 3,310           |      | 581,423           | (550,668)         | (38,987)     | (8,232)         |
| 158,903           | (42,477)          | (23,479)     | 92,947          |      | 203,580           | (46,171)          | (39,142)     | 118,267         |
| 88,466            | (211)             | (8,190)      | 80,065          |      | 95,527            | (1,093)           | (8,269)      | 86,165          |
| 635,191           | (69,727)          | (126,983)    | 438,481         |      | 642,453           | (87,551)          | (138,963)    | 415,939         |
| 84,416            | (1,760)           | (16,379)     | 66,277          |      | 85,154            | (16,342)          | (14,887)     | 53,925          |
| 5,903             | (196)             | (1,165)      | 4,542           |      | 6,421             | (145)             | (1,304)      | 4,972           |
| (6,591)           | (42)              | (295)        | (6,928)         |      | (945)             | (170)             | (559)        | (1,674)         |
| 17,793            | (297)             | (844)        | 16,652          |      | 15,557            | (275)             | (2,433)      | 12,849          |
|                   |                   |              |                 |      |                   |                   |              |                 |
| 1,928             | -                 | -            | 1,928           |      | 2,408             | -                 | -            | 2,408           |
| 85,148            | -                 | -            | 85,148          |      | 98,649            | -                 | -            | 98,649          |
| 13,444            | -                 | -            | 13,444          |      | 11,546            | -                 | -            | 11,546          |
| 1,863,700         | (681,150)         | (233,037)    | 949,513         |      | 1,921,622         | (716,938)         | (259,187)    | 945,497         |
|                   |                   |              |                 |      |                   |                   |              |                 |
| 169,971           | -                 | -            | 169,971         | 10   | 115,786           | -                 | -            | 115,786         |
|                   |                   |              |                 |      |                   |                   |              |                 |
| 124,039           | -                 | (68,097)     | 55,942          | 11   | 125,923           | -                 | (58,781)     | 67,142          |
|                   |                   |              |                 |      |                   |                   |              |                 |
| -                 | (417,535)         | (626,037)    | (1,043,572)     | 13   | -                 | (340,152)         | (649,638)    | (989,790)       |
|                   |                   |              |                 |      |                   |                   |              |                 |
| 2,157,710         | (1,098,685)       | (927,171)    | 131,854         |      | 2,163,331         | (1,057,090)       | (967,606)    | 138,635         |
|                   |                   |              |                 |      |                   |                   |              |                 |
|                   |                   |              | (138,875)       | 28.2 |                   |                   |              | (100,136)       |
|                   |                   |              | 341             | 28.2 |                   |                   |              | -               |
|                   |                   |              | 408             | 28.5 |                   |                   |              | (492)           |
|                   |                   |              | 314,852         | 28.6 |                   |                   |              | (246,371)       |
|                   |                   |              | 176,726         |      |                   |                   |              | (346,999)       |
|                   |                   |              | 308,580         |      |                   |                   |              | (208,364)       |
|                   |                   |              |                 |      |                   |                   |              |                 |

## Movement in Reserves Statement

For the years ended 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2018

|   | 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                   |
| <b>Balance at 31 March 2016</b>                                       |       | (285,442)                  | (79,731)             | -                               | (2,791)                          | (367,964)             | (925,517)               | (1,293,481)            |
| <b>Movement in Reserves during 2016/17</b>                            |       |                            |                      |                                 |                                  |                       |                         |                        |
| Total Comprehensive Income and Expenditure                            |       | -                          | 131,854              | -                               | -                                | 131,854               | 176,726                 | 308,580                |
| Adjustments between accounting basis and funding under regulations    | 8     | -                          | (101,504)            | -                               | 56                               | (101,448)             | 101,448                 | -                      |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b> |       | -                          | 30,350               | -                               | 56                               | 30,406                | 278,174                 | 308,580                |
| Transfers from Earmarked Reserves                                     | 9     | 5,918                      | (5,918)              | -                               | -                                | -                     | -                       | -                      |
| <b>(Increase) / decrease in 2016/17</b>                               |       | 5,918                      | 24,432               | -                               | 56                               | 30,406                | 278,174                 | 308,580                |
| <b>Balance at 31 March 2017</b>                                       |       | <b>(279,524)</b>           | <b>(55,299)</b>      | <b>-</b>                        | <b>(2,735)</b>                   | <b>(337,558)</b>      | <b>(647,343)</b>        | <b>(984,901)</b>       |
| <b>Movement in Reserves during 2017/18</b>                            |       |                            |                      |                                 |                                  |                       |                         |                        |
| Total Comprehensive Income and Expenditure                            |       | -                          | 138,635              | -                               | -                                | 138,635               | (346,999)               | (208,364)              |
| Adjustments between accounting basis and funding under regulations    | 8     | -                          | (144,021)            | -                               | 178                              | (143,843)             | 143,843                 | -                      |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b> |       | -                          | (5,386)              | -                               | 178                              | (5,208)               | (203,156)               | (208,364)              |
| Transfers to Earmarked Reserves                                       | 9     | (5,473)                    | 5,473                | -                               | -                                | -                     | -                       | -                      |
| <b>(Increase) / decrease in 2017/18</b>                               |       | (5,473)                    | 87                   | -                               | 178                              | (5,208)               | (203,156)               | (208,364)              |
| <b>Balance at 31 March 2018</b>                                       |       | <b>(284,997)</b>           | <b>(55,212)</b>      | <b>-</b>                        | <b>(2,557)</b>                   | <b>(342,766)</b>      | <b>(850,499)</b>        | <b>(1,193,265)</b>     |

# Statement of Accounts - Financial Statements

## Balance Sheet as at 31<sup>st</sup> March 2018

| 31 March 2017      | Note      |  | 31 March 2018    |                    |
|--------------------|-----------|--|------------------|--------------------|
| £000               |           |  | £000             | £000               |
|                    |           | <b>Property, Plant and Equipment</b>       |                  |                    |
|                    |           | <b>Operational assets</b>                  |                  |                    |
| 1,600,880          |           | Land and buildings                         | 1,571,218        |                    |
| 24,293             |           | Vehicles, plant and equipment              | 16,197           |                    |
| 991,596            |           | Infrastructure                             | 1,075,953        |                    |
| 2,347              |           | Community assets                           | 3,117            |                    |
|                    |           | <b>Non operational assets</b>              |                  |                    |
| 114,905            |           | Assets under construction                  | 135,115          |                    |
| 34,299             |           | Surplus assets held pending disposal       | 45,003           |                    |
| <b>2,768,320</b>   | <b>16</b> | <b>Total Property, Plant and Equipment</b> | <b>2,846,603</b> |                    |
| 14,505             | <b>16</b> | Heritage assets                            | 14,501           |                    |
| 12,511             | <b>16</b> | Investment property                        | 39,920           |                    |
| 11,746             | <b>16</b> | Intangible assets                          | 9,396            |                    |
| 12,128             | <b>20</b> | Long term investments                      | 12,746           |                    |
| 17,830             | <b>22</b> | Long term debtors                          | 17,971           |                    |
| <b>2,837,040</b>   |           | <b>Long term assets</b>                    |                  | <b>2,941,137</b>   |
| 231,912            | <b>20</b> | Short term investments                     | 211,561          |                    |
| 9,497              | <b>16</b> | Assets held for sale                       | 3,795            |                    |
| 373                | <b>16</b> | Investment properties held for sale        | -                |                    |
| 50                 | <b>21</b> | Inventories                                | 7,165            |                    |
| 152,650            | <b>22</b> | Short term debtors                         | 166,256          |                    |
| 71,254             | <b>23</b> | Cash and cash equivalents                  | 40,567           |                    |
| <b>465,736</b>     |           | <b>Current Assets</b>                      |                  | <b>429,344</b>     |
| (8,227)            | <b>20</b> | Short-term borrowing                       | (7,382)          |                    |
| (253,320)          | <b>24</b> | Creditors                                  | (298,240)        |                    |
| (14,008)           | <b>26</b> | Provisions (current)                       | (12,649)         |                    |
| (9,315)            | <b>25</b> | Revenue grant receipts in advance          | (13,507)         |                    |
| (57,268)           | <b>25</b> | Capital grant receipts in advance          | (54,528)         |                    |
| (6,285)            | <b>18</b> | Finance Lease obligations (short term)     | (8,028)          |                    |
| <b>(348,423)</b>   |           | <b>Current liabilities</b>                 |                  | <b>(394,334)</b>   |
| (112)              | <b>24</b> | Long term creditors                        | (124)            |                    |
| (24,278)           | <b>26</b> | Provisions (non-current)                   | (30,240)         |                    |
| (511,758)          | <b>20</b> | Long term borrowing                        | (514,914)        |                    |
|                    |           | Other long term liabilities                |                  |                    |
| (147,424)          | <b>18</b> | Finance lease obligations                  | (138,945)        |                    |
| (13,541)           |           | Deferred credits                           | (12,982)         |                    |
| (1,272,339)        | <b>32</b> | Net Pensions Liability                     | (1,085,677)      |                    |
| <b>(1,969,452)</b> |           | <b>Long term liabilities</b>               |                  | <b>(1,782,882)</b> |
| <b>984,901</b>     |           | <b>Net Assets</b>                          |                  | <b>1,193,265</b>   |

# Statement of Accounts - Financial Statements

## Balance Sheet as at 31<sup>st</sup> March 2018

| 31 March 2017    |    |  | 31 March 2018      |
|------------------|----|--|--------------------|
| £000             |    |  | £000               |
| (279,524)        | 9  | <b>Usable reserves</b>                           | (284,997)          |
| (55,299)         |    | Earmarked reserves                               | (55,212)           |
| -                |    | General Fund Balance                             | -                  |
| (2,735)          |    | Usable capital receipts reserve                  | (2,557)            |
| <b>(337,558)</b> |    | Capital grants unapplied                         |                    |
|                  | 28 |  | (342,766)          |
| (578,469)        |    | <b>Unusable reserves</b>                         | (616,624)          |
| (1,340,533)      |    | Revaluation reserve                              | (1,316,405)        |
| 3,101            |    | Capital Adjustments Account                      | 3,061              |
| (369)            |    | Financial Instruments Adjustment Account         | (861)              |
| 1,272,339        |    | Available for Sale Financial Instruments Reserve | 1,085,677          |
| (2,492)          |    | Pension reserve                                  | (2,535)            |
| (17,426)         |    | Deferred capital receipts                        | (15,696)           |
| 16,506           |    | Collection Fund Adjustment Account               | 12,884             |
| <b>(647,343)</b> |    | Accumulated Absences Account                     |                    |
| <b>(984,901)</b> |    |  | (850,499)          |
|                  |    | <b>Total Reserves</b>                            | <b>(1,193,265)</b> |

These statements replace the unaudited draft financial statements I certified on 31<sup>st</sup> May 2018:

Margaret Lee

**Margaret Lee - Executive Director, Corporate and Customer Services - 30th July 2018**



# Statement of Accounts - Financial Statements

## Cash Flow Statement

For year ended 31<sup>st</sup> March 2018

| 2016/17<br>£000 | Notes |   | 2017/18<br>£000 |
|-----------------|-------|---|-----------------|
| (23,246)        | 29    | Operating activities  | (81,610)        |
| 162,054         | ↓     | Investing activities  | 107,261         |
| (151,167)       |       | Financing activities  | 5,036           |
| <u>(12,359)</u> |       | <b>Net (increase) / decrease in cash and cash equivalents</b> | <u>30,687</u>   |
| 58,895          |       | Cash and cash equivalents at 1st April                        | 71,254          |
| 71,254          |       | Cash and cash equivalents at 31st March                       | 40,567          |

# Statement of Accounts - Notes to the Financial Statements

## Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 30 to 35) and provide further information on the financial performance of the Council during 2017/18. The notes set out within this section are as follows:

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# Statement of Accounts - Notes to the Financial Statements

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# Statement of Accounts - Notes to the Financial Statements

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## 1. Accounting policies

### 1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year, and its position as at 31st March 2018. 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 2017/18 Statement of Accounts, are set out within the following paragraphs.

### 1.2 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 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

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

### 1.3 Accruals of income and expenditure

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

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. 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.

### 1.4 Provisions and contingencies

#### 1.4.1 Provisions

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are maintained at the best estimate of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

# Statement of Accounts - Notes to the Financial Statements

---

## **1.4.2 Contingencies**

A contingent liability arises where:

- An event has taken place that gives the Council a possible obligation whose existence will only be confirmed by future events not wholly within the Council's control; or
- A provision would otherwise be made but it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the Council a possible asset, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events.

Contingencies are not recognised in the financial statements, but are disclosed as a note to the accounts.

## **1.5 Earmarked revenue reserves**

The Council sets aside specific amounts as reserves for future contingency or policy purposes. Reserves are created by transferring amounts out of the General Fund Balance.

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 count against the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. An amount is then released from the earmarked revenue reserve and transferred back into the General Fund Balance, so that there is no net charge against Council Tax for the expenditure.

## **1.6 Government grants and contributions**

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with any conditions that would require repayment of the grant or contribution if not met; and
- The grants and contributions will be received.

Grants and contributions are credited to the Comprehensive Income and Expenditure Statement when recognised as due to the Council (i.e. specific revenue grants and contributions are credited to the relevant service line in the Cost of Services, and capital grants and contributions and non ring-fenced grants are credited to Taxation and Non Specific Grant Income and Expenditure).

Where specific revenue grants and contributions are credited to the Comprehensive Income and Expenditure Statement, but the associated expenditure has not yet been incurred, the grant is

# Statement of Accounts - Notes to the Financial Statements

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set aside in an Earmarked Revenue Reserve (i.e. in accordance with note 1.5) so that it can be matched with the expenditure in a subsequent year.

Capital grants and contributions are reversed out of the General Fund Balance in the Movement in Reserves Statement and are transferred to the Capital Adjustment Account (if the grant eligible expenditure has been incurred); or to the Capital Grants Unapplied Account.

## **1.7 Council Tax and Non-Domestic Rates**

The council tax and non domestic (business) rates (NDR) income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, this differs from the amounts required by Regulation to be credited to the General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Council's Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR related to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **1.8 Employee benefits**

### ***1.8.1 Benefits payable during employment***

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

Where employees have earned entitlement to annual and other forms of leave but not taken it before the year end, and are carrying it forward into the next financial year, an accrual is raised against services in the Surplus or Deficit on the Provision of Services. This accrual is then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account.

### ***1.8.2 Termination benefits***

Termination benefits are charged, on an accruals basis, to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.



# Statement of Accounts - Notes to the Financial Statements

## 1.8.3 *Post-employment (retirement) benefits*

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

- The Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency;
- The NHS Pension Scheme, administered by NHS Pensions; and
- The Local Government Pension Scheme (LGPS), administered by the Council.

The Teachers' and NHS Pension schemes provide defined benefits to members. However, the Schemes' arrangements mean that liabilities for these benefits cannot be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet, and the employer's contributions payable to these schemes are charged to the relevant service lines within the Comprehensive Income and Expenditure Statement.

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.
- Liabilities are discounted to their value at current prices, using a discount rate that 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.
- Changes in the net pensions liability are analysed into the following components:
  - **Service Costs**, comprising:
    - **Current service cost** – charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked);
    - **Past service cost** - charged to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and
    - **Net interest on the net defined benefit liability** – charged or credited to the 'Financing and Investment Income and Expenditure' line within the Comprehensive Income and Expenditure Statement.
  - **Re-measurements of the net pension liability** (comprising **Return on plan assets** and **Actuarial gains and losses**) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - **Contributions paid to the LGPS** – not accounted for as an expense within the Comprehensive Income and Expenditure Statement.

# Statement of Accounts - Notes to the Financial Statements

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- 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 appropriated, in the Movement in Reserves Statement, to the Pensions Reserve.

## **1.8.4 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.

## **1.9 Overheads and support services**

The costs of overheads 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 2017/18 (SeRCOP).

Support Services are shown as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services, reflecting the Council's arrangements for accountability and performance.

## **1.10 Value added tax**

VAT payable is included as expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **1.11 Inventories**

When acquired, inventories are recognised on the Balance Sheet at cost (comprising all costs of purchase and conversion, together with any costs incurred in bringing the inventories to their intended location and condition). Inventories are subsequently carried on the Balance Sheet at the lower of cost and net realisable value.

Inventories are removed from the Balance Sheet and recognised as an expense in the Comprehensive Income and Expenditure Statement when they are sold or consumed in the provision of services, or when they no longer provide economic benefits or service potential.

# Statement of Accounts - Notes to the Financial Statements

## 1.12 Property, plant and equipment

### 1.12.1 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 does not capitalise expenditure on furniture and fittings.

### 1.12.2 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.

Donated assets are initially measured at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non Specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement. Gains credited to the Comprehensive Income and Expenditure Statement are reversed out to the Capital Adjustment Account in the Movement in Reserves Statement.

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

| Asset category         | Measurement basis   |
|------------------------|---|
| Land and buildings     | Current value<br><i>Current value is determined as being the amount that would be paid for the asset in its existing use but, if there is no market based evidence of fair value due to the specialist nature of the asset, depreciated replacement cost is used as an estimate of current value.</i> |
| Vehicles and equipment | Depreciated historical cost (as a proxy for current value).   |
| Infrastructure         | Depreciated historical cost.  |
| Community assets       | Depreciated historical cost.  |

# Statement of Accounts - Notes to the Financial Statements

| Asset category            | Measurement basis  |
|---------------------------|--|
| Assets under construction | Depreciated historical cost.   |
| Surplus assets            | Fair value, estimated at highest and best use from a market participant's perspective. |

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

Assets are also assessed at each year end to determine whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are estimated to be material, an impairment loss is recognised.

Where increases in valuations are identified, the gain is accounted for by crediting:

- The Revaluation Reserve to recognise the unrealised gain; or
- The Surplus or Deficit on the Provision of Services where it arises from the reversal of a loss previously charged to a service.

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

- Any accumulated gains for the asset in the Revaluation Reserve (i.e. up to the amount of the accumulated gains); or
- The Surplus or Deficit on the Provision of Services, where there is no or insufficient balance in the Revaluation Reserve for the asset.

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

## 1.12.3 Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use.

| Asset category | Depreciation basis  |
|----------------|---|
| Land           | Land is not depreciated.  |
| Buildings      | Buildings are depreciated, on a straight line basis, over the useful economic life (UEL) of each asset (as assessed by the Council's Valuer).<br>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 |

# Statement of Accounts - Notes to the Financial Statements

| Asset category                 | Depreciation basis   |
|--------------------------------|--|
|                                | <p>following components are depreciated separately:</p> <ul style="list-style-type: none"> <li>Structure <b>80 years</b></li> <li>Roof <b>25 to 80 years</b></li> <li>Plant and machinery <b>30 to 40 years</b></li> <li>External works <b>30 years</b></li> </ul>   |
| Community assets               | Depreciated over <b>60</b> years, on a straight-line basis.  |
| Vehicles and equipment         | Depreciated on a straight-line basis, over an expected lifetime ranging between <b>2</b> and <b>30</b> years.  |
| Roads and other infrastructure | <p>Depreciation is provided on a straight-line basis over the following periods:</p> <ul style="list-style-type: none"> <li>Road signage <b>30 years</b></li> <li>Roads and highway lighting <b>40 years</b></li> <li>Structures (eg: bridges) <b>120 years</b></li> <li>Off-highways drainage <b>100 years</b></li> <li>Other infrastructure <b>15 and 20 years</b></li> <li>Additions prior to 2008/09 <b>30 – 35 years</b></li> </ul> |
| Assets under construction      | Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.  |

Depreciation charges commence in the first full year after assets become operational, with the exception of vehicles, plant and equipment, where depreciation charges commence in the year of acquisition.

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.

## 1.12.4 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction, the asset is re-valued and is classified as an asset 'Held for Sale'.

Once an asset is disposed of, the carrying amount of the asset and any receipts from disposal are written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

# Statement of Accounts - Notes to the Financial Statements

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Amounts received for disposals are categorised as capital receipts. These receipts are therefore appropriated, via the Movement in Reserves Statement, to the Capital Receipts Reserve. They can then only be applied to pay 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.

## 1.13 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.

Internally generated assets are capitalised when the feasibility of the project is proven and it is intended to complete it, and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised only where it can be attributed to the asset and is incurred during the development phase.

Intangible assets are initially measured at cost and are subsequently 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.

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 sale proceeds, to the Capital Receipts Reserve.



# Statement of Accounts - Notes to the Financial Statements

## 1.14 Heritage Assets

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

| Asset category                         | Measurement and depreciation basis  |
|--|---|
| Buildings held for historical interest | <ul style="list-style-type: none"><li>• Held at depreciated historical cost.</li><li>• Depreciated over <b>60</b> years on a straight line basis.</li></ul>   |
| Archives                               | <ul style="list-style-type: none"><li>• The value of these items is derived from the estimated costs of conservation and repair.</li><li>• These assets are not subject to depreciation.</li></ul>                    |
| Fine Art                               | <ul style="list-style-type: none"><li>• 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.</li></ul> |

Where there is evidence of impairment, this is recognised and measured in accordance with the Council's general policy on impairment (see note 1.12.2 which commences on page 43).

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 non-current assets and in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 1.12.4).

## 1.15 Investment property

Investment property is measured initially at cost and subsequently at fair value (i.e. at a price reflecting its best and highest use). Properties are not depreciated but are revalued annually, reflecting the market conditions at the year end.

Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are then reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds) to the Capital Receipts Reserve.

Rentals received in relation to investment property are credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

# Statement of Accounts - Notes to the Financial Statements

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## 1.16 Charges to revenue for non-current assets

All services are charged with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets held and/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 revaluation gains that reverse a revaluation loss previously recognised in the Comprehensive Income and Expenditure Statement; and
- Amortisation of intangible assets held.

The Council is not required to raise council tax to cover these charges. Instead, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement. 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 in Reserves Statement.

## 1.17 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.

## 1.18 Private Finance Initiative and similar contracts

Where the Council is deemed to control the services that are provided under Private Finance Initiative (PFI) and similar contracts, and where ownership of the assets used under the contracts passes to the Council at the end of the contracts for no additional charge, the Council carries the assets on its own Balance Sheet as part of Property, Plant and Equipment.

Where the assets are constructed under a PFI contract, the asset under construction is only recognised in the Council's Balance Sheet when it becomes probable that future economic benefits attributable to the asset will flow to the Council.

Once recognised on the Council's Balance Sheet, assets are accounted for in accordance with Note 1.12. A PFI liability is also recognised on the Council's Balance Sheet for the amounts due to the scheme operator for the capital investment.

# Statement of Accounts - Notes to the Financial Statements

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

| Element of charge  | Accounting treatment   |
|--|--|
| <b>Services received</b><br><i>Services that the operator must provide with the property, plant and equipment.</i>   | Charged to the relevant service in the Comprehensive Income and Expenditure Statement.   |
| <b>Deferred income</b><br><i>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.</i> | Credited to the relevant service in the Comprehensive Income and Expenditure Statement.  |
| <b>Finance cost</b><br><i>Interest charge on outstanding Balance Sheet liability.</i>  | Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.   |
| <b>Contingent rent</b><br><i>Increases in the amount to be paid for the property arising during the contract.</i>  | Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.   |
| <b>Payment towards liability</b><br><i>Obligation to pay the operator for the property, plant and equipment.</i>   | Applied to write down the Balance Sheet liability towards the PFI operator.  |
| <b>Lifecycle replacement</b><br><i>The replacement of components of an asset as they wear out.</i>   | 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. |

## 1.19 Leases

### 1.19.1 Classification of leases

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

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

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

# Statement of Accounts - Notes to the Financial Statements

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## **1.19.2 Council as lessee**

Property, plant and equipment held by the Council 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. Subsequent payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- Financing charges and contingent rents (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Rentals paid by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

## **1.19.3 Council as lessor**

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, with the difference between the carrying amount of the asset and the Council's net investment in the lease being credited (or debited) to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. The net investment in the lease is recognised as a lease asset in the Balance Sheet, net of any premium paid.

Lease rentals receivable are apportioned between:

- A credit for the disposal of the interest in the property – applied to write down the lease asset; and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

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 as operating income to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of receipts.

# Statement of Accounts - Notes to the Financial Statements

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## 1.20 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.

The Council's bank overdraft is integral to the way in which the Council manages its cash and cash equivalents during the year and, as a result, forms part of 'Cash and Cash Equivalents' on the Balance Sheet. The Council nets its bank overdraft balance down against other cash and cash equivalent balances held at the year end.

## 1.21 Financial instruments

### 1.21.1 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. 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.

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

### 1.21.2 Financial Assets

Financial assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. They are classified into two types:

- **Loans and receivables**

Loans and receivables are initially measured at fair value, and subsequently 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. This means that:

# Statement of Accounts - Notes to the Financial Statements

- 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.

## ▪ **Available for sale assets.**

Available for sale assets are carried at fair value. Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve, and the gain/loss is recognised in Other Comprehensive Income and Expenditure as the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

Income (e.g. dividends) received is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

## **1.22 Fair value measurement**

The Council measures some of its non-financial assets (i.e. surplus and investment properties) and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received from the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised as follows:

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

## **1.23 Joint operations**

The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

# Statement of Accounts - Notes to the Financial Statements

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- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

## 1.24 Changes in accounting estimates

A change in an accounting estimate is an adjustment to the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors. They are accounted for prospectively (i.e. in the current and future years affected by the change).

## 1.25 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 are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

## 2. Critical judgements in applying accounting policies

The Council has to make certain judgements about complex transactions, or those involving uncertainty about future events, when applying the accounting policies set out in Note 1. The critical judgements made in applying the accounting policies for 2017/18 are as follows:

### ▪ Future funding for local government

The Council accepted a multi-year financial settlement from Central Government in 2016/17, in return for an efficiency plan. The settlement provides certainty over some central government funding streams until 2019/20; thereafter, the funding position is currently

# Statement of Accounts - Notes to the Financial Statements

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unknown. Government funding is reducing significantly over this period too, with Revenue Support Grant expected to fall to zero by 2020/21.

As well as reductions in government funding, the Council faces significant cost pressures due to inflation and increasing demand for its services. In particular, demand is rising for adult social care, with people living longer and having more care needs, and for children's services, with more cases, some of which are complex too.

The Council has a control environment that will help to manage and minimise risks inherent in its budgets for future years, including a robust approach to financial planning, regular reporting to members and senior officers, using performance reporting as an early warning system and an internal audit function assessing controls and processes.

The Council also continues to focus on commercialisation, effective contract management and working with partners to secure value for money in delivering its strategic aims and priorities. The Council is also investing in its digital capability to make optimum use of digital solutions to drive transformation and improve efficiency.

The Council has a strong track record in terms of delivering savings, generating income and delivering value to its residents, with a constant focus on strategic outcomes and financial prudence. Therefore, whilst the financial challenge facing the Council is significant, there is no evidence to indicate that the assets of the Council might be impaired due to the need to reduce service provision.

- **Property, Plant and Equipment**

Property, Plant and Equipment assets included in the Balance Sheet at current value are re-valued at least once every five years. At each year end, a review is undertaken by the Council's valuer to determine whether the carrying amount of these assets is consistent with their current value.

In limited circumstances, property assets are valued at 'fair value' (a price reflecting their best and highest use). Property assets valued on this basis comprise investment properties, non-current assets held for sale and surplus properties. The criteria for assessing property assets into one of these three categories are subject to a degree of interpretation and judgement.

- **Schools**

Whilst all locally maintained schools (*i.e. community, foundation, voluntary aided, voluntary controlled, community special and foundation special schools*) are deemed to be entities controlled by the Council, only the income, expenditure, assets, liabilities, reserves and cash flows that would be recognised by a 'school as an entity' are consolidated into the Council's financial statements.

Land and buildings provided by religious bodies for use by voluntary controlled, voluntary aided and certain foundation schools without the right to continuing use, such that they can be taken back by the owners at any point, are not recognised in the Council's financial statements, even though these assets may continue to be used by these schools for many



# Statement of Accounts - Notes to the Financial Statements

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years into the future. At 31st March 2018, land and buildings for **57** voluntary controlled (2016/17: 59), **56** voluntary aided (2016/17: 58) and **4** foundation schools (2016/17: 4) were provided by religious bodies without the right to continuing use.

- **Private Finance Initiative (PFI) schemes**

Where ownership of the property, plant and equipment used to provide services under operational PFI arrangements passes to the Council at the end of the contracts for no additional charge, the Council considers that it controls the services that are provided, and the residual values of these assets and their facilities at the end of these agreements. Accordingly, it recognises the Property, Plant and Equipment assets in its own balance sheet.

With regard to the Waste Treatment Plant, the Council cannot yet demonstrate that the economic benefits and service potential of the Plant will flow to it, as the Plant remains subject to testing (*see page 85 for further details*). The Council has therefore determined that the asset and the associated PFI liability should not be recognised within its financial statements for 2017/18.

- **Leases**

The Council has examined its leases, and arrangements that have the substance of a lease, and classified them as either operating or finance leases. In some cases, the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Provisions**

The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties, legal and other claims that could eventually result in the payment of compensation or other settlement and termination benefits where restructuring plans have been published which may result in staff redundancies.

The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

- **Collaborative arrangements**

- **Group entities**

Whilst the Council is involved in a number of collaborative arrangements, it has concluded that it is only necessary to consolidate one into its Group Accounts – this being Essex Cares Ltd, which is a wholly owned subsidiary of the Council. Although the majority of Essex Cares' turnover arises in respect of contracts with the Council, consolidation of their financial results into the Council's Group Accounts is considered appropriate on qualitative grounds, to provide a full picture of the Council's economic activities and financial position.

# Statement of Accounts - Notes to the Financial Statements

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- **South East Local Enterprise Partnership**

The South East Local Enterprise Partnership (SELEP) was established to drive economic growth across Essex, East Sussex, Kent, Medway, Southend and Thurrock. It has a range of members (including representatives from businesses, local authorities and higher / further education) and they collectively decide what the priorities should be for investing in roads, buildings and facilities in the area, as part of an integrated approach to growth and infrastructure delivery.

The SELEP is an informal partnership. It does not have legal status to enter into contracts, and so is required to act through one of its local authority partners; Essex County Council currently fulfils this role for the partnership. This means that all funding allocated to the SELEP by the Government is transferred to the Council, and that the Council is responsible for the disbursement of this funding in accordance with the funding decisions made by the SELEP's Accountability Board.

As the accountable body for the SELEP, Essex County Council retains overall legal accountability for the SELEP. However, whilst the Council is responsible for the proper use and administration of the SELEP's funding, the Council is not able to direct the use of the SELEP's funding for its own, or any other, purposes.

The Council is not required to comply with any decision made by the SELEP's Accountability Board that does not comply with its own financial procedure rules, the terms attached to the grant funding awarded to the SELEP or any relevant regulations. In the event that the Council and the SELEP are unable to agree on any matter, the Government acts as arbiter. This ensures that the Council is not subject to significant risks associated with disbursement of the SELEP's funds.

The Council has therefore concluded that it acts as an agent for the SELEP, which means that the SELEP's transactions are not reflected within the Council's financial statements. However, the Council recognises a creditor in its Balance Sheet for the cash it holds on behalf of the partnership. At 31st March 2018, this creditor amounted to **£67.391m** (2016/17: £25.489m).

- **Pooled budgets**

Pooled budgets occur where a number of partners agree to set aside funds for a specific purpose that they will pursue jointly, usually because it enables them to address common objectives or realise benefits from working together.

The Council currently participates in, and hosts, three pooled budgets:

- **Better Care Fund**
- **Equipment Pool**
- **Transforming Care Partnership Pool**

Further details of these pooled budgets are provided in Note 35, which commences on page 116.

The nature of these pooled budget arrangements implies an element of joint decision making over how the pooled funds are used. However, the precise accounting is

# Statement of Accounts - Notes to the Financial Statements

determined by the terms of the agreements between the members of these partnership arrangements.

Whilst partners collectively agree the services to be provided, the agreed services are commissioned by the respective partners via their own contracts with end providers, with the commissioning entity holding end providers to account for the services they provide.

On this basis, the Council has determined that the transactions of these pools are not reflected in the Council's financial statements, with the exception of expenditure incurred on agreed services commissioned by the Council via its own contracts with end providers, and the income it receives from the Pools to pay for these services.

## 3. Accounting policies issued but not yet adopted

A number of new or amended accounting standards have recently been issued but are not required to be adopted within the 2017/18 Statement of Accounts. Of these, only two are expected to have any practical implications for the Council, as detailed below.

### ▪ IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* has been adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, with an application date of 1 April 2018. This Standard will:

- Change the default accounting treatment for investments from one where gains and losses in value are not recognised as income or expenditure until an investment matures or is disposed of, to one where income or expenditure is recognised when fair value gains and losses arise;
- Change the model for impairment loss allowances for financial assets from one based on incurred losses to one based on expected losses.

The first of these changes will mean that some of the Council's Available for Sale investments will be reclassified at 1 April 2018 as Fair Value through Profit and Loss. The accumulated revaluation gains of **£861,000** that are currently held in the Available for Sale Financial Instruments Reserve will be released to the General Fund Balance on 1 April 2018. Any fair value gains / losses arising on these investments after that date will be credited / debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as they arise. It is possible that statutory regulations may be amended to bring these investments within the scope of statutory reversals for 2018/19.

The second of these changes, relating to impairment losses, will require the Council to review the allowance it currently makes for credit risk on investments, debtors and finance lease receivables to include losses expected to arise in the future, rather than just those incurred at the balance sheet date. To the extent that it is necessary to increase the allowance for impairment losses (**£11.294m** as at 31<sup>st</sup> March 2018), the increased allowances will be debited to the General Fund balance at 1 April 2018. Changes to expected losses after 1 April 2018 will be debited (or credited) to the Comprehensive

# Statement of Accounts - Notes to the Financial Statements

Income and Expenditure Statement (Surplus / deficit on the Provision of Services) as they arise.

## ■ IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* has also been adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 with an application date of 1 April 2018.

IFRS 15 introduces a new model for the recognition of contractual income, based on allocating the overall transaction price for the goods and/or services to be provided against the satisfaction of the various performance obligations in the contract. Whilst the analysis carried out to date indicates that there will be no material impact on the revenue recognised in relation to the significant contracts entered into by the Council, the new model nevertheless has the potential to change the date at which revenue is recognised, compared to the current accounting requirements.

## 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 31st March 2018 for which there is a risk of material adjustment in the forthcoming financial year are set out in the following paragraphs.

|                               | Uncertainties  | Effect if actual results differ from assumptions   | Comments on uncertainty   |
|-------------------------------|--|--|---|
| Property, plant and equipment | The majority of the Council's operational land and buildings are valued on a 'depreciated replacement cost' (DRC) basis. DRC is used when there is no established property market (excluding sales for alternative use) which would enable a reliable valuation by any other method. | The gross book value of the operational land and buildings valued on a DRC basis was <b>£1.535bn</b> at 31 <sup>st</sup> March 2018 (equivalent to <b>95%</b> of the total gross book value of operational land and buildings at this date). | The Council employs a professional RICS registered valuer to value its land and buildings, including those valued by DRC. Use of the DRC method of valuation is regularly considered by the Council and its Valuer. |

# Statement of Accounts - Notes to the Financial Statements

|                               | Uncertainties  | Effect if actual results differ from assumptions   | Comments on uncertainty  |
|-------------------------------|--|--|--|
| Property, plant and equipment | Assets are depreciated over their assessed useful lives, taking into account assumptions about the level of repairs and maintenance that will be undertaken.<br>The current economic climate makes it uncertain that current spending on repairs and maintenance can be sustained, bringing into doubt the useful lives of its assets. | If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease.<br>Had the Council assumed a UEL of one year less in 2017/18 for all assets with a UEL of 20 years or more, depreciation charges would have been <b>£1.479m</b> higher. | The useful economic lives (UELs) of buildings are reassessed at each formal re-valuation. As a result, the potential for the UELs of our buildings to get out of alignment is limited.<br>Details of the carrying values and depreciation are detailed in Note 16 (page 77). |
|                               | When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques based on observable data.  | Significant changes in any of the valuation inputs would result in a significantly lower or higher fair value measurement for the financial assets and liabilities.  | The Council employs experts to identify the most appropriate valuation techniques to determine fair value.<br>Information about the techniques used to determine the fair value is disclosed in notes 16.3, 20.2 and 20.4.   |
| Pensions liability            | Estimation of the net pension liability to pay pensions depends on a number of complex judgements.<br>A firm of actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.  | The net pension liability in the accounts amounts to <b>£1.086bn</b> at 31st March 2018.<br>The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 32.4 which commences on page 113.   | The pensions liability reduced by <b>£228.628m</b> in 2017/18 as a consequence of changes in demographic, financial and other assumptions.<br>Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.   |
| Provisions                    | The estimate of the provision made for insurance claims depends on a number of complex actuarial judgements.<br>In addition, it is not certain that all valid claims have been received by the Council.  | At 31st March 2018, the insurance provision amounted to <b>£23.230m</b> .<br>Further details are provided in Note 26 which commences on page 97.   | A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.  |

# Statement of Accounts - Notes to the Financial Statements

|         | Uncertainties   | Effect if actual results differ from assumptions   | Comments on uncertainty  |
|---------|---|--|--|
| Debtors | At 31st March 2018, the Council had a balance of sundry debtors of <b>£105.065m</b> and made an allowance for doubtful debts of <b>£11.294m</b> . | Deterioration in debt collection rates of <b>1%</b> would necessitate an additional allowance for doubtful debts of <b>£1.051m</b> . | A review of significant balances suggests that the allowance for doubtful debts is appropriate. However, in the current economic climate, it is not certain that such an allowance will be sufficient. |

## 5. Changes in accounting estimates

Estimation of the net pension liability to pay pensions depends on a number of complex judgements. The key financial assumptions required for determining the defined benefit pension obligations are the 'discount rate' and the 'rate of future inflation'. There are several different approaches to setting both of these rates and, following a review of the methodology applied, the Pension's Actuary has revised the approach to setting these rates with effect from 2017/18. The effect of applying these changes in financial assumption has been to reduce the Council's Pensions' liability by around **1%**. Further details of the Pensions' liability are provided in Note 32.3, on page 111.

The Council estimates of the allowance required for doubtful debts based on past recovery rates. The Council has revised its methodology for determining the allowance it makes in respect of social care debt secured against a property. The impact of adopting the revised methodology has been to reduce the allowance for doubtful debts by **£2.741m** this year.

## 6. Expenditure and Funding Analysis

### 6.1 Introduction

The Expenditure and Funding Analysis (see note 6.2) shows, for each of the Council's portfolios and recharged strategic support services:

- **Net expenditure chargeable to the General Fund** (i.e. the amount spent under the Council's rules for monitoring expenditure against the funding in the annual budget for the General Fund); and
- **Net expenditure in the Comprehensive Income and Expenditure Statement** (the resources actually consumed in the year, as measured by proper accounting practices).

The reasons for the differences between the two amounts for each portfolio / recharged strategic support service are explained in Note 6.3 (see page 62).

The service groupings in the Comprehensive Income and Expenditure Statement, and hence in the Expenditure and Funding Analysis reflect the Council's political leadership (Cabinet) structure. This reporting format is the one most commonly used by the Council for allocating resources and for assessing financial performance.

## 6.2 Expenditure and Funding Analysis

| 2016/17                                    |  |   |   | 2017/18                                    |  |   |
|--|--|---|---|--|--|---|
| Net expenditure chargeable to General Fund | Adjustments between the Funding and Accounting basis | Net expenditure in the Comprehensive Income and Expenditure Statement |   | Net expenditure chargeable to General Fund | Adjustments between the Funding and Accounting basis | Net expenditure in the Comprehensive Income and Expenditure Statement |
| £000                                       | £000   | £000  |   | £000                                       | £000   | £000  |
| 113,358                                    | 1,826  | 115,184   | Children and Families                                       | 114,337                                    | 6,188  | 120,525   |
| 20,656                                     | 4,458  | 25,114  | Culture, Communities and Customer                           | 19,576                                     | 2,734  | 22,310  |
| 7,752                                      | 5,597  | 13,349  | Economic Growth, Skills, Infrastructure and Digital Economy | 7,640                                      | 208  | 7,848   |
|  |  |   | Education   |  |  |   |
| 4,824                                      | (1,514)  | 3,310   | Dedicated Schools Budget                                    | 6,798                                      | (15,030)   | (8,232)   |
| 78,620                                     | 14,327   | 92,947  | Non Dedicated Schools Budget                                | 73,457                                     | 44,810   | 118,267   |
| 76,777                                     | 3,288  | 80,065  | Environment and Waste                                       | 78,493                                     | 7,672  | 86,165  |
| 434,793                                    | 3,688  | 438,481   | Health and Adult Social Care                                | 409,107                                    | 6,832  | 415,939   |
| 43,499                                     | 22,778   | 66,277  | Highways  | 41,367                                     | 12,558   | 53,925  |
| 3,375                                      | 1,167  | 4,542   | Housing, Planning and Property                              | 3,595                                      | 1,377  | 4,972   |
| 7,911                                      | (14,839)   | (6,928)   | Leader  | 9,911                                      | (11,585)   | (1,674)   |
| 18,712                                     | (2,060)  | 16,652  | Resources   | 14,749                                     | (1,900)  | 12,849  |
|  |  |   | Recharged Strategic Support Services                        |  |  |   |
| 1,843                                      | 85   | 1,928   | Culture, Communities and Customer                           | 1,932                                      | 476  | 2,408   |
| 71,669                                     | 13,479   | 85,148  | Resources   | 77,622                                     | 21,027   | 98,649  |
| 13,249                                     | 195  | 13,444  | Leader  | 10,330                                     | 1,216  | 11,546  |
| 897,038                                    | 52,475   | 949,513   | <b>Cost of services - continuing operations</b>             | 868,914                                    | 76,583   | 945,497   |
| (866,688)                                  | 49,029   | (817,659)   | Other income and expenditure not charged to services        | (874,300)                                  | 67,438   | (806,862)   |
| 30,350                                     | 101,504  | 131,854   | <b>(Surplus) / deficit on Provision of Services</b>         | (5,386)                                    | 144,021  | 138,635   |
|  |  |   | <b>General Fund Balance</b>                                 |  |  |   |
| (79,731)                                   |  |   | Balance as at 1 April                                       | (55,299)                                   |  |   |
| 30,350                                     |  |   | (Surplus) / deficit on Provision of Services                | (5,386)                                    |  |   |
| (5,918)                                    |  |   | Transfers (to) / from Earmarked Revenue Reserves            | 5,473                                      |  |   |
| (55,299)                                   |  |   | <b>Balance as at 31st March</b>                             | (55,212)                                   |  |   |

## 6.3 Notes to Expenditure and Funding Analysis

### 6.3.1 Adjustments between funding and accounting basis

The following analysis provides an explanation of the 'adjustments between the funding and accounting basis' column in the Expenditure and Funding Analysis.

| 2016/17  | Adjustments<br>for capital<br>purposes | Net change for<br>Pension<br>Adjustments | Other adjustments<br>between<br>funding and<br>accounting | Other<br>differences | Adjustments<br>between the<br>Funding and<br>Accounting basis |
|--|--|--|---|----------------------|---|
|  | Note 6.3.2                             | Note 6.3.3                               | Note 6.3.4  | Note 6.3.5           |   |
|  | £000                                   | £000                                     | £000  | £000                 | £000  |
| Children and Families  | 576                                    | 1,221                                    | 29  | -                    | 1,826   |
| Culture, Communities and Customer  | 4,131                                  | 325                                      | 2   | -                    | 4,458   |
| Economic Growth, Skills, Infrastructure and Digital Economy  | 5,523                                  | 79                                       | (5)   | -                    | 5,597   |
| Education  |  |  |   |                      |   |
| Dedicated Schools Budget   | (6,283)                                | -  | 6,022   | (1,253)              | (1,514)   |
| Non Dedicated Schools Budget   | 21,897                                 | 1,994                                    | (37)  | (9,527)              | 14,327  |
| Environment and Waste  | 3,183                                  | 116                                      | (3)   | (8)                  | 3,288   |
| Health and Adult Social Care   | 2,867                                  | 825                                      | (4)   | -                    | 3,688   |
| Highways   | 32,241                                 | 213                                      | (24)  | (9,652)              | 22,778  |
| Housing, Planning and Property   | 1,083                                  | 95                                       | (11)  | -                    | 1,167   |
| Leader   | (4,064)                                | (15,777)                                 | (7)   | 5,009                | (14,839)  |
| Resources  | -                                      | (62)                                     | -   | (1,998)              | (2,060)   |
| Recharged Strategic Support Services   |  |  |   |                      |   |
| Culture, Communities and Customer  | -                                      | 94                                       | (9)   | -                    | 85  |
| Resources  | 12,860                                 | 953                                      | (63)  | (271)                | 13,479  |
| Leader   | -                                      | 249                                      | (54)  | -                    | 195   |
| <b>Cost of services - continuing operations</b>  | <b>74,014</b>                          | <b>(9,675)</b>                           | <b>5,836</b>  | <b>(17,700)</b>      | <b>52,475</b>   |
| Other income and expenditure not charged to services   | 884                                    | 32,964                                   | (2,519)   | 17,700               | 49,029  |
| <b>Difference between General Fund Surplus or Deficit<br/>and Comprehensive Income and Expenditure</b> |  |  |   |                      |   |
| <b>Statement surplus or deficit on the Provision of Services</b>                                       | <b>74,898</b>                          | <b>23,289</b>                            | <b>3,317</b>  | <b>-</b>             | <b>101,504</b>  |



| 2017/18  | Adjustments<br>for capital<br>purposes | Net change for<br>Pension<br>Adjustments | Other adjustments<br>between<br>funding and<br>accounting | Other<br>differences | Adjustments<br>between the<br>Funding and<br>Accounting basis |
|--|--|--|---|----------------------|---|
|  | Note 6.3.2                             | Note 6.3.3                               | Note 6.3.4  | Note 6.3.5           |   |
|  | £000                                   | £000                                     | £000  | £000                 | £000  |
| Children and Families  | 644                                    | 5,554                                    | (10)  | -                    | 6,188   |
| Culture, Communities and Customer  | 1,431                                  | 1,331                                    | (28)  | -                    | 2,734   |
| Economic Growth, Skills, Infrastructure and Digital Economy  | (275)                                  | 493                                      | (10)  | -                    | 208   |
| Education  |  |  |   |                      |   |
| Dedicated Schools Budget   | -                                      | -  | (3,574)   | (11,456)             | (15,030)  |
| Non Dedicated Schools Budget   | 38,580                                 | 15,514                                   | 40  | (9,324)              | 44,810  |
| Environment and Waste  | 7,143                                  | 531                                      | 8   | (10)                 | 7,672   |
| Health and Adult Social Care   | 2,425                                  | 4,372                                    | 35  | -                    | 6,832   |
| Highways   | 21,379                                 | 890                                      | (7)   | (9,704)              | 12,558  |
| Housing, Planning and Property   | 968                                    | 406                                      | 3   | -                    | 1,377   |
| Leader   | 1,293                                  | (11,202)                                 | (2)   | (1,674)              | (11,585)  |
| Resources  | 2                                      | 20                                       | 12  | (1,934)              | (1,900)   |
| Recharged Strategic Support Services   |  |  |   |                      |   |
| Culture, Communities and Customer  | -                                      | 469                                      | 7   | -                    | 476   |
| Resources  | 15,819                                 | 5,324                                    | 14  | (130)                | 21,027  |
| Leader   | -                                      | 1,236                                    | (20)  | -                    | 1,216   |
| <b>Cost of services - continuing operations</b>  | <b>89,409</b>                          | <b>24,938</b>                            | <b>(3,532)</b>  | <b>(34,232)</b>      | <b>76,583</b>   |
| Other income and expenditure not charged to services   | (3,165)                                | 34,771                                   | 1,600   | 34,232               | 67,438  |
| <b>Difference between General Fund Surplus or Deficit<br/>and Comprehensive Income and Expenditure</b> |  |  |   |                      |   |
| <b>Statement surplus or deficit on the Provision of Services</b>                                       | <b>86,244</b>                          | <b>59,709</b>                            | <b>(1,932)</b>  | <b>-</b>             | <b>144,021</b>  |

# Statement of Accounts - Notes to the Financial Statements

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## **6.3.2 Adjustments for capital purposes**

This column adds the following amounts into service lines:

- Depreciation and impairments of non-current assets;
- Amortisation of intangible assets;
- Revenue expenditure funded from capital under statute; and
- Capital grants receivable in the year without conditions or for which conditions were satisfied in the year and applied to finance revenue expenditure funded from capital under statute.

For other income and expenditure not charged to services, this column adjusts for:

- The value of Property, Plant and Equipment disposed of in the year, together with the sale proceeds from these disposals;
- The statutory charges for capital financing (i.e. minimum revenue provision and other revenue contributions); and
- Capital grants receivable in the year.

## **6.3.3 Net change for Pensions Adjustments**

The net change for Pension adjustments comprises:

- For services, the removal of the employer pension contributions by the Council as allowed by statute, and the replacement with current service costs and past service costs; and
- For other income and expenditure not chargeable to services, the addition of the net interest on the defined benefit liability.

## **6.3.4 Other adjustments between funding and accounting**

The other adjustments between the amounts debited / credited to the Comprehensive Income and Expenditure Statement and the amounts payable / receivable to be recognised under statute comprise:

- The amount by which officers' remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory regulations;
- The difference between what is chargeable under statutory regulations for council tax and non domestic rates and what was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code; and
- The amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements.

## **6.3.5 Other differences**

The other differences column shows the reclassification of amounts included in the 'cost of services' for the purpose of 'Cabinet' reporting that are required to be classified as 'other income and expenditure not charged to services' in the Comprehensive Income and Expenditure Statement.

# Statement of Accounts - Notes to the Financial Statements

## 7. Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:

| 2016/17            |  | 2017/18     |                |
|--------------------|--|-------------|----------------|
| £000               |  | £000        | £000           |
| <b>Expenditure</b> |  |             |                |
| 555,809            | Employee expenses                              | 559,908     |                |
| 1,236,288          | Other service expenditure                      | 1,263,909   |                |
| 71,603             | Depreciation, amortisation and impairment      | 97,805      |                |
| 36,492             | Interest payable and similar charges           | 37,415      |                |
| 3,330              | Precepts and levies                            | 3,301       |                |
| 166,641            | Gain or loss on disposal of fixed assets       | 112,485     |                |
| 87,547             | Corporate amounts                              | 88,508      |                |
| <u>2,157,710</u>   |  |             | 2,163,331      |
| <b>Income</b>      |  |             |                |
| (233,175)          | Fees, charges and other service income         | (259,303)   |                |
| (2,862)            | Interest and investment income                 | (2,411)     |                |
| (65,097)           | Corporate amounts                              | (56,254)    |                |
| (626,037)          | Income from council tax and non domestic rates | (649,638)   |                |
| (1,098,685)        | Government grants and contributions            | (1,057,090) |                |
| <u>(2,025,856)</u> |  |             | (2,024,696)    |
| <u>131,854</u>     | <b>Deficit on the Provision of Services</b>    |             | <u>138,635</u> |

## 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.

# Statement of Accounts - Notes to the Financial Statements

| 2016/17  | Notes       | Usable Reserves                  |                            |  |   |                             |
|--|-------------|----------------------------------|----------------------------|--|---|-----------------------------|
|  |             | Earmarked<br>General<br>Reserves | General<br>Fund<br>Balance | Usable<br>Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied<br>Account | Total<br>Usable<br>Reserves |
|  |             | £000                             | £000                       | £000                                     | £000                                      | £000                        |
| <b>Adjustments involving the Capital Adjustment Account (CAA)</b>  | <b>28.3</b> |                                  |                            |  |   |                             |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>   |             |                                  |                            |  |   |                             |
| Depreciation and impairment of non current assets  |             | -                                | (71,600)                   | -  | -   | (71,600)                    |
| Amortisation of intangible assets  |             | -                                | (3)                        | -  | -   | (3)                         |
| Movement in market value of investment properties  |             | -                                | 6,313                      | -  | -   | 6,313                       |
| Capital grants and contributions applied   |             | -                                | 120,075                    | -  | -   | 120,075                     |
| Donated assets   |             | -                                | 23,769                     | -  | -   | 23,769                      |
| Revenue expenditure funded from capital under statute  |             | -                                | (38,175)                   | -  | -   | (38,175)                    |
| Value of assets disposed of during the year  |             | -                                | (196,617)                  | -  | -   | (196,617)                   |
| <u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>  |             |                                  |                            |  |   |                             |
| Statutory provision for the financing of capital investment  |             | -                                | 34,540                     | -  | -   | 34,540                      |
| Capital expenditure charged against the General Fund   |             | -                                | 14,843                     | -  | -   | 14,843                      |
| <b>Adjustments involving the Capital Adjustment Account</b>  |             | -                                | (106,855)                  | -  | -   | (106,855)                   |
| <b>Adjustments involving the Capital Grants Unapplied Account</b>  |             |                                  |                            |  |   |                             |
| Grants applied to financing (transferred to the CAA)   |             | -                                | -                          | -  | 1,766                                     | 1,766                       |
| Grants and contributions unapplied   |             | -                                | 1,710                      | -  | (1,710)                                   | -                           |
| <b>Adjustments involving the Capital Grants Unapplied A/C</b>  |             | -                                | 1,710                      | -  | 56  | 1,766                       |
| <b>Adjustments involving the Capital Receipts Reserve</b>  |             |                                  |                            |  |   |                             |
| Sale proceeds (part of gain/loss on disposal)  |             | -                                | 30,247                     | (27,743)                                 | -   | 2,504                       |
| Proceeds from loan repayments  |             | -                                | -                          | (480)                                    | -   | (480)                       |
| Transfer from Deferred Capital Receipts Reserve  |             | -                                | -                          | (12)                                     | -   | (12)                        |
| Use of reserve to finance new capital expenditure  |             | -                                | -                          | 27,755                                   | -   | 27,755                      |
| Use of capital receipts to repay debt  |             | -                                | -                          | 480                                      | -   | 480                         |
| <b>Adjustments involving the Capital Receipts Reserve</b>  |             | -                                | 30,247                     | -  | -   | 30,247                      |
| <b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>   | <b>28.4</b> |                                  |                            |  |   |                             |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements                     |             | -                                | 40                         | -  | -   | 40                          |
| <b>Adjustments involving the FIAA</b>  |             | -                                | 40                         | -  | -   | 40                          |
| <b>Adjustments involving the Pensions Reserve</b>  | <b>28.6</b> |                                  |                            |  |   |                             |
| Reversal of items debited/credited to the CIES   |             | -                                | (79,851)                   | -  | -   | (79,851)                    |
| Employers' pension contributions payable in the year   |             | -                                | 56,562                     | -  | -   | 56,562                      |
| <b>Adjustments involving the Pensions Reserve</b>  |             | -                                | (23,289)                   | -  | -   | (23,289)                    |
| <b>Adjustments involving the Collection Fund Adjustment Account</b>  | <b>28.8</b> |                                  |                            |  |   |                             |
| 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 |             | -                                | 2,482                      | -  | -   | 2,482                       |
| <b>Adjustments involving the Collection Fund Adj Account</b>   |             | -                                | 2,482                      | -  | -   | 2,482                       |
| <b>Adjustments involving the Accumulated Absences Account</b>  | <b>28.9</b> |                                  |                            |  |   |                             |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements      |             | -                                | (5,839)                    | -  | -   | (5,839)                     |
| <b>Adjustments involving the Accumulated Absences Account</b>  |             | -                                | (5,839)                    | -  | -   | (5,839)                     |
| <b>Total adjustments</b>   |             | -                                | (101,504)                  | -  | 56  | (101,448)                   |

# Statement of Accounts - Notes to the Financial Statements

| 2017/18  | Notes       | Usable Reserves                  |                            |  |   |                             |
|--|-------------|----------------------------------|----------------------------|--|---|-----------------------------|
|  |             | Earmarked<br>General<br>Reserves | General<br>Fund<br>Balance | Usable<br>Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied<br>Account | Total<br>Usable<br>Reserves |
|  |             | £000                             | £000                       | £000                                     | £000                                      | £000                        |
| <b>Adjustments involving the Capital Adjustment Account (CAA)</b>  | <b>28.3</b> |                                  |                            |  |   |                             |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>   |             |                                  |                            |  |   |                             |
| Depreciation and impairment of non current assets  |             | -                                | (95,456)                   | -  | -   | (95,456)                    |
| Amortisation of intangible assets  |             | -                                | (2,350)                    | -  | -   | (2,350)                     |
| Movement in market value of investment properties  |             | -                                | (440)                      | -  | -   | (440)                       |
| Capital grants and contributions applied   |             | -                                | 126,475                    | -  | -   | 126,475                     |
| Donated assets   |             | -                                | 302                        | -  | -   | 302                         |
| Revenue expenditure funded from capital under statute  |             | -                                | (47,234)                   | -  | -   | (47,234)                    |
| Value of assets disposed of during the year  |             | -                                | (120,276)                  | -  | -   | (120,276)                   |
| <u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>  |             |                                  |                            |  |   |                             |
| Statutory provision for the financing of capital investment  |             | -                                | 28,415                     | -  | -   | 28,415                      |
| Capital expenditure charged against the General Fund   |             | -                                | 14,826                     | -  | -   | 14,826                      |
| <b>Adjustments involving the Capital Adjustment Account</b>  |             | <b>-</b>                         | <b>(95,738)</b>            | <b>-</b>                                 | <b>-</b>                                  | <b>(95,738)</b>             |
| <b>Adjustments involving the Capital Grants Unapplied Account</b>  |             |                                  |                            |  |   |                             |
| Grants applied to financing (transferred to the CAA)   |             | -                                | -                          | -  | 1,751                                     | 1,751                       |
| Grants and contributions unapplied   |             | -                                | 1,573                      | -  | (1,573)                                   | -                           |
| <b>Adjustments involving the Capital Grants Unapplied A/C</b>  |             | <b>-</b>                         | <b>1,573</b>               | <b>-</b>                                 | <b>178</b>                                | <b>1,751</b>                |
| <b>Adjustments involving the Capital Receipts Reserve</b>  |             |                                  |                            |  |   |                             |
| Sale proceeds (part of gain/loss on disposal)  |             | -                                | 7,921                      | (7,862)                                  | -   | 59                          |
| Loan repayments - loans awarded for capital purposes   |             | -                                | -                          | (546)                                    | -   | (546)                       |
| Transfer from Deferred Capital Receipts Reserve  |             | -                                | -                          | (16)                                     | -   | (16)                        |
| Use of reserve to finance new capital expenditure  |             | -                                | -                          | 7,878                                    | -   | 7,878                       |
| Use of capital receipts to repay debt  |             | -                                | -                          | 546                                      | -   | 546                         |
| <b>Adjustments involving the Capital Receipts Reserve</b>  |             | <b>-</b>                         | <b>7,921</b>               | <b>-</b>                                 | <b>-</b>                                  | <b>7,921</b>                |
| <b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>   | <b>28.4</b> |                                  |                            |  |   |                             |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements                     |             | -                                | 40                         | -  | -   | 40                          |
| <b>Adjustments involving the FIAA</b>  |             | <b>-</b>                         | <b>40</b>                  | <b>-</b>                                 | <b>-</b>                                  | <b>40</b>                   |
| <b>Adjustments involving the Pensions Reserve</b>  | <b>28.6</b> |                                  |                            |  |   |                             |
| Reversal of items debited/credited to the CIES   |             | -                                | (114,989)                  | -  | -   | (114,989)                   |
| Employers' pension contributions payable in the year   |             | -                                | 55,280                     | -  | -   | 55,280                      |
| <b>Adjustments involving the Pensions Reserve</b>  |             | <b>-</b>                         | <b>(59,709)</b>            | <b>-</b>                                 | <b>-</b>                                  | <b>(59,709)</b>             |
| <b>Adjustments involving the Collection Fund Adjustment Account</b>  | <b>28.8</b> |                                  |                            |  |   |                             |
| 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 |             | -                                | (1,730)                    | -  | -   | (1,730)                     |
| <b>Adjustments involving the Collection Fund Adj Account</b>   |             | <b>-</b>                         | <b>(1,730)</b>             | <b>-</b>                                 | <b>-</b>                                  | <b>(1,730)</b>              |
| <b>Adjustments involving the Accumulated Absences Account</b>  | <b>28.9</b> |                                  |                            |  |   |                             |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements      |             | -                                | 3,622                      | -  | -   | 3,622                       |
| <b>Adjustments involving the Accumulated Absences Account</b>  |             | <b>-</b>                         | <b>3,622</b>               | <b>-</b>                                 | <b>-</b>                                  | <b>3,622</b>                |
| <b>Total adjustments</b>   |             | <b>-</b>                         | <b>(144,021)</b>           | <b>-</b>                                 | <b>178</b>                                | <b>(143,843)</b>            |

# Statement of Accounts - Notes to the Financial Statements

## 9. Earmarked revenue reserves

The Council maintains a number of specific reserves to manage known financial liabilities and possible risks. These reserves are categorised as follows:

- **Restricted use** – reserves for known contractual liabilities and potential risks beyond the control of the Council and balances held on behalf of others (including schools).
- **Future capital funding** – comprise revenue contributions to be used to supplement the resources available to finance future capital expenditure.
- **Other** – reserves for general purposes and used to fund revenue investment, investment in new ways of working and reserves to respond to short term budget pressures.

Details of the restricted use and the most significant of the other reserves are as follows:

| Reserves                            | Purpose and usage   | Timescale for usage  |
|-------------------------------------|---|--|
| <b>RESTRICTED USE</b>               |   |  |
| ▪ <b>Grant equalisation reserve</b> | Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Note 1.6) and incurring the grant eligible expenditure. | There are no time constraints placed upon the usage of this reserve.           |
| ▪ <b>PFI equalisation reserves</b>  | Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.  | To be utilised over the life of the PFI contracts.                             |
| ▪ <b>Waste reserve</b>              | To smooth the effects of future increases in the costs of waste disposal.   | It is anticipated that this reserve will be utilised by 2040/41.               |
| ▪ <b>Partnerships</b>               | To retain unspent contributions from partners and apply them in subsequent years.   | Usage of these reserves is determined by the individual partnerships.          |
| ▪ <b>Schools</b>                    | Schools are permitted to retain unspent resources which are held in the Schools Reserves.   | The statutory authority to commit these resources rests with school governors. |
| ▪ <b>Trading activities</b>         | Surpluses generated by trading activities, to be applied by these activities in subsequent years.   | No time constraints have been placed upon the usage of this reserve.           |
| <b>OTHER RESERVES</b>               |   |  |
| ▪ <b>Adults Digital Programme</b>   | Established to enable investment in innovative and digital solutions for Adult Social Care.   | There are no time constraints placed upon the usage of this reserve.           |

## Statement of Accounts - Notes to the Financial Statements

| Reserves                                 | Purpose and usage  | Timescale for usage  |
|--|--|--|
| ▪ <b>Capital receipts pump priming</b>   | Used to meet costs associated with bringing properties into readiness for disposal.  | There are no time constraints placed upon the usage of this reserve.   |
| ▪ <b>Carbon reduction</b>                | Used to finance measures aimed at reducing the Council's carbon footprint.   | No time constraints have been placed upon the usage of this reserve.   |
| ▪ <b>Carry Forwards</b>                  | Used to carry under spends in the year of account forwards to support expenditure plans in the forthcoming financial year.                     | It is anticipated that this reserve will be fully utilised in 2018/19. |
| ▪ <b>Collection Fund investment risk</b> | Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.  | No time constraints have been placed upon the usage of this reserve.   |
| ▪ <b>Community Initiatives Fund</b>      | Established to fund revenue and capital community initiatives.   | No time constraints have been placed upon the usage of this reserve.   |
| ▪ <b>Innovation</b>                      | Established to provide reward or seed funding for innovative ideas presented by staff or the public for tackling problems faced by the County. | No time constraints have been placed upon the usage of this reserve.   |
| ▪ <b>Insurance</b>                       | Provides for future potential and contingent liabilities for insurance claims.   | There are no time constraints placed upon the usage of this reserve.   |
| ▪ <b>Local Projects</b>                  | Established to provide match funding for parishes and voluntary groups to deliver parish duties and community initiatives.                     | There are no time constraints placed upon the usage of this reserve.   |
| ▪ <b>Pension deficit</b>                 | Established to mitigate the impact of increases in employers' pension contribution rate.   | There are no time constraints placed upon the usage of this reserve.   |
| ▪ <b>Quadrennial elections</b>           | Established to meet costs associated with the Council's local elections.   | There are no time constraints placed upon the usage of this reserve.   |
| ▪ <b>Transformation</b>                  | Used to meet costs associated with project and change management aspects of the Council's ambitious programme of transformation.               | There are no time constraints placed upon the usage of this reserve.   |

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

|                                 | Balance<br>1 April<br>2016<br>£000 | 2016/17 movements     |                     | Balance<br>31 March<br>2017<br>£000 | 2017/18 movements     |                     | Balance<br>31 March<br>2018<br>£000 |
|---------------------------------|------------------------------------|-----------------------|---------------------|-------------------------------------|-----------------------|---------------------|-------------------------------------|
|                                 |                                    | Contributions<br>£000 | Withdrawals<br>£000 |                                     | Contributions<br>£000 | Withdrawals<br>£000 |                                     |
| <b>Restricted use</b>           |                                    |                       |                     |                                     |                       |                     |                                     |
| Grant equalisation reserve      | (10,039)                           | (4,052)               | 2,964               | (11,127)                            | (5,511)               | 5,852               | (10,786)                            |
| PFI equalisation reserves       | (61,931)                           | (1,815)               | 5,449               | (58,297)                            | (464)                 | 4,994               | (53,767)                            |
| Waste reserve                   | (79,620)                           | (11,270)              | -                   | (90,890)                            | (10,618)              | 1,775               | (99,733)                            |
| Partnership reserves            | (1,495)                            | (418)                 | 373                 | (1,540)                             | (352)                 | 121                 | (1,771)                             |
| Schools                         | (51,938)                           | (5,854)               | 10,488              | (47,304)                            | (5,318)               | 10,974              | (41,648)                            |
| Trading activities              | (4,562)                            | (359)                 | 1,548               | (3,373)                             | (101)                 | 2,059               | (1,415)                             |
|                                 | (209,585)                          | (23,768)              | 20,822              | (212,531)                           | (22,364)              | 25,775              | (209,120)                           |
| <b>Future capital funding</b>   | (11,748)                           | (8,155)               | 14,843              | (5,060)                             | (19,827)              | 14,826              | (10,061)                            |
| <b>Other</b>                    |                                    |                       |                     |                                     |                       |                     |                                     |
| Adults Digital Programme        | -                                  | -                     | -                   | -                                   | (7,000)               | 100                 | (6,900)                             |
| Capital receipts pump priming   | (2,671)                            | (1,143)               | 1,057               | (2,757)                             | -                     | 432                 | (2,325)                             |
| Carbon reduction                | (3,172)                            | (529)                 | 717                 | (2,984)                             | -                     | 378                 | (2,606)                             |
| Carry forwards                  | (9,057)                            | (6,635)               | 9,057               | (6,635)                             | (16,395)              | 6,635               | (16,395)                            |
| Collection Fund investment risk | (1,412)                            | -                     | -                   | (1,412)                             | -                     | -                   | (1,412)                             |
| Community Initiatives Fund      | (2,512)                            | (1,500)               | 1,915               | (2,097)                             | -                     | 1,301               | (796)                               |
| Innovation                      | (966)                              | (1,000)               | 105                 | (1,861)                             | -                     | 66                  | (1,795)                             |
| Insurance                       | (8,356)                            | -                     | -                   | (8,356)                             | (705)                 | -                   | (9,061)                             |
| Local Projects                  | -                                  | -                     | -                   | -                                   | (1,000)               | 133                 | (867)                               |
| Pension deficit                 | (2,414)                            | -                     | 1,574               | (840)                               | -                     | 634                 | (206)                               |
| Quadrennial elections           | (1,000)                            | (500)                 | 25                  | (1,475)                             | (500)                 | 1,857               | (118)                               |
| Transformation                  | (31,699)                           | (22,603)              | 21,561              | (32,741)                            | (11,346)              | 22,072              | (22,015)                            |
| Other reserves                  | (850)                              | (75)                  | 150                 | (775)                               | (545)                 | -                   | (1,320)                             |
|                                 | (64,109)                           | (33,985)              | 36,161              | (61,933)                            | (37,491)              | 33,608              | (65,816)                            |
| <b>Total</b>                    | (285,442)                          | (65,908)              | 71,826              | (279,524)                           | (79,682)              | 74,209              | (284,997)                           |



# Statement of Accounts - Notes to the Financial Statements

## 10. Other operating expenditure

Other operating expenditure comprises of the following:

| 2016/17  |   | 2017/18 |
|----------|---|---------|
| £000     |   | £000    |
|          | <b>(Gains)/losses on the disposal of non current assets</b> |         |
| (30,247) | Disposal proceeds   | (7,921) |
| 196,617  | Carrying value of assets disposed of during the year        | 120,276 |
| 271      | Disposal costs  | 130     |
| 166,641  | Losses on disposal of non-current assets                    | 112,485 |
| 3,330    | <b>Precepts and levies</b>                                  | 3,301   |
| 169,971  | <b>Total Other Operating Expenditure</b>                    | 115,786 |

The carrying value of assets disposed of during the year includes the effect of removing locally maintained schools from the Council's Balance Sheet that have obtained academy status during the financial year.

## 11. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

| 2016/17  |   | 2017/18  |
|----------|---|----------|
| £000     |   | £000     |
|          | <b>Net interest on the net defined benefit liability</b>                                      |          |
| 93,860   | Interest cost   | 88,068   |
| (61,275) | Interest on assets  | (54,188) |
| 32,585   |   | 33,880   |
| 36,492   | <b>Interest payable and similar charges</b>   | 37,415   |
| (2,862)  | <b>Interest receivable and similar income</b>   | (2,411)  |
|          | <b>Income and expenditure in relation to investment properties and changes in their value</b> |          |
| (6,451)  |   | 197      |
| (3,822)  | <b>Net surplus on trading activities</b>  | (1,939)  |
| 55,942   | <b>Financing and Investment income and expenditure</b>  | 67,142   |

# Statement of Accounts - Notes to the Financial Statements

## 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. They are as follows:

| Trading activity                      | Purpose   |
|---------------------------------------|---|
| ▪ EES for Schools                     | Delivers advisory and inspection, governor, library services and financial management support to schools.   |
| ▪ School staffing insurance scheme    | A self-insurance scheme for schools, supporting sickness and relocation expenses.   |
| ▪ Music Services                      | Delivers music services to schools.   |
| ▪ Smarte East                         | A procured framework arrangement for construction projects; the framework arrangement has now expired and the trading account has been closed.  |
| ▪ Information Services infrastructure | Monitors the decommissioning and refresh of IT equipment within the Council.  |
| ▪ Essex Legal Services                | Provided legal services to a wide range of public sector organisations.<br>The Service has operated as a Recharged Strategic Support Service with effect from 1 April 2017, and so the trading account has now been closed.   |
| ▪ Library Services                    | 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 were included within the Library Services trading account, together with the income received under contract from the Borough Council.<br>The contract has now expired and the trading account has been closed. |
| ▪ Place Services                      | Provides environmental planning support and arboriculture services.   |

The net surplus or deficit on these trading activities is brought into account when determining the net operating expenditure of the Council.

The following table provides a summary of the financial results of these trading activities.

|                                     | Balance<br>at 1 April | Movements |                  |                               |                     | Balance<br>at 31 March |
|-------------------------------------|-----------------------|-----------|------------------|-------------------------------|---------------------|------------------------|
|                                     |                       | Income    | Expend-<br>iture | Net<br>(Surplus)<br>/ deficit | Approp-<br>riations |                        |
|                                     | £000                  | £000      | £000             | £000                          | £000                | £000                   |
| <b>2016/17</b>                      |                       |           |                  |                               |                     |                        |
| EES for Schools                     | (1,920)               | (12,586)  | 10,349           | (2,237)                       | 3,131               | (1,026)                |
| School staffing insurance scheme    | (973)                 | (4,502)   | 4,562            | 60                            | -                   | (913)                  |
| Music Services                      | (133)                 | (4,281)   | 4,284            | 3                             | 27                  | (103)                  |
| Smarte East                         | (257)                 | (24)      | 138              | 114                           | -                   | (143)                  |
| Information Services infrastructure | (400)                 | (5,583)   | 5,546            | (37)                          | -                   | (437)                  |
| Essex Legal Services                | (61)                  | (13,171)  | 11,583           | (1,588)                       | 1,329               | (320)                  |
| Library Services                    | (483)                 | (411)     | 381              | (30)                          | 480                 | (33)                   |
| Place Services                      | (335)                 | (2,027)   | 1,920            | (107)                         | 44                  | (398)                  |
|                                     | (4,562)               | (42,585)  | 38,763           | (3,822)                       | 5,011               | (3,373)                |
| <b>2017/18</b>                      |                       |           |                  |                               |                     |                        |
| EES for Schools                     | (1,026)               | (12,072)  | 9,519            | (2,553)                       | 3,258               | (321)                  |
| School staffing insurance scheme    | (913)                 | (4,187)   | 4,837            | 650                           | -                   | (263)                  |
| Music Services                      | (103)                 | (4,306)   | 4,421            | 115                           | (12)                | -                      |
| Smarte East                         | (143)                 | -         | -                | -                             | 143                 | -                      |
| Information Services infrastructure | (437)                 | (8,488)   | 8,387            | (101)                         | -                   | (538)                  |
| Essex Legal Services                | (320)                 | -         | (25)             | (25)                          | 345                 | -                      |
| Library Services                    | (33)                  | 11        | (3)              | 8                             | 25                  | -                      |
| Place Services                      | (398)                 | (2,575)   | 2,542            | (33)                          | 138                 | (293)                  |
|                                     | (3,373)               | (31,617)  | 29,678           | (1,939)                       | 3,897               | (1,415)                |

# Statement of Accounts - Notes to the Financial Statements

## 13. Taxation and non-specific grant income

Taxation and non-specific grant income is analysed as follows:

| 2016/17<br>£000 |   | 2017/18<br>£000 |
|-----------------|---|-----------------|
|                 | <b>Taxation</b>                               |                 |
| (580,297)       | Council tax                                   | (607,448)       |
| (45,740)        | Non domestic rates                            | (42,190)        |
| (626,037)       |   | (649,638)       |
| (417,535)       | <b>Non specific grant income</b>              | (340,152)       |
| (1,043,572)     | <b>Taxation and non specific grant income</b> | (989,790)       |

## 14. Grant income

### 14.1 Amounts credited to Taxation and Non-Specific Grant income

The following non-specific grants have been credited to Taxation and Non-Specific Grant income:

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
|                 | <b>Non ring-fenced grants</b>                                    |                 |
| 117,938         | Revenue Support Grant  | 73,875          |
| 120,838         | Non Domestic Rates ( <i>Top up grant and Safety net / levy</i> ) | 126,762         |
| 30,349          | Private Finance Initiative Grants                                | 29,082          |
| 7,844           | New Homes Bonus / New Homes Bonus Adjustment Grant               | 6,782           |
| 6,960           | Transitional Grant   | 6,972           |
| -               | Adult Social Care Support Grant                                  | 5,946           |
| 5,605           | Independent Living Fund Grant                                    | 5,420           |
| 3,942           | Business Rates (Section 31 Grants)                               | 4,452           |
| 797             | Other non ring-fenced grants                                     | 931             |
| 294,273         |  | 260,222         |
|                 | <b>Capital grants and contributions</b>                          |                 |
|                 | Department for Education   |                 |
| 42,318          | Standards Fund   | 27,217          |
| 2,350           | Other  | 966             |
|                 | Department for Transport grants                                  |                 |
| 23,906          | Direct funding   | 19,463          |
| 6,274           | Integrated transport grant                                       | 9,592           |
| 1,500           | Other  | -               |
| 6,826           | South East Local Enterprise Partnership - Local Growth Fund      | 10,987          |
| 16,319          | Other grants and contributions                                   | 11,403          |
| 99,493          |  | 79,628          |
| 23,769          | <b>Donated assets - recognition of new assets</b>                | 302             |
| 417,535         | <b>Total non-specific grant income</b>                           | 340,152         |

# Statement of Accounts - Notes to the Financial Statements

## 14.2 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:

| 2016/17  |                         |         | 2017/18  |                         |         |
|--|-------------------------|---------|--|-------------------------|---------|
| Capital grants   | Specific revenue grants | Total   | Capital grants   | Specific revenue grants | Total   |
| £000   | £000                    | £000    | £000   | £000                    | £000    |
| <b>Department for Education (incl. Education Funding Agency)</b>     |                         |         | <b>Department for Education (incl. Education Funding Agency)</b>     |                         |         |
| 12,017   | 2,452                   | 14,469  | 24,626   | 4,733                   | 29,359  |
| -  | 515,248                 | 515,248 | -  | 512,622                 | 512,622 |
| -  | 24,403                  | 24,403  | -  | 20,954                  | 20,954  |
| -  | 12,745                  | 12,745  | -  | 11,973                  | 11,973  |
| -  | 10,302                  | 10,302  | -  | 2,501                   | 2,501   |
| -  | 8,112                   | 8,112   | -  | 9,935                   | 9,935   |
| 12,017   | 573,262                 | 585,279 | 24,626   | 562,718                 | 587,344 |
| <b>Department of Health</b>  |                         |         | <b>Department of Health</b>  |                         |         |
| -  | 66,247                  | 66,247  | -  | 64,128                  | 64,128  |
| 71   | 2,511                   | 2,582   | 309  | 2,402                   | 2,711   |
| 71   | 68,758                  | 68,829  | 309  | 66,530                  | 66,839  |
| <b>Ministry of Housing, Communities and Local Government (MHCLG)</b> |                         |         | <b>Ministry of Housing, Communities and Local Government (MHCLG)</b> |                         |         |
| -  | -                       | -       | -  | 20,143                  | 20,143  |
| -  | 2,900                   | 2,900   | 126  | 3,541                   | 3,667   |
| -  | 2,900                   | 2,900   | 126  | 23,684                  | 23,810  |
| <b>Grants awarded by other bodies</b>                                |                         |         | <b>Grants awarded by other bodies</b>                                |                         |         |
| -  | 7,893                   | 7,893   | -  | 8,369                   | 8,369   |
| 3,519  | -                       | 3,519   | 2,238  | -                       | 2,238   |
| 2  | 3,066                   | 3,068   | 9,338  | 3,329                   | 12,667  |
| 400  | 9,262                   | 9,662   | 5,741  | 9,930                   | 15,671  |
| 3,921  | 20,221                  | 24,142  | 17,317   | 21,628                  | 38,945  |
| 16,009   | 665,141                 | 681,150 | 42,378   | 674,560                 | 716,938 |

# Statement of Accounts - Notes to the Financial Statements

## 15. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Education Funding Agency, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Education Funding Agency to fund academy schools in the Council's area.

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011.

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 2017/18 are provided in the following table.

| 2016/17   |  | 2017/18<br>Total | Deployment in 2017/18  |                                 |
|-----------|--|------------------|------------------------|---------------------------------|
|           |  |                  | Central<br>Expenditure | Individual<br>Schools<br>Budget |
| £000      |  | £000             | £000                   | £000                            |
| (988,816) | Final DSG for the year (before Academy recoupment) | (1,025,122)      |                        |                                 |
| 475,441   | Academy figure recouped                            | 518,852          |                        |                                 |
| (513,375) | Total DSG after Academy recoupment                 | (506,270)        |                        |                                 |
| (6,290)   | Brought forward from previous year                 | (3,341)          |                        |                                 |
| (519,665) | Agreed initial budgeted distribution               | (509,611)        | (85,722)               | (423,889)                       |
| -         | In year adjustments                                | 941              | -                      | 941                             |
| (519,665) | Final budgeted distribution                        | (508,670)        | (85,722)               | (422,948)                       |
| 516,324   | Actual central expenditure / ISB deployed          | 513,766          | 90,818                 | 422,948                         |
| (3,341)   | Carry forward to next year                         | 5,096            | 5,096                  | -                               |

## 16. Property, plant and equipment, other non-current assets and assets held for sale

### 16.1 Movement in balances – 2016/17

|   | Property, plant and equipment |                        |                        |                  |                           |                | Intangible Assets | Investment Property | Heritage Assets | Assets held for sale | Investment Properties held for sale |
|---|-------------------------------|------------------------|------------------------|------------------|---------------------------|----------------|-------------------|---------------------|-----------------|----------------------|-------------------------------------|
|   | Land and buildings            | Vehicles and equipment | Infra-structure Assets | Community Assets | Assets under construction | Surplus Assets |                   |                     |                 |                      |                                     |
|   | £000                          | £000                   | £000                   | £000             | £000                      | £000           | £000              | £000                | £000            | £000                 | £000                                |
| <b>Gross Book Value</b>                                 |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| As at 1 April 2016                                      | 1,663,816                     | 45,045                 | 1,200,254              | 2,747            | 94,169                    | 35,705         | 4,469             | 6,723               | 14,391          | 16,835               | 373                                 |
| Additions   | 24,633                        | 5,858                  | 32                     | -                | 187,231                   | -              | -                 | -                   | 5               | -                    | -                                   |
| Revaluation increases / (decreases) recognised in:      |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| Revaluation Reserve                                     | 110,567                       | -                      | -                      | 111              | -                         | -              | -                 | -                   | 550             | -                    | -                                   |
| Surplus/Deficit on the provision of services            | (2,178)                       | -                      | -                      | -                | -                         | (92)           | -                 | 6,313               | (410)           | (473)                | -                                   |
| Disposals   | (177,517)                     | (374)                  | -                      | -                | -                         | (9,882)        | (24)              | -                   | -               | (12,377)             | -                                   |
| Reclassification of assets to / (from) other categories | (13,403)                      | -                      | 5                      | (341)            | 330                       | 8,422          | -                 | (525)               | -               | 5,512                | -                                   |
| Transfers from assets under construction                | 23,433                        | 6,220                  | 124,785                | 28               | (166,825)                 | 617            | 11,742            | -                   | -               | -                    | -                                   |
| <b>As at 31 March 2017</b>                              | <b>1,629,351</b>              | <b>56,749</b>          | <b>1,325,076</b>       | <b>2,545</b>     | <b>114,905</b>            | <b>34,770</b>  | <b>16,187</b>     | <b>12,511</b>       | <b>14,536</b>   | <b>9,497</b>         | <b>373</b>                          |
| <b>Depreciation / Amortisation</b>                      |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| As at 1 April 2016                                      | (31,134)                      | (26,675)               | (299,404)              | (140)            | -                         | (118)          | (4,461)           | -                   | (28)            | -                    | -                                   |
| Revaluations and restatements                           | 27,295                        | -                      | -                      | -                | -                         | 10             | -                 | -                   | -               | -                    | -                                   |
| Depreciation / amortisation on impairments              | 3,871                         | -                      | -                      | -                | -                         | 10             | -                 | -                   | -               | -                    | -                                   |
| Depreciation / amortisation for the year                | (31,808)                      | (6,090)                | (34,076)               | (58)             | -                         | (293)          | (3)               | -                   | (3)             | -                    | -                                   |
| Depreciation / amortisation on assets sold              | 3,193                         | 309                    | -                      | -                | -                         | 32             | 23                | -                   | -               | -                    | -                                   |
| Other movements in depreciation / impairment            | 112                           | -                      | -                      | -                | -                         | (112)          | -                 | -                   | -               | -                    | -                                   |
| <b>As at 31 March 2017</b>                              | <b>(28,471)</b>               | <b>(32,456)</b>        | <b>(333,480)</b>       | <b>(198)</b>     | <b>-</b>                  | <b>(471)</b>   | <b>(4,441)</b>    | <b>-</b>            | <b>(31)</b>     | <b>-</b>             | <b>-</b>                            |
| <b>Net book value at 31 March 2016</b>                  | <b>1,632,682</b>              | <b>18,370</b>          | <b>900,850</b>         | <b>2,607</b>     | <b>94,169</b>             | <b>35,587</b>  | <b>8</b>          | <b>6,723</b>        | <b>14,363</b>   | <b>16,835</b>        | <b>373</b>                          |
| <b>Net book value at 31 March 2017</b>                  | <b>1,600,880</b>              | <b>24,293</b>          | <b>991,596</b>         | <b>2,347</b>     | <b>114,905</b>            | <b>34,299</b>  | <b>11,746</b>     | <b>12,511</b>       | <b>14,505</b>   | <b>9,497</b>         | <b>373</b>                          |

## 16.2 Movement in balances – 2017/18

|   | Property, plant and equipment |                        |                        |                  |                           |                | Intangible Assets | Investment Property | Heritage Assets | Assets held for sale | Investment Properties held for sale |
|---|-------------------------------|------------------------|------------------------|------------------|---------------------------|----------------|-------------------|---------------------|-----------------|----------------------|-------------------------------------|
|   | Land and buildings            | Vehicles and equipment | Infra-structure Assets | Community Assets | Assets under construction | Surplus Assets |                   |                     |                 |                      |                                     |
|   | £000                          | £000                   | £000                   | £000             | £000                      | £000           | £000              | £000                | £000            | £000                 | £000                                |
| <b>Gross Book Value</b>                                 |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| As at 1 April 2017                                      | 1,629,351                     | 56,749                 | 1,325,076              | 2,545            | 114,905                   | 34,770         | 16,187            | 12,511              | 14,536          | 9,497                | 373                                 |
| Additions   | 2,695                         | 933                    | 2                      | -                | 184,537                   | 302            | -                 | 27,180              | -               | -                    | -                                   |
| Revaluation increases / (decreases) recognised in:      |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| Revaluation Reserve                                     | 81,187                        | -                      | -                      | -                | -                         | 1,824          | -                 | -                   | -               | -                    | -                                   |
| Surplus/Deficit on the provision of services            | (21,390)                      | -                      | -                      | -                | -                         | (895)          | -                 | (440)               | -               | -                    | -                                   |
| Disposals   | (114,605)                     | (2,383)                | (200)                  | -                | -                         | (1,983)        | -                 | -                   | -               | (3,920)              | -                                   |
| Reclassification of assets to / (from) other categories | (8,138)                       | -                      | -                      | -                | -                         | 10,190         | -                 | 103                 | -               | (1,782)              | (373)                               |
| Transfers from assets under construction                | 39,141                        | 25                     | 121,876                | 830              | (164,327)                 | 1,889          | -                 | 566                 | -               | -                    | -                                   |
| <b>As at 31 March 2018</b>                              | <b>1,608,241</b>              | <b>55,324</b>          | <b>1,446,754</b>       | <b>3,375</b>     | <b>135,115</b>            | <b>46,097</b>  | <b>16,187</b>     | <b>39,920</b>       | <b>14,536</b>   | <b>3,795</b>         | <b>-</b>                            |
| <b>Depreciation / Amortisation</b>                      |                               |                        |                        |                  |                           |                |                   |                     |                 |                      |                                     |
| As at 1 April 2017                                      | (28,471)                      | (32,456)               | (333,480)              | (198)            | -                         | (471)          | (4,441)           | -                   | (31)            | -                    | -                                   |
| Revaluations and restatements                           | 17,050                        | -                      | -                      | -                | -                         | 75             | -                 | -                   | -               | -                    | -                                   |
| Depreciation / amortisation on impairments              | 2,406                         | -                      | -                      | -                | -                         | 23             | -                 | -                   | -               | -                    | -                                   |
| Depreciation / amortisation for the year                | (30,219)                      | (7,176)                | (37,409)               | (60)             | -                         | (732)          | (2,350)           | -                   | (4)             | -                    | -                                   |
| Depreciation / amortisation on assets sold              | 2,201                         | 505                    | 88                     | -                | -                         | 21             | -                 | -                   | -               | -                    | -                                   |
| Other movements in depreciation / impairment            | 10                            | -                      | -                      | -                | -                         | (10)           | -                 | -                   | -               | -                    | -                                   |
| <b>As at 31 March 2018</b>                              | <b>(37,023)</b>               | <b>(39,127)</b>        | <b>(370,801)</b>       | <b>(258)</b>     | <b>-</b>                  | <b>(1,094)</b> | <b>(6,791)</b>    | <b>-</b>            | <b>(35)</b>     | <b>-</b>             | <b>-</b>                            |
| <b>Net book value at 31 March 2017</b>                  | <b>1,600,880</b>              | <b>24,293</b>          | <b>991,596</b>         | <b>2,347</b>     | <b>114,905</b>            | <b>34,299</b>  | <b>11,746</b>     | <b>12,511</b>       | <b>14,505</b>   | <b>9,497</b>         | <b>373</b>                          |
| <b>Net book value at 31 March 2018</b>                  | <b>1,571,218</b>              | <b>16,197</b>          | <b>1,075,953</b>       | <b>3,117</b>     | <b>135,115</b>            | <b>45,003</b>  | <b>9,396</b>      | <b>39,920</b>       | <b>14,501</b>   | <b>3,795</b>         | <b>-</b>                            |



# Statement of Accounts - Notes to the Financial Statements

## 16.3 Fair value measurement

In accordance with Note 1.22 (page 52), the Council measures its surplus assets and investment property at fair value. The inputs into the valuation techniques are categorised as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- **Level 2** – inputs other than quoted prices that are observable for the asset, either directly or indirectly;
- **Level 3** – unobservable inputs for the asset.

Information about the fair values of these assets as at 31st March 2018 is as follows:

| 31st March 2017  |   |               |                        | 31st March 2018  |   |               |
|--|---|---------------|------------------------|--|---|---------------|
| Level 1<br><i>Quoted price in<br/>active market for<br/>identical assets</i> | Level 2<br><i>Other significant<br/>observable<br/>inputs</i> | Fair value    |                        | Level 1<br><i>Quoted price in<br/>active market for<br/>identical assets</i> | Level 2<br><i>Other significant<br/>observable<br/>inputs</i> | Fair value    |
| £000   | £000  | £000          |                        | £000   | £000  | £000          |
| <b>Surplus properties</b>  |   |               |                        |  |   |               |
| 6,826  | 11,387  | 18,213        | Former school sites    | 6,433  | 12,449  | 18,882        |
| 2,283  | 7,066   | 9,349         | Land                   | 2,283  | 8,934   | 11,217        |
| 5,879  | 1,329   | 7,208         | Other                  | 8,820  | 7,178   | 15,998        |
| <b>14,988</b>  | <b>19,782</b>   | <b>34,770</b> |                        | <b>17,536</b>  | <b>28,561</b>   | <b>46,097</b> |
| <b>Investment properties</b>   |   |               |                        |  |   |               |
|  |   | -             | Retail Park            | -  | 15,462  | 15,462        |
|  |   | -             | Office block           | -  | 11,100  | 11,100        |
| 6,629  | 5,331   | 11,960        | Agricultural tenancies | 6,660  | 5,598   | 12,258        |
| 551  | -   | 551           | Other                  | 700  | 400   | 1,100         |
| <b>7,180</b>   | <b>5,331</b>  | <b>12,511</b> |                        | <b>7,360</b>   | <b>32,560</b>   | <b>39,920</b> |

The Council has interpreted **Level 1** inputs as meaning that the valuation figures are based on a strong pool of prima facia market evidence considered to be highly or directly comparable (i.e. very similar in terms of property type and/or location to the subject asset).

In the absence of non-prima facia market transactional evidence, fair value has been derived by determining a general tone of values for an asset class and/or geographical location and by considering transactional evidence for the sale of comparable assets (interpreted as being a **Level 2** input).

No fair values have been derived using **Level 3** inputs.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use. For surplus properties, the highest and best use is assessed by considering if there is an alternative use to that applied by the Council when the properties were used for operational purposes that would maximise their value.

# Statement of Accounts - Notes to the Financial Statements

## 16.4 Capital commitments

At 31st March 2018, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2018/19. The commitments as at 31<sup>st</sup> March are summarised as follows:

| 2017<br>£000  |                             | 2018<br>£000  |
|---------------|-----------------------------|---------------|
| 479           | Highways and Transportation | 7,708         |
| 16,876        | Education (schools)         | 34,798        |
| 8,715         | Information Services        | 7,758         |
| 510           | Other                       | 5,824         |
| <b>26,580</b> |                             | <b>56,088</b> |

## 16.5 Revaluations

The Council ensures that all property, plant and equipment required to be measured at current 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 Institution of Chartered Surveyors (RICS). The timing and amounts of the valuations are summarised in the following table:

|                               | Held at<br>historical<br>value<br>£000 | Valued as at             |                          |                          |                          |                          | Total<br>cost or<br>valuation<br>£000 |
|-------------------------------|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------------------------|
|                               |  | 31 March<br>2014<br>£000 | 31 March<br>2015<br>£000 | 31 March<br>2016<br>£000 | 31 March<br>2017<br>£000 | 31 March<br>2018<br>£000 |                                       |
| <b>Operational Assets</b>     |  |                          |                          |                          |                          |                          |                                       |
| Land and buildings            | -                                      | 49,802                   | 157,741                  | 158,428                  | 308,481                  | 933,789                  | 1,608,241                             |
| Vehicles, plant & equipment   | 55,324                                 | -                        | -                        | -                        | -                        | -                        | 55,324                                |
| Infrastructure                | 1,446,754                              | -                        | -                        | -                        | -                        | -                        | 1,446,754                             |
| Community Assets              | 3,375                                  | -                        | -                        | -                        | -                        | -                        | 3,375                                 |
| <b>Non-Operational Assets</b> |  |                          |                          |                          |                          |                          |                                       |
| Surplus Assets                | -                                      | 3,118                    | 554                      | 20,336                   | 7,341                    | 14,748                   | 46,097                                |
| Assets under construction     | 135,115                                | -                        | -                        | -                        | -                        | -                        | 135,115                               |
| <b>Gross book value</b>       | <b>1,640,568</b>                       | <b>52,920</b>            | <b>158,295</b>           | <b>178,764</b>           | <b>315,822</b>           | <b>948,537</b>           | <b>3,294,906</b>                      |

# Statement of Accounts - Notes to the Financial Statements

## 17. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance lease and PFI contracts), together with the resources that have been used to finance it.

The Capital Financing Requirement provides a measure of the capital expenditure incurred by the Council that has yet to be financed. The movement in the Capital Financing Requirement is analysed in the second part of this note.

| 2016/17<br>£000 |   | 2017/18<br>£000      £000 |         |
|-----------------|---|---------------------------|---------|
| 868,310         | Opening Capital Financing Requirement                 |                           | 901,016 |
|                 | <b>Capital investment</b>                             |                           |         |
| 193,990         | Property, plant and equipment                         | 188,166                   |         |
| -               | Investment property                                   | 27,180                    |         |
|                 | Inventories   | 7,123                     |         |
| 38,175          | Revenue expenditure funded from capital under statute | 47,234                    |         |
| -               | Loans awarded for capital purposes                    | 1,373                     |         |
| -               | Equity investments                                    | 250                       |         |
| 232,165         | <b>Total capital investment</b>                       | 271,326                   |         |
|                 | <b>Sources of finance</b>                             |                           |         |
| (28,235)        | Capital receipts                                      | (8,424)                   |         |
| (121,841)       | Government grants and contributions                   | (128,226)                 |         |
| (14,843)        | Earmarked revenue reserves applied                    | (14,826)                  |         |
| (34,540)        | Revenue provision for the repayment of debt           | (28,415)                  |         |
| (199,459)       | <b>Total sources of finance</b>                       | (179,891)                 |         |
| 32,706          | Increase in the Capital Financing Requirement         |                           | 91,435  |
| 901,016         | <b>Closing Capital Financing Requirement</b>          |                           | 992,451 |
|                 | <b>Explanation of movements in year</b>               |                           |         |
| 27,121          | Increase in underlying need to borrow                 |                           | 90,824  |
| 5,585           | Increase for assets acquired under finance lease      |                           | 611     |
| 32,706          | <b>Increase in the Capital Financing Requirement</b>  |                           | 91,435  |

## Statement of Accounts - Notes to the Financial Statements

## 18. Leases

## 18.1 Council as Lessee – Finance leases

The following table summarises the Council's finance lease obligations:

| 31st March 2017 |              |                               | 31st March 2018 |              |
|-----------------|--------------|-------------------------------|-----------------|--------------|
| Short<br>Term   | Long<br>Term |                               | Short<br>Term   | Long<br>Term |
| £000            | £000         |                               | £000            | £000         |
| 8               | 813          | Property                      | 8               | 805          |
| 2,323           | 6,491        | Vehicles, plant and equipment | 1,469           | 4,573        |
| 3,954           | 140,120      | Private Finance Initiatives   | 6,551           | 133,567      |
| 6,285           | 147,424      |                               | 8,028           | 138,945      |

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 19, which commences on page 83.

## 18.2 Council as Lessee – Operating leases

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

| 31 March 2017    |               |               |                            | 31 March 2018    |               |               |
|------------------|---------------|---------------|----------------------------|------------------|---------------|---------------|
| Property<br>£000 | Other<br>£000 | Total<br>£000 |                            | Property<br>£000 | Other<br>£000 | Total<br>£000 |
| 3,319            | 2,449         | 5,768         | One year                   | 3,374            | 1,926         | 5,300         |
| 10,171           | 1,523         | 11,694        | Two to five years          | 10,974           | 1,524         | 12,498        |
| 54,469           | 221           | 54,690        | Over five years            | 54,493           | 212           | 54,705        |
| 67,959           | 4,193         | 72,152        | <b>Total lease rentals</b> | 68,841           | 3,662         | 72,503        |

### 18.3 Council as Lessor – Finance leases

The Council has leased out two properties under the terms of a finance lease, both for a term of 125 years. The Council has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term of the leases. The minimum lease payments comprise the settlement of the long term debtor for the interest in the properties and finance income that will be earned by the Council in future years whilst the debtors remain outstanding.

# Statement of Accounts - Notes to the Financial Statements

The gross investment is made up of the following amounts:

| 31 March<br>2017<br>£000 |                             | 31 March<br>2018<br>£000 |
|--------------------------|-----------------------------|--------------------------|
|                          | <b>Finance lease debtor</b> |                          |
| 41                       | Current                     | 25                       |
| 2,451                    | Non-current                 | 2,510                    |
| <u>2,492</u>             |                             | <u>2,535</u>             |

## 18.4 Council as lessor – Operating leases

The Council leases out the properties within its Investment Property portfolio, as detailed in Note 16.3, on page 79. It also leases out properties for the provision of community and voluntary services. The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

| 31 March<br>2017<br>£000 |   | 31 March<br>2018<br>£000 |
|--------------------------|---|--------------------------|
| 1,493                    | Not later than one year                           | 3,177                    |
| 4,611                    | Later than one year and not later than five years | 10,655                   |
| 6,290                    | Later than five years                             | 11,035                   |
| <u>12,394</u>            | <b>Total</b>                                      | <u>24,867</u>            |

## 19. Private Finance Initiative and similar contracts

### 19.1 Nature and significant terms of PFI arrangements

The Council has entered into a number of Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes. The nature and significant terms of these arrangements are as follows:

| Scheme             | Nature and significant terms  |
|--------------------|---|
| <b>A130 Bypass</b> | <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 construction of the road was complete. Construction costs were estimated at <b>£80m</b> (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed</p> |

# Statement of Accounts - Notes to the Financial Statements

| Scheme  | Nature and significant terms  |
|---|---|
|   | <p>or if traffic flow is affected by road works.</p> <p>The road will be passed to the Council in a repaired/neutral state at the end of the arrangements in 2030.</p>  |
| <b>Debden Park School</b>                                   | <p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of <b>£15m</b>.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p>   |
| <b>Clacton Secondary Schools</b>                            | <p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of <b>£34m</b>.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, which varies according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>  |
| <b>Tendring Primary Schools</b>                             | <p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of <b>£15m</b>.</p> <p>The Operator is operating and maintaining the schools' facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary according 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>  |
| <b>Castleview, Cornelius Vermuyden and Columbus Schools</b> | <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>At financial close of this contract, two of the schools were foundation schools and one was a community school. All three of the schools have subsequently converted to academy status.</p> <p>These schools' governing bodies consent 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.</p> <p>The Council carries the PFI liabilities on its own Balance Sheet for one of these schools (the Columbus School), as this school was a community school at financial close of the contract. The construction costs of this school amounted to <b>£22.3m</b>.</p> |
| <b>Woodlands School</b>                                     | <p>The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction</p>  |

# Statement of Accounts - Notes to the Financial Statements

| Scheme                                  | Nature and significant terms  |
|---|---|
|   | <p>period). Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p> <p>Construction costs for this school amounted to <b>£27m</b>. The school became operational in January 2014. It converted to academy status on 1 April 2015.</p> <p>Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£4m</b> per annum.</p>   |
| <b>Waste Treatment Plant - Basildon</b> | <p>This contract was entered into on 31 May 2012 with Urbaser Balfour Beatty and provides for the design, construction, finance and operation of a waste treatment plant in Basildon. Work on the physical construction commenced in March 2013; the Facility required capital expenditure in the region of <b>£107m</b> (borne by the private sector) and achieved the Readiness Date in November 2014.</p> <p>The Facility is accepting waste and achieving diversion from landfill but is still in its commissioning phase and the contractual longstop date has passed. The parties are utilising the contractual and dispute mechanisms to seek resolution to the commissioning issues that have arisen (<i>see page 99 for further details</i>).</p> <p>The Facility, and associated PFI liability, will not be recognised in the Council's Balance Sheet until the Acceptance Test Certificate is issued for the Facility or a likely future obligation exists.</p> <p>Upon expiry of the 25 year PFI contract, it is intended that any property interest will revert back to the Council for nil consideration.</p> |

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

The Council makes agreed payments under the schemes detailed in note 19.1 each year, which are increased by inflation, and can be reduced if the contractor fails to meet availability and performance standards, but which are otherwise fixed.

Payments remaining to be made by the Council under the operational phase of its PFI contracts (*excluding any estimation of inflation and availability / performance deductions*) are as follows:

|                              | Estimated timing of payments to PFI/PPP operators |                |                |                |               | Total          |
|------------------------------|---|----------------|----------------|----------------|---------------|----------------|
|                              | Within one year                                   | 2 - 5 years    | 6 - 10 years   | 11 - 15 years  | 16 - 20 years |                |
|                              | £000  | £000           | £000           | £000           | £000          | £000           |
| Service charges              | 7,309   | 30,789         | 42,163         | 39,651         | 20,916        | 140,828        |
| Interest and similar charges | 19,881  | 81,147         | 71,063         | 29,624         | 9,368         | 211,083        |
| Repayment of liability       | 6,551   | 38,242         | 46,150         | 25,892         | 23,285        | 140,120        |
| Lifecycle replacement        | 2,276   | 12,802         | 14,292         | 17,950         | 3,861         | 51,181         |
| <b>Total</b>                 | <b>36,017</b>                                     | <b>162,980</b> | <b>173,668</b> | <b>113,117</b> | <b>57,430</b> | <b>543,212</b> |

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

# Statement of Accounts - Notes to the Financial Statements

## 19.3 Property, plant and equipment used to provide services

The assets recognised on the Council's Balance Sheet that are used to provide services in respect of the above schemes are as follows:

| 31st March<br>2017<br>£000                         |   | 31st March<br>2018<br>£000 |
|--|---|----------------------------|
| <b>Gross Book Value</b>                            |   |                            |
| 117,091  | As at 1 April                                   | 143,083                    |
| 23,471   | Additions                                       | -                          |
| Revaluation increases / (decreases) recognised in: |   |                            |
| 2,498  | Revaluation Reserve                             | 2,249                      |
| -  | Surplus/Deficit on the provision of services    | (2)                        |
| 23   | Transfers to / (from) assets under construction | 9                          |
| <u>143,083</u>                                     | <b>As at 31 March</b>                           | <u>145,339</u>             |
| <b>Depreciation / Amortisation</b>                 |   |                            |
| (28,893)   | As at 1 April                                   | (30,988)                   |
| 699  | Revaluations and restatements                   | 612                        |
| -  | Depreciation / amortisation on impairments      | 1                          |
| (2,794)  | Depreciation / amortisation for the year        | (2,955)                    |
| <u>(30,988)</u>                                    | <b>As at 31 March</b>                           | <u>(33,330)</u>            |
| 88,198   | <b>Net book value at 1 April</b>                | 112,095                    |
| 112,095  | <b>Net book value at 31 March</b>               | 112,009                    |

## 19.4 Value of PFI liabilities for capital expenditure

The following liability is outstanding to pay the PFI contractors for capital expenditure:

| 2016/17          |                        | 2017/18          |
|------------------|------------------------|------------------|
| £000             |                        | £000             |
| (148,662)        | Balance as at 1 April  | (144,072)        |
| 4,590            | Liabilities repaid     | 3,952            |
| <u>(144,072)</u> | Balance as at 31 March | <u>(140,120)</u> |



# Statement of Accounts - Notes to the Financial Statements

## 20. Financial instruments

### 20.1 Categories of Financial Instruments

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

| 31 March 2017     |                    |                                     | 31 March 2018     |                    |
|-------------------|--------------------|-------------------------------------|-------------------|--------------------|
| Long term<br>£000 | Short term<br>£000 |                                     | Long term<br>£000 | Short term<br>£000 |
|                   |                    | <b>Financial assets</b>             |                   |                    |
|                   |                    | Investments                         |                   |                    |
| 1,759             | 231,912            | Loans and receivables               | 1,634             | 164,193            |
| 10,369            | -                  | Available for sale financial assets | 10,862            | 47,368             |
| -                 | -                  | Unquoted equity investment at cost  | 250               | -                  |
| 17,830            | 110,584            | Debtors (contractual)               | 17,971            | 121,534            |
| -                 | 71,254             | Cash and cash equivalents           | -                 | 40,567             |
| 29,958            | 413,750            | <b>Total</b>                        | 30,717            | 373,662            |
|                   |                    | <b>Financial liabilities</b>        |                   |                    |
| (511,758)         | (8,227)            | Borrowing                           | (514,914)         | (7,382)            |
| (147,424)         | (6,285)            | PFI / Finance lease liabilities     | (138,945)         | (8,028)            |
| (112)             | (230,399)          | Creditors (contractual)             | (124)             | (269,443)          |
| (659,294)         | (244,911)          | <b>Total</b>                        | (653,983)         | (284,853)          |

Notes:

- (i) All categories of financial instruments are held in the Council's Balance Sheet at amortised cost, with the exception of Available for Sale Financial Assets which are held at fair value.
- (ii) The Council acquired a 20% shareholding in Medtech Accelerator Ltd during 2017/18, a company whose aim is to identify and support the development of new medical technologies so that new companies and new employment opportunities can be formed in the region. The shares are carried at cost and have not been valued, as a fair value cannot be reliably measured.
- (iii) Cash and cash equivalents is a financial instrument which is subject to setting off arrangements - the Council's bank overdraft balance has been set-off against the cash and cash equivalent balances held. Further details of this arrangement are disclosed in Note 23 on page 96.
- (iv) The totals for debtors and creditors differ from the Balance Sheet as only those debtors and creditors which arise from contracts are financial instruments. Those debtors and creditors related to statutory debts such as council tax and non-domestic rates are not classified as financial instruments.

### 20.2 Fair values of financial assets carried at fair value

The financial assets classified as 'available for sale' in note 20.1 comprise investments in a pooled Property Fund and in Certificates of Deposit. These financial assets are measured at fair value on a recurring basis, using input **Level 1** in the fair value hierarchy. This means that fair value is based on the quoted price in an active market for identical shares.

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There has been no change in the valuation technique used to determine the fair value of the 'available for sale' financial asset during 2017/18 and there have been no transfers between the input levels in the fair value hierarchy.

## 20.3 Fair values for financial assets and liabilities not measured at fair value

Except for the 'available for sale' financial assets described in note 20.2, all other financial assets and all financial liabilities are carried in the Balance Sheet at amortised cost. As explained in note 20.1 (ii), the unquoted equity investment in Medtech Accelerator Ltd is carried at cost, and a fair value cannot be reliably estimated, as there is insufficient comparable data on which to base an estimate.

The following table compares the carrying and fair values of the remainder of the Council's financial instruments:

| 31 March 2017                |             |                                 | 31 March 2018   |             |
|------------------------------|-------------|---------------------------------|-----------------|-------------|
| Carrying amount              | Fair Value  |                                 | Carrying amount | Fair Value  |
| £000                         | £000        |                                 | £000            | £000        |
| <b>Financial liabilities</b> |             |                                 |                 |             |
| Borrowing                    |             |                                 |                 |             |
| (437,427)                    | (549,441)   | Public Works Loans Board        | (436,060)       | (542,359)   |
| (77,928)                     | (124,266)   | Money Market loans              | (77,928)        | (122,969)   |
| (4,630)                      | (4,630)     | Other                           | (8,308)         | (8,308)     |
| (519,985)                    | (678,337)   |                                 | (522,296)       | (673,636)   |
| (153,709)                    | (153,709)   | PFI / finance lease liabilities | (146,973)       | (146,973)   |
| (230,511)                    | (230,511)   | Creditors (contractual)         | (269,567)       | (269,567)   |
| (904,205)                    | (1,062,557) |                                 | (938,836)       | (1,090,176) |
| <b>Financial Assets</b>      |             |                                 |                 |             |
| 233,671                      | 233,670     | Loans and receivables           | 165,827         | 165,827     |
| 71,254                       | 71,254      | Cash and cash equivalents       | 40,567          | 40,567      |
| 128,414                      | 128,414     | Debtors (contractual)           | 139,505         | 139,505     |
| 433,339                      | 433,338     |                                 | 345,899         | 345,899     |

### Financial liabilities

- The fair value of Public Works Loan Board (PWLB) loans measures the economic effect of terms agreed with the PWLB compared with the estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed to be the PWLB 'new loan' rate. The difference between the fair value of the PWLB loans (£542.359m) and the carrying amount (£436.060m) therefore measures the additional interest the Council will pay over the remaining terms of the loans, against what would be paid if the loans were at prevailing 'new loan' rates. However, the Council would not simply be able to swap its existing loans for equivalent loans at the 'new loan' rate because the

# Statement of Accounts - Notes to the Financial Statements

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PWLB would raise a penalty charge for early redemption of **£195.543m** for the additional interest that would now not be paid. The exit price for the PWLB loans, including this penalty charge, would therefore be **£631.603m**.

- Whilst the 'fair value' measurements provide an indication of the cost of prematurely repaying existing PWLB and Money Market loans at 31st March 2018, the Council has a Capital Financing Requirement (see note 17 on page 81) well in excess of these loans, and so does not foresee the need to prematurely repay these loans.

## Investments and cash

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.

## Other

- The fair value of trade creditors, debtors and PFI liabilities is taken to be the invoiced or billed amount.

## **20.4 Fair value hierarchy for financial assets and liabilities not measured at fair value**

The fair values for financial liabilities and financial assets that are not carried in the Balance Sheet at fair value have all been derived at **level 2** of the fair value hierarchy (i.e. using inputs other than quoted prices that are observable for the financial asset / liability).

The fair value for financial liabilities and financial assets that are not measured at fair value has been 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:

- **Financial Assets**
  - No early repayments or impairment is recognised.
  - Estimated ranges of interest rates at 31st March 2018 of **0.40%** to **0.74%** for loans receivable, based on new lending rates for the remaining period of the deposits at that date.
  - The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- **Financial liabilities**
  - No early repayment is recognised.
  - Estimated ranges of interest rates at 31st March 2018 of **1.62%** to **2.57%** for loans payable based on new lending rates for equivalent loans at that date.

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## 20.5 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:

| 2016/17               |                    |                       |         |  | 2017/18               |                    |                       |         |
|-----------------------|--------------------|-----------------------|---------|--|-----------------------|--------------------|-----------------------|---------|
| Financial Assets      |                    | Financial liabilities | Total   |  | Financial Assets      |                    | Financial liabilities | Total   |
| Loans and receivables | Available for sale |                       |         |  | Loans and receivables | Available for sale |                       |         |
| £000                  | £000               | £000                  | £000    |  | £000                  | £000               | £000                  | £000    |
| -                     | -                  | 36,418                | 36,418  | Interest expense   | -                     | -                  | 37,396                | 37,396  |
| -                     | -                  | 74                    | 74      | Fee expense  | -                     | -                  | 19                    | 19      |
| -                     | -                  | 36,492                | 36,492  | Expenses in surplus / deficit on the provision of services | -                     | -                  | 37,415                | 37,415  |
| (2,506)               | (356)              | -                     | (2,862) | Interest income  | (1,788)               | (623)              | -                     | (2,411) |
| (2,506)               | (356)              | -                     | (2,862) | Income in surplus / deficit on the provision of services   | (1,788)               | (623)              | -                     | (2,411) |
| -                     | -                  | -                     | -       | Gains on revaluation                                       | -                     | (492)              | -                     | (492)   |
| -                     | 408                | -                     | 408     | Losses on revaluation                                      | -                     | -                  | -                     | -       |
| -                     | 408                | -                     | 408     | Other Comprehensive Income and Expenditure                 | -                     | (492)              | -                     | (492)   |
| (2,506)               | 52                 | 36,492                | 34,038  | Net (gain) / loss for the year                             | (1,788)               | (1,115)            | 37,415                | 34,512  |

## 20.6 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.
- **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 annual 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.

# Statement of Accounts - Notes to the Financial Statements

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Risk management is carried out by the Council's central treasury team, under policies approved by the Council in the annual **Treasury Management Strategy**. In addition, the Council has 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 exposure associated with the Council's customers.

The Council sought to minimise the credit risks associated with depositing funds with banks and financial institutions by only placing funds with those counterparties that had credit ratings equivalent to, or better than, the credit rating criteria set out within the Council's investment strategy, which is updated annually (as a minimum) and seeks to provide a sound approach to investing in normal market circumstances.

UK banks and building societies, and non UK banks domiciled in a country with a minimum sovereign rating of '**AA**', were considered for inclusion on the Council's lending list during 2017/18 if they had acceptable credit ratings in both of the following categories:

- **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.

Banks and building societies that satisfied the Council's minimum criteria across each of these categories were eligible to be included on the Council's lending list. The short and long term ratings were further applied to determine the maximum amount that could be invested with individual counterparties and the maximum period of those investments. This approach sought to ensure that the Council applied a consistent approach to the amount, and period, of investments with institutions exposed to similar risks.

Nationalised / part-nationalised financial institutions were also included on the Council's lending list, together with Money Market Funds that were denominated in 'sterling' and regulated within the EU and had an '**AAA**' credit rating.

Application of the credit rating criteria set out within the Annual Investment Strategy meant that the maximum amount invested in 2017/18 by the Council with any financial institution, at any point in time, ranged between **£20m** and **£70m** (*i.e. the limit varied within this range, depending on the relative strength of financial institutions' credit ratings within the acceptable range*).

Surplus cash balances were predominantly invested on a short term basis (*i.e. for periods of up to 364 days*) until the funds were next required. Funds invested on this basis were either placed 'on-call' or in short term 'fixed term' deposits. Because of the short term nature of these investments, the Council was able to respond quickly to changes in credit risk.

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The Council's Investments Strategy also allowed for underlying cash balances to be invested on a longer term basis (*i.e. for periods beyond 364 days*). Because it is not possible to respond to changes in credit risk as quickly, a limit was set within the annual treasury management strategy, upon the total amount that could be invested for periods beyond 364 days. For 2017/18, this limit was **£50m** (2016/17: £50m).

No credit limits were exceeded during 2017/18 and the Council did not experience any losses from non-performance by any of its counterparties in relation to the deposits it placed with them.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and collectability over the last five years:

|  | Amount at<br>31 March 2018 | Historical<br>experience<br>of default | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability |
|--|----------------------------|--|--|
|  | £000                       | %                                      | £000   |
| Deposits with banks and other financial institutions |                            |  |  |
| AAA rated  | 5,500                      | 0.040%                                 | 2  |
| AA rated   | 143,000                    | 0.020%                                 | 29   |
| A rated  | 61,000                     | 0.050%                                 | 31   |
| BBB rated  | 46,969                     | 0.160%                                 | 75   |
|  | <b>256,469</b>             |  | <b>137</b>   |
| Debtors (contractual)                                | <b>139,505</b>             | 8.096%                                 | <b>11,294</b>  |
| Potential maximum exposure to credit risk            | <b>395,974</b>             |  | <b>11,431</b>  |

Of the total amount of debtors at 31st March 2018, the following amounts (analysed by age) are past their due date for payment:

| 2016/17               |                              |                        | 2017/18               |                              |
|-----------------------|------------------------------|------------------------|-----------------------|------------------------------|
| Debtors past due date | Allowance for doubtful debts |                        | Debtors past due date | Allowance for doubtful debts |
| £000                  | £000                         |                        | £000                  | £000                         |
| 14,630                | 624                          | Less than three months | 17,634                | 1,304                        |
| 6,573                 | 602                          | Three to six months    | 8,546                 | 315                          |
| 6,726                 | 1,584                        | Six months to one year | 6,606                 | 1,672                        |
| 14,081                | 8,530                        | More than one year     | 14,364                | 8,003                        |
| <b>42,010</b>         | <b>11,340</b>                | <b>Total</b>           | <b>47,150</b>         | <b>11,294</b>                |

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This table also shows the allowance the Council has made for non-recovery of those debts past their due date; this allowance does not constitute intent to write these debts off, but does recognise the risk that some amounts might not be recovered.

## Liquidity risk

As the Council has ready access to borrowings from the Public Works Loan 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 Council seeks to mitigate against this risk by ensuring 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 existing financial liabilities is as follows:

| 31 March 2017 |              |       |         | Repayment period      | 31 March 2018 |              |       |         |
|---------------|--------------|-------|---------|-----------------------|---------------|--------------|-------|---------|
| PWLB          | Money Market | Other | Total   |                       | PWLB          | Money Market | Other | Total   |
| £000          | £000         | £000  | £000    |                       | £000          | £000         | £000  | £000    |
| 5,394         | 928          | 1,905 | 8,227   | Less than one year    | 5,469         | 928          | 985   | 7,382   |
| 5,394         | 928          | 1,905 | 8,227   | Short term borrowing  | 5,469         | 928          | 985   | 7,382   |
| 1,421         | -            | 630   | 2,051   | Between 1 and 2 years | 1,479         | -            | 1,552 | 3,031   |
| 27,120        | -            | 1,855 | 28,975  | Between 2 - 5 years   | 34,809        | -            | 5,204 | 40,013  |
| 50,229        | -            | 240   | 50,469  | Between 5 - 10 years  | 51,178        | -            | 567   | 51,745  |
| 171,692       | -            | -     | 171,692 | Between 10 - 25 years | 161,576       | -            | -     | 161,576 |
| 141,571       | -            | -     | 141,571 | Between 25 - 40 years | 161,549       | -            | -     | 161,549 |
| 40,000        | -            | -     | 40,000  | Between 40 - 50 years | 20,000        | -            | -     | 20,000  |
| -             | 77,000       | -     | 77,000  | Over 50 years         | -             | 77,000       | -     | 77,000  |
| 432,033       | 77,000       | 2,725 | 511,758 | Long term borrowing   | 430,591       | 77,000       | 7,323 | 514,914 |
| 437,427       | 77,928       | 4,630 | 519,985 | Total borrowing       | 436,060       | 77,928       | 8,308 | 522,296 |

## 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 Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of borrowings will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and

# Statement of Accounts - Notes to the Financial Statements

- Investments at fixed rates – the fair value of the assets will fall.

The Council only carries a small proportion of its investments at fair value, and none of its borrowing is carried at fair value either. Consequently, 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 impact on the amount charged / credited 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 (2016/17: 30%).

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.

If interest rates had been **1%** higher throughout 2017/18 (with all other variables held constant) the Council's net interest burden would have been lower than that shown in Note 20.5, as follows:

| 2016/17<br>£000  |  | 2017/18<br>£000 |
|--|--|-----------------|
| Impact on the Comprehensive Income and Expenditure Statement |  |                 |
| 360  | Interest payable on variable rate borrowing      | 343             |
| (1,561)  | Interest receivable on variable rate investments | (1,214)         |
| <u>(1,201)</u>   | <b>Net (gain) / loss</b>                         | <u>(871)</u>    |

## Price risk

The Council is 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. It has however made modest investments in a pooled property fund which is classified as 'available for sale', and an unquoted equity instrument, meaning that movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. In 2017/18, a gain was recognised in 'Other Comprehensive Income and Expenditure' (see note 20.5, on page 90).

## Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, thus it does not have exposure to loss arising from movements in exchange rates.



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## 21. Inventories

The following table provides an analysis of the inventories held at 31st March:

| 2016/17           |   |       | 2017/18           |   |       |
|-------------------|---|-------|-------------------|---|-------|
| Consumable Stores | Property acquired or constructed for sale | Total | Consumable Stores | Property acquired or constructed for sale | Total |
| £000              | £000                                      | £000  | £000              | £000                                      | £000  |
| 50                | -   | 50    | 50                | -   | 50    |
| 2                 | -   | 2     | -                 | 7,123                                     | 7,123 |
| (2)               | -   | (2)   | (8)               | -   | (8)   |
| -                 | -   | -     | -                 | -   | -     |
| 50                | -   | 50    | 42                | 7,123                                     | 7,165 |

## 22. Debtors

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

| 31 March 2017               |           |         | 31 March 2018 |           |         |
|-----------------------------|-----------|---------|---------------|-----------|---------|
| Short term                  | Long term | Total   | Short term    | Long term | Total   |
| £000                        | £000      | £000    | £000          | £000      | £000    |
| <b>Public sector bodies</b> |           |         |               |           |         |
| 18,335                      | -         | 18,335  | 18,838        | -         | 18,838  |
| 27,104                      | 12,696    | 39,800  | 26,915        | 12,073    | 38,988  |
| 13,768                      | -         | 13,768  | 16,590        | -         | 16,590  |
| 1                           | -         | 1       | -             | -         | -       |
| 59,208                      | 12,696    | 71,904  | 62,343        | 12,073    | 74,416  |
| 93,442                      | 5,134     | 98,576  | 103,913       | 5,898     | 109,811 |
| 152,650                     | 17,830    | 170,480 | 166,256       | 17,971    | 184,227 |

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## 23. Cash and cash equivalents

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

| 31st March<br>2017<br>£000   |   | 31st March<br>2018<br>£000 |
|--|---|----------------------------|
| <b>Amounts that form an integral part of the Council's cash management</b> |   |                            |
| 33,749   | Cash repayable on demand                  | 5,618                      |
| 37,014   | Cash equivalents                          | 29,022                     |
| (41,045)   | Bank overdraft                            | (33,987)                   |
| 95   | Petty cash balances                       | 93                         |
| <hr/> 29,813   |   | <hr/> 746                  |
| 41,441   | <b>Cash held by schools</b>               | 39,821                     |
| <hr/> 71,254   | <b>Total of cash and cash equivalents</b> | <hr/> 40,567               |

The Council holds a number of bank accounts which can fluctuate significantly depending on cash receipts and payments, and may become overdrawn. However, the Council's banking arrangements mean that agreed overdraft charges are only incurred by the Council where the aggregate balance on all accounts is in an overdraft position.

## 24. Creditors

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

| 31st March 2017             |                   |               | 31st March 2018    |                   |               |
|-----------------------------|-------------------|---------------|--------------------|-------------------|---------------|
| Short term<br>£000          | Long term<br>£000 | Total<br>£000 | Short term<br>£000 | Long term<br>£000 | Total<br>£000 |
| <b>Public sector bodies</b> |                   |               |                    |                   |               |
| 7,943                       | -                 | 7,943         | 9,076              | -                 | 9,076         |
| 27,984                      | 59                | 28,043        | 25,862             | 5                 | 25,867        |
| 6,766                       | -                 | 6,766         | 5,691              | -                 | 5,691         |
| 113                         | -                 | 113           | 3                  | -                 | 3             |
| <hr/> 42,806                | 59                | <hr/> 42,865  | <hr/> 40,632       | 5                 | <hr/> 40,637  |
| 210,514                     | 53                | 210,567       | 257,608            | 119               | 257,727       |
| <hr/> 253,320               | 112               | <hr/> 253,432 | <hr/> 298,240      | 124               | <hr/> 298,364 |
| <b>Total</b>                |                   |               | <b>Total</b>       |                   |               |

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## 25. 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:

| 31st March 2017                             |                 |   | 31st March 2018 |                 |
|---|-----------------|---|-----------------|-----------------|
| Revenue<br>£000                             | Capital<br>£000 |   | Revenue<br>£000 | Capital<br>£000 |
| <b>Department for Education and related</b> |                 |   |                 |                 |
| 171   | 10,722          | Department for Education grants             | 306             | 7,888           |
|   |                 | Education Funding Agency                    |                 |                 |
| 3,341                                       | -               | Dedicated Schools grant                     | -               | -               |
| 942   | -               | Other Education Funding Agency grants       | 571             | -               |
| 212   | -               | National College of Teaching and Leadership | 232             | -               |
| 4,666                                       | 10,722          |   | 1,109           | 7,888           |
| <b>Other grants</b>                         |                 |   |                 |                 |
| -   | -               | Ministry of Housing, Communities & L. Govnt | 4,582           | 1,695           |
| 935   | -               | Department for Transport grants             | 3,240           | 62              |
| 74  | -               | Department of Health grants                 | 249             | -               |
| 766   | 1,135           | Other grants                                | 774             | 160             |
| 1,775                                       | 1,135           |   | 8,845           | 1,917           |
| <b>6,441</b>                                | <b>11,857</b>   | <b>Total of grant receipts in advance</b>   | <b>9,954</b>    | <b>9,805</b>    |
| 2,874                                       | 45,411          | <b>Developer contributions (\$106)</b>      | 3,553           | 44,723          |
| <b>9,315</b>                                | <b>57,268</b>   | <b>Total</b>                                | <b>13,507</b>   | <b>54,528</b>   |

## 26. Provisions and contingencies

### 26.1 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.

Provisions are split on the Council's Balance Sheet between current (amounts expected to be settled within 12 months) and non-current (those expected to be settled beyond the next 12 months). An analysis of the current and non-current provisions is provided in the following table.

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|   | Insurance<br>Provision | Landfill<br>aftercare | Non-domestic<br>rating<br>appeals | Restructuring | Other<br>provisions | Total    |
|---|------------------------|-----------------------|-----------------------------------|---------------|---------------------|----------|
|   | £000                   | £000                  | £000                              | £000          | £000                | £000     |
| <b>Current provisions</b>                       |                        |                       |                                   |               |                     |          |
| Balance at 31st March 2017                      | (6,880)                | (327)                 | (4,061)                           | (256)         | (2,484)             | (14,008) |
| Amounts arising                                 | -                      | -                     | (1,698)                           | (933)         | (1,483)             | (4,114)  |
| Provisions reversed                             | -                      | -                     | -                                 | 25            | 569                 | 594      |
| Provisions utilised                             | 1,967                  | 284                   | 1,626                             | 231           | 2,411               | 6,519    |
| Unwinding of discount                           | -                      | (10)                  | -                                 | -             | -                   | (10)     |
| Amounts reclassified as current                 | (1,287)                | (343)                 | -                                 | -             | -                   | (1,630)  |
| Balance at 31st March 2018                      | (6,200)                | (396)                 | (4,133)                           | (933)         | (987)               | (12,649) |
| <b>Non-current provisions</b>                   |                        |                       |                                   |               |                     |          |
| Balance at 31st March 2017                      | (13,420)               | (10,858)              | -                                 | -             | -                   | (24,278) |
| Amounts arising                                 | (4,897)                | (2,695)               | -                                 | -             | -                   | (7,592)  |
| Provisions reversed                             | -                      | -                     | -                                 | -             | -                   | -        |
| Provisions utilised                             | -                      | -                     | -                                 | -             | -                   | -        |
| Amounts reclassified as current                 | 1,287                  | 343                   | -                                 | -             | -                   | 1,630    |
| Balance at 31st March 2018                      | (17,030)               | (13,210)              | -                                 | -             | -                   | (30,240) |
| <b>Total current and non-current provisions</b> |                        |                       |                                   |               |                     |          |
| 31st March 2017                                 | (20,300)               | (11,185)              | (4,061)                           | (256)         | (2,484)             | (38,286) |
| 31st March 2018                                 | (23,230)               | (13,606)              | (4,133)                           | (933)         | (987)               | (42,889) |

An explanation of each provision is as follows:

| Provision        | Purpose   |
|------------------|---|
| <b>Insurance</b> | <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 1983, until they ceased trading in 1992. Since ceasing trading, MMI has been dealing with all outstanding claims, operating under a contingent Scheme of Arrangements. This Scheme allows MMI to claw back monies paid (in the form of a levy) from the scheme participants in the event that it has insufficient funds to pay remaining claims itself.</p> <p>The Scheme of Arrangements was triggered, and therefore came into effect, on 13th November 2012. As a result, the Council was required to make an initial levy payment of <b>£1.149m</b> to the Scheme Administrator in 2014/15, equivalent to <b>15%</b> of all claims it had received settlement for since 1993. The Council has been required to meet <b>15%</b> of any subsequent claims made since the initial levy payment was made.</p> <p>With effect from 1 April 2016, the levy increased to <b>25%</b>. As a consequence, a second levy payment of <b>£767,000</b> was made in 2016/17, equivalent to a further <b>10%</b> of all claims for which it has received settlement since 1993 to date. The Council will be required to meet <b>25%</b> of any claims made subsequent to this second levy payment being made. The Insurance Provision includes an allowance for this liability.</p> <p>Whilst the claims position has stabilised in recent years, and may continue to do so, it is</p> |

# Statement of Accounts - Notes to the Financial Statements

| Provision                          | Purpose   |
|------------------------------------|---|
|                                    | anticipated that a request for payment of a further levy on historic claims will be made in the next <b>18 to 36</b> months. The Provision therefore allows for a further <b>10%</b> increase in the levy above that already required, with added allowance being made for additional increases in the Insurance Reserve (see Note 9, which commences on page 68).  |
| <b>Landfill aftercare</b>          | <p>The Council has responsibility for the aftercare of twelve former landfill sites. Restoration work was undertaken at all sites during the 1990's, when the sites were closed. However, the Council continues to monitor each site, and to operate and maintain pollution control infrastructure, to ensure that these sites do not bring harm to human health, property and the environment; the Council will have this obligation until the sites become inert.</p> <p>As the Council expects to discharge its environmental monitoring liabilities over a prolonged period, the provision has been discounted to the present value of the expenditures expected to be required to settle the obligation.</p> |
| <b>Non-domestic rating appeals</b> | Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks that the amount of non-domestic rates collectable could be affected by the requirement to make backdated refunds to non-domestic ratepayers who lodge appeals against the Valuation Rating Lists. For this reason, the Council's Balance Sheet includes an attributable share of the provisions raised by the billing authorities for non-domestic rating appeals.  |
| <b>Restructuring</b>               | 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 services, where these plans are likely to result in the termination of employment for some of the affected staff before their normal retirement date.   |
| <b>Other</b>                       | Provisions have been established for various matters.   |

## 26.2 Contingent Liabilities

As detailed in Note 19, on page 85, the Council entered into a Private Finance Initiative contract for the design, construction and operation of a waste treatment plant in Basildon in May 2012. The relevant acceptance tests are still to be achieved and therefore the plant remains in the commissioning phase.

The Council has been involved in ongoing discussions with the operator Urbaser Balfour Beatty regarding technical matters that have arisen during the commissioning phase and the Parties are utilising the appropriate contractual mechanisms to resolve these issues. Matters where no agreement has been reached have been referred to the Courts for consideration and to determine an outcome.

It is not possible to provide an indication if any additional contract costs that will be incurred as a result of the range of possible outcomes that could occur as a result of the court proceedings. The Council has taken expert advice and as a result no liability has been recorded in these financial statements.

# Statement of Accounts - Notes to the Financial Statements

## 27. Usable reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement, on page 32, with further analysis provided in Note 8, which commences on page 65.

## 28. Unusable reserves

### 28.1 Introduction

The Council maintains a number of unusable reserves which are held for statutory reasons or to comply with proper accounting practice. The Council is not able to use these reserves to provide services. Notes 28.2 to 28.9 explain the purpose of each unusable reserve and the movements in these reserves during the year.

### 28.2 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:

| 2016/17   |  | 2017/18   |           |
|-----------|--|-----------|-----------|
| £000      |  | £000      | £000      |
| (514,628) | Balance as at 1 April                                    |           | (578,469) |
| (161,196) | Revaluation of non current assets (increases)            | (129,835) |           |
| 22,321    | Revaluation of non current assets (subsequent decreases) | 29,699    |           |
| 341       | Impairment of non-current assets                         | -         |           |
| (138,534) | Surplus on revaluations                                  |           | (100,136) |
| 13,687    | Depreciation on revaluation gains                        | 14,270    |           |
| 61,006    | Accumulated gains on assets sold or scrapped             | 47,711    |           |
| 74,693    | Amounts written off to the Capital Adjustment Account    |           | 61,981    |
| (578,469) | Balance as at 31 March                                   |           | (616,624) |

# Statement of Accounts - Notes to the Financial Statements

## 28.3 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.

| 2016/17     |   | 2017/18  |             |
|-------------|---|----------|-------------|
| £000        |   | £000     | £000        |
| (1,343,174) | Balance as at 1 April   |          | (1,340,533) |
|             | <b>Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b> |          |             |
| 72,331      | Depreciation  | 77,949   |             |
| (728)       | Impairment of non-current assets  | 19,857   |             |
| (23,769)    | Donated assets  | (302)    |             |
| 38,175      | Revenue expenditure financed from capital under statute   | 47,234   |             |
| 196,617     | Cost / value of assets disposed of during the year  | 120,276  |             |
| 282,626     |   |          | 265,014     |
|             | <b>Adjusting amounts written out of the Revaluation Reserve</b>   |          |             |
| (13,687)    | Difference between fair value and historical cost depreciation  | (14,270) |             |
| (61,006)    | Revaluation gains outstanding for assets upon disposal  | (47,711) |             |
| (74,693)    |   |          | (61,981)    |
| 207,933     | <b>Net written out amount of the cost of non current assets consumed in the year</b>  |          | 203,033     |
|             | <b>Capital financing applied in the year</b>  |          |             |
| (14,843)    | Revenue reserves applied  | (14,826) |             |
| (34,540)    | Statutory provision for the financing of capital investment   | (28,415) |             |
| (28,235)    | Capital receipts applied  | (8,424)  |             |
|             | Capital grants and contributions applied to finance:  |          |             |
| (98,185)    | Capital Expenditure   | (78,364) |             |
| (21,890)    | Revenue expenditure funded from capital   | (48,111) |             |
| (1,766)     | Application of grants from the Capital Grants Unapplied Account   | (1,751)  |             |
| (199,459)   |   |          | (179,891)   |
| 480         | <b>Repayment of loans awarded for capital purposes</b>  |          | 546         |
| (6,313)     | <b>Movement in market value of investment properties</b>  |          | 440         |
| (1,340,533) | <b>Balance as at 31 March</b>   |          | (1,316,405) |

## 28.4 Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage:

- Premiums paid on the early redemption of loans, such that the expense is recognised in the General Fund over the unexpired term that was outstanding on the loans when they were redeemed; and
- Discounts received on the early redemption of loans, such that the benefit is recognised in the General Fund over a maximum period of 10 years.

# Statement of Accounts - Notes to the Financial Statements

| 2016/17          |                   |               |   | 2017/18          |                   |               |
|------------------|-------------------|---------------|---|------------------|-------------------|---------------|
| Premiums<br>£000 | Discounts<br>£000 | Total<br>£000 |   | Premiums<br>£000 | Discounts<br>£000 | Total<br>£000 |
| 7,012            | (3,871)           | 3,141         | Balance as at 1 April   | 6,789            | (3,688)           | 3,101         |
| (128)            | 19                | (109)         | Amortisation of premiums / discounts to the General Fund  | (127)            | 18                | (109)         |
| (95)             | 164               | 69            | 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            |
| 6,789            | (3,688)           | 3,101         | Balance as at 31 March  | 6,567            | (3,506)           | 3,061         |

## 28.5 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost; or
- Disposed of and the gains are realised.

| 2016/17<br>£000 |   | 2017/18<br>£000 |
|-----------------|---|-----------------|
| (777)           | Balance as at 1 April   | (369)           |
| -               | Upward revaluation of investments   | (492)           |
| 408             | Downward revaluation of investments not charged to the Surplus / Deficit on the Provision of Services | -               |
| (369)           | Balance as at 31 March  | (861)           |

## 28.6 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 the Council to finance benefits earned as it 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.



# Statement of Accounts - Notes to the Financial Statements

| 2016/17      |                  |               |   | 2017/18      |                  |               |
|--------------|------------------|---------------|---|--------------|------------------|---------------|
| LGPS<br>£000 | Teachers<br>£000 | Total<br>£000 |   | LGPS<br>£000 | Teachers<br>£000 | Total<br>£000 |
| 893,088      | 41,110           | 934,198       | Balance as at 1 April   | 1,237,011    | 35,328           | 1,272,339     |
|              |                  |               | Pension Reserve appropriation to / (from) the General Fund for:   |              |                  |               |
| 78,859       | 992              | 79,851        | Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 114,413      | 576              | 114,989       |
| (53,654)     | (2,908)          | (56,562)      | Council contributions to the schemes  | (52,427)     | (2,853)          | (55,280)      |
| 25,205       | (1,916)          | 23,289        | Total appropriation from Pension Reserve  | 61,986       | (2,277)          | 59,709        |
| 318,718      | (3,866)          | 314,852       | Remeasurements of the net pension liability   | (245,434)    | (937)            | (246,371)     |
| 1,237,011    | 35,328           | 1,272,339     | Balance as at 31 March  | 1,053,563    | 32,114           | 1,085,677     |

The balance on the Pensions Reserve shows the 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.

## 28.7 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.

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
| -               | Balance as at 1 April  | (2,492)         |
| (2,504)         | Deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (59)            |
| 12              | Transfers to the Capital Receipts Reserve upon receipt of cash   | 16              |
| (2,492)         | Balance as at 31 March   | (2,535)         |

# Statement of Accounts - Notes to the Financial Statements

## 28.8 Collection Fund Adjustment Account

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

| 2016/17             |                            |               | 2017/18             |                            |               |
|---------------------|----------------------------|---------------|---------------------|----------------------------|---------------|
| Council Tax<br>£000 | Non-domestic rates<br>£000 | Total<br>£000 | Council Tax<br>£000 | Non-domestic rates<br>£000 | Total<br>£000 |
| (17,923)            | 2,979                      | (14,944)      | (16,679)            | (747)                      | (17,426)      |
|                     |                            |               |                     |                            |               |
|                     |                            |               |                     |                            |               |
| 1,244               | (3,726)                    | (2,482)       | 2,152               | (422)                      | 1,730         |
| (16,679)            | (747)                      | (17,426)      | (14,527)            | (1,169)                    | (15,696)      |

**Balance at 1 April**  
Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements

**Balance as at 31 March**

## 28.9 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid 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.

| 2016/17<br>£000 |   | 2017/18<br>£000 |                |
|-----------------|---|-----------------|----------------|
| 10,667          | <b>Balance as at 1 April</b>  |                 | 16,506         |
| (10,667)        | Settlement or cancellation of accrual made at the end of the preceding year   | (16,506)        |                |
| 16,506          | Amounts accrued for at the end of the current year  | 12,884          |                |
| <u>5,839</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>(3,622)</u> |
| <u>16,506</u>   | <b>Balance as at 31 March</b>   |                 | <u>12,884</u>  |

## 29. 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.

# Statement of Accounts - Notes to the Financial Statements

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

| 2016/17   |  | 2017/18   |                    |
|---|--|-----------|--------------------|
| £000  |  | £000      | £000               |
| <b>Cash flows from operating activities</b>           |  |           |                    |
| <b>Cash inflows</b>                                   |  |           |                    |
| (623,555)   | Taxation   | (651,368) |                    |
| (951,746)   | Grants   | (936,582) |                    |
| (249,486)   | Sales of goods and rendering of services   | (276,133) |                    |
| (3,032)   | Interest received  | (3,014)   |                    |
| <u>(1,827,819)</u>                                    |  |           | <u>(1,867,097)</u> |
| <b>Cash outflows</b>                                  |  |           |                    |
| 509,084   | Cash paid to and on behalf of employees  | 490,155   |                    |
| 36,463  | Interest paid  | 38,237    |                    |
| 1,135,343   | Cash paid to suppliers of goods and services   | 1,140,302 |                    |
| 123,683   | Other payments for operating activities  | 116,793   |                    |
| <u>1,804,573</u>                                      |  |           | <u>1,785,487</u>   |
| <u>(23,246)</u>                                       | <b>Net inflow of cash from operating activities</b>  |           | <u>(81,610)</u>    |
| <b>Cash flows from investing activities</b>           |  |           |                    |
| <b>Cash inflows</b>                                   |  |           |                    |
| (28,235)  | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (8,424)   |                    |
| -   | Proceeds from short and long term investments  | (20,443)  |                    |
| (128,925)   | Other receipts from investing activities   | (125,072) |                    |
| <u>(157,160)</u>                                      |  |           | <u>(153,939)</u>   |
| <b>Cash outflows</b>                                  |  |           |                    |
| 196,786   | Purchase of property, plant and equipment, investment property and intangible assets               | 212,175   |                    |
| 83,914  | Purchase of short and long term investments  | 134       |                    |
| 38,514  | Other payments for investing activities  | 48,891    |                    |
| <u>319,214</u>  |  |           | <u>261,200</u>     |
| <u>162,054</u>  | <b>Net outflow of cash from investing activities</b>   |           | <u>107,261</u>     |
| <b>Cash flows generated from financing activities</b> |  |           |                    |
| <b>Cash inflows</b>                                   |  |           |                    |
| (163,000)   | Cash receipts of short and long term borrowing   | (5,583)   |                    |
| (228)   | Other receipts from financing activities   | -         |                    |
| <u>(163,228)</u>                                      |  |           | <u>(5,583)</u>     |
| <b>Cash outflows</b>                                  |  |           |                    |
| 6,794   | Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)     | 7,347     |                    |
| 5,267   | Repayment of short and long term borrowing   | 3,272     |                    |
| <u>12,061</u>   |  |           | <u>10,619</u>      |
| <u>(151,167)</u>                                      | <b>Net (inflow) / outflow of cash from financing activities</b>                                    |           | <u>5,036</u>       |
| <u>(12,359)</u>                                       | <b>Net (increase) / decrease in cash and cash equivalents</b>                                      |           | <u>30,687</u>      |

# Statement of Accounts - Notes to the Financial Statements

## 30. 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. Redundancies are an unavoidable consequence of this programme.

The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

| 2016/17<br>£000 |   | 2017/18<br>£000 |
|-----------------|---|-----------------|
| 20              | Childrens and Families                                      | 513             |
| 89              | Culture, Communities and Customer                           | 944             |
| 181             | Economic Growth, Skills, Infrastructure and Digital Economy | 272             |
| 1,134           | Education   | 2,375           |
| 145             | Environment and Waste                                       | 246             |
| 68              | Health and Adult Social Care                                | 1,186           |
| -               | Housing, Planning and Property                              | 154             |
| -               | Leader  | 208             |
| -               | Resources   | 1,648           |
|                 | Recharged Strategic Support Services                        |                 |
| -               | Culture, Communities and Customer                           | 236             |
| 74              | Leader  | 611             |
| 274             | Resources   | 240             |
| <b>1,985</b>    | <b>Total</b>  | <b>8,633</b>    |

Notes: 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 31st March. Provision is raised on the basis of the best estimate of costs.

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

| 2016/17                         |       |       |                                |                              | 2017/18                         |       |       |                                |
|---------------------------------|-------|-------|--------------------------------|------------------------------|---------------------------------|-------|-------|--------------------------------|
| No. packages agreed in the year |       |       | Total cost of packages<br>£000 | Value of exit packages       | No. packages agreed in the year |       |       | Total cost of packages<br>£000 |
| Compulsory                      | Other | Total |                                |                              | Compulsory                      | Other | Total |                                |
| 26                              | 31    | 57    | 400                            | Less than £20,000            | 90                              | 71    | 161   | 1,270                          |
| 5                               | 10    | 15    | 407                            | £20,000 to £39,999           | 21                              | 24    | 45    | 1,194                          |
| 2                               | -     | 2     | 108                            | £40,000 to £59,999           | 10                              | 20    | 30    | 1,455                          |
| 2                               | 1     | 3     | 214                            | £60,000 to £79,999           | 6                               | 15    | 21    | 1,441                          |
| 2                               | 1     | 3     | 267                            | £80,000 to £99,999           | 2                               | 5     | 7     | 624                            |
| 1                               | 2     | 3     | 372                            | £100,000 to £199,999         | 8                               | 5     | 13    | 1,742                          |
| 38                              | 45    | 83    | 1,768                          | Total no. of agreed packages | 137                             | 140   | 277   | 7,726                          |
|                                 |       |       | 217                            | Other termination benefits   |                                 |       |       | 907                            |
|                                 |       |       | 1,985                          |                              |                                 |       |       | 8,633                          |

# Statement of Accounts - Notes to the Financial Statements

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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 Statement when it can no longer withdraw the offer of those benefits, 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 Statement 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 Statement.

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

The Council has two pension schemes which are accounted for as defined contribution schemes:

### ▪ Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency. 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 Teachers' pension scheme has in excess of **8,700** participating employers.

### ▪ NHS Pension Scheme

Staff performing public health functions who were compulsorily transferred from a local primary care trust to the Council, and who had access to the NHS Pension Scheme on 31 March 2013, retained access to that Scheme on transfer to the Council on 1 April 2013.

The NHS Pension Scheme provides these employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on contribution rates set by the Secretary of State. The NHS Pension Scheme has in excess of **8,800** participating employers.

These schemes are defined benefit schemes. They are unfunded and the Scheme Administrators use notional funds as the basis for calculating the employer's contribution rates to be paid by the participating employers.

Due to the number of participating employers within the schemes, the Council is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, both schemes are accounted for on the same basis as a defined contribution scheme.

# Statement of Accounts - Notes to the Financial Statements

The following table shows the amounts the Council paid for pension costs in relation to these schemes:

| 2016/17          |             |               |                          | 2017/18          |             |               |
|------------------|-------------|---------------|--------------------------|------------------|-------------|---------------|
| Teachers<br>£000 | NHS<br>£000 | Total<br>£000 |                          | Teachers<br>£000 | NHS<br>£000 | Total<br>£000 |
| 28,202           | 117         | 28,319        | Employer's contributions | 25,890           | 91          | 25,981        |
| 15,666           | 106         | 15,772        | Employee contributions   | 14,355           | 80          | 14,435        |
| 43,868           | 223         | 44,091        | Total                    | 40,245           | 171         | 40,416        |

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 schemes.

The amounts in the above table reflect:

|                              | Teachers      |               | NHS           |               |
|------------------------------|---------------|---------------|---------------|---------------|
|                              | 2016/17       | 2017/18       | 2016/17       | 2017/18       |
| Employer's contribution rate | 16.48%        | 16.48%        | 14.3%         | 14.38%        |
| Employee contribution rate   | 7.4% to 11.7% | 7.4% to 11.7% | 5.0% to 14.5% | 5.0% to 14.5% |

There were no contributions remaining payable as at 31st March 2018 (31st March 2017: Nil).

The Council is responsible for all pension payments relating to added years that it has awarded to teachers, together with the related increases. These costs are accounted for on a defined benefit basis and are detailed in note 32 below.

## 32. Defined Benefit Pension Schemes

### 32.1 Participation in 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.

# Statement of Accounts - Notes to the Financial Statements

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The Council participates in two schemes:

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

The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulation 2013 and currently provides benefits based on career average revalued earnings.

The Administering Authority for the Fund is Essex County Council. The Essex Pension Fund Strategy Board and the Investment Steering Committee oversee the management of the Fund.

As administering authority to the Fund, Essex County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Fund's Investment Strategy Statement.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at **31<sup>st</sup> March 2019** and will set contributions for the period from **1<sup>st</sup> April 2020** to **31<sup>st</sup> March 2023**. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- **Investment risk** - the Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk** - the Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- **Inflation risk** - all of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- **Longevity risk** - in the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Essex Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of these risks may also benefit the Council (*e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers*). However, these risks are also mitigated, to a certain extent, by the statutory requirements to charge to the General Fund the amounts required by statute as described in Note 1.8.3.

# Statement of Accounts - Notes to the Financial Statements

- **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 no 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.

## 32.2 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:

| 2016/17  |                  |               | 2017/18      |                  |               |
|--|------------------|---------------|--------------|------------------|---------------|
| LGPS<br>£000   | Teachers<br>£000 | Total<br>£000 | LGPS<br>£000 | Teachers<br>£000 | Total<br>£000 |
| <b>Comprehensive Income and Expenditure Statement</b>  |                  |               |              |                  |               |
| <b>Cost of Services</b>                                |                  |               |              |                  |               |
| 63,072   | -                | 63,072        | 92,567       | -                | 92,567        |
| 498  | -                | 498           | 2,674        | -                | 2,674         |
| (16,304)   | -                | (16,304)      | (14,132)     | -                | (14,132)      |
| 47,266   | -                | 47,266        | 81,109       | -                | 81,109        |
| <b>Financing and Investment Income and Expenditure</b> |                  |               |              |                  |               |
| 31,593   | 992              | 32,585        | 33,304       | 576              | 33,880        |
| 78,859   | 992              | 79,851        | 114,413      | 576              | 114,989       |
| <b>Re-measurements of the net pensions liability</b>   |                  |               |              |                  |               |
| (270,838)  | -                | (270,838)     | (93,100)     | -                | (93,100)      |
| 648,705  | 3,574            | 652,279       | (152,334)    | (937)            | (153,271)     |
| (51,230)   | (1,951)          | (53,181)      | -            | -                | -             |
| 956  | (5,489)          | (4,533)       | -            | -                | -             |
| (8,875)  | -                | (8,875)       | -            | -                | -             |
| 318,718  | (3,866)          | 314,852       | (245,434)    | (937)            | (246,371)     |
| 397,577  | (2,874)          | 394,703       | (131,021)    | (361)            | (131,382)     |
| <b>Movement in Reserves Statement</b>                  |                  |               |              |                  |               |
| (78,859)   | (992)            | (79,851)      | (114,413)    | (576)            | (114,989)     |
| 53,654   | 2,908            | 56,562        | 52,427       | 2,853            | 55,280        |
| (25,205)   | 1,916            | (23,289)      | (61,986)     | 2,277            | (59,709)      |



# Statement of Accounts - Notes to the Financial Statements

## 32.3 Pensions assets and liabilities recognised in the Balance Sheet

The amount included within the Balance Sheet arising from the Council's obligation in respect of its defined benefit pension plans is:

| 2016/17      |                  |                    |   | 2017/18      |                  |                    |
|--------------|------------------|--------------------|---|--------------|------------------|--------------------|
| LGPS<br>£000 | Teachers<br>£000 | Total<br>£000      |   | LGPS<br>£000 | Teachers<br>£000 | Total<br>£000      |
| 3,288,495    | 35,328           | <b>3,323,823</b>   | Present value of the defined benefit obligation               | 3,224,588    | 32,114           | <b>3,256,702</b>   |
| (2,051,484)  | -                | <b>(2,051,484)</b> | Fair value of plan assets                                     | (2,171,025)  | -                | <b>(2,171,025)</b> |
| 1,237,011    | 35,328           | <b>1,272,339</b>   | <b>Net liability arising from defined benefit obligations</b> | 1,053,563    | 32,114           | <b>1,085,677</b>   |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net deficit of the two Schemes of **£1.086bn** (2016/17: £1.272bn) 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; and
- Finance is only required to be raised to cover teachers' unfunded added years when the pensions are actually paid.

### Scheme Liabilities

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

| 2016/17      |                  |                  |  | 2017/18      |                  |                  |
|--------------|------------------|------------------|--|--------------|------------------|------------------|
| LGPS<br>£000 | Teachers<br>£000 | Total<br>£000    |  | LGPS<br>£000 | Teachers<br>£000 | Total<br>£000    |
| 2,627,336    | 41,110           | <b>2,668,446</b> | <b>Balance as at 1 April</b>   | 3,288,495    | 35,328           | <b>3,323,823</b> |
| 63,072       | -                | <b>63,072</b>    | Current service cost   | 92,567       | -                | <b>92,567</b>    |
| 92,868       | 992              | <b>93,860</b>    | Interest cost  | 87,492       | 576              | <b>88,068</b>    |
| 16,622       | -                | <b>16,622</b>    | Contributions by scheme participants                                       | 16,132       | -                | <b>16,132</b>    |
|              |                  |                  | Remeasurement (gains)/losses:  |              |                  |                  |
| (51,230)     | (1,951)          | <b>(53,181)</b>  | Actuarial (gains) / losses arising from changes in demographic assumptions | -            | -                | <b>-</b>         |
| 648,705      | 3,574            | <b>652,279</b>   | Actuarial (gains) / losses arising from changes in financial assumptions   | (152,334)    | (937)            | <b>(153,271)</b> |
| 956          | (5,489)          | <b>(4,533)</b>   | Other  | -            | -                | <b>-</b>         |
| 498          | -                | <b>498</b>       | Past service costs   | 2,674        | -                | <b>2,674</b>     |
| (85,494)     | (2,908)          | <b>(88,402)</b>  | Benefits paid  | (86,958)     | (2,853)          | <b>(89,811)</b>  |
| (24,838)     | -                | <b>(24,838)</b>  | Liabilities extinguished on settlements                                    | (23,480)     | -                | <b>(23,480)</b>  |
| 3,288,495    | 35,328           | <b>3,323,823</b> | <b>Balance as at 31 March</b>  | 3,224,588    | 32,114           | <b>3,256,702</b> |

# Statement of Accounts - Notes to the Financial Statements

## Scheme Assets

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

| 2016/17      |                  |               |   | 2017/18      |                  |               |
|--------------|------------------|---------------|---|--------------|------------------|---------------|
| LGPS<br>£000 | Teachers<br>£000 | Total<br>£000 |   | LGPS<br>£000 | Teachers<br>£000 | Total<br>£000 |
| 1,734,248    | -                | 1,734,248     | Balance as at 1 April   | 2,051,484    | -                | 2,051,484     |
| 61,275       | -                | 61,275        | Interest income   | 54,188       | -                | 54,188        |
|              |                  |               | Remeasurement gain/(loss)   |              |                  |               |
| 270,838      | -                | 270,838       | Return on plan assets (excl. amount incl in net interest expense) | 93,100       | -                | 93,100        |
| 8,875        | -                | 8,875         | Other   | -            | -                | -             |
| 53,654       | 2,908            | 56,562        | Contributions by the Council                                      | 52,427       | 2,853            | 55,280        |
| 16,622       | -                | 16,622        | Contributions from employees into the scheme                      | 16,132       | -                | 16,132        |
| (85,494)     | (2,908)          | (88,402)      | Benefits paid   | (86,958)     | (2,853)          | (89,811)      |
| (8,534)      | -                | (8,534)       | Amounts made for settlements                                      | (9,348)      | -                | (9,348)       |
| 2,051,484    | -                | 2,051,484     | Balance as at 31 March  | 2,171,025    | -                | 2,171,025     |

Local Government Pension Scheme assets comprised:

| 31 March 2017 |        |                           | 31 March 2018 |        |  |
|---------------|--------|---------------------------|---------------|--------|--|
| £000          | %      |                           | £000          | %      |  |
| 1,401,208     | 68.3%  | Equities                  | 1,416,934     | 65.3%  |  |
| 77,616        | 3.8%   | Gilts                     | 144,426       | 6.7%   |  |
| 83,377        | 4.1%   | Other bonds               | 80,650        | 3.7%   |  |
| 199,582       | 9.7%   | Property                  | 205,934       | 9.4%   |  |
| 61,750        | 3.0%   | Cash and cash equivalents | 74,660        | 3.4%   |  |
| 136,818       | 6.7%   | Alternative assets        | 160,367       | 7.4%   |  |
| 91,133        | 4.4%   | Other managed funds       | 88,054        | 4.1%   |  |
| 2,051,484     | 100.0% | Total assets              | 2,171,025     | 100.0% |  |

The percentages of the total Fund held in each asset class were as follows:

| 31 March 2017 |          |          |          |        |                           | 31 March 2018 |          |          |          |        |
|---------------|----------|----------|----------|--------|---------------------------|---------------|----------|----------|----------|--------|
| UK            |          | Overseas |          | Total  |                           | UK            |          | Overseas |          | Total  |
| Quoted        | Unquoted | Quoted   | Unquoted |        |                           | Quoted        | Unquoted | Quoted   | Unquoted |        |
| 7.7%          | -        | 55.7%    | 4.9%     | 68.3%  | Equities                  | -             | -        | 60.7%    | 4.6%     | 65.3%  |
| 3.8%          | -        | -        | -        | 3.8%   | Gilts                     | 6.7%          | -        | -        | -        | 6.7%   |
| 4.1%          | -        | -        | -        | 4.1%   | Other bonds               | 3.7%          | -        | -        | -        | 3.7%   |
| 6.1%          | 3.6%     | -        | -        | 9.7%   | Property                  | 3.4%          | 6.0%     | -        | -        | 9.4%   |
| -             | 3.0%     | -        | -        | 3.0%   | Cash and cash equivalents | -             | 3.4%     | -        | -        | 3.4%   |
| (0.2%)        | 1.7%     | -        | 5.2%     | 6.7%   | Alternative assets        | (0.5%)        | 7.9%     | -        | -        | 7.4%   |
| -             | 4.4%     | -        | -        | 4.4%   | Other managed funds       | -             | 4.1%     | -        | -        | 4.1%   |
| 21.5%         | 12.7%    | 55.7%    | 10.1%    | 100.0% | Total assets              | 13.3%         | 21.4%    | 60.7%    | 4.6%     | 100.0% |

# Statement of Accounts - Notes to the Financial Statements

## 32.4 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 credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by **Barnett Waddingham LLP**, an independent firm of actuaries. The liabilities have been estimated, based upon the results of the valuation as at **31st March 2016** which was carried out for funding purposes.

The significant assumptions used by the Actuary for the Local Government Pension Scheme were as follows:

| Assumptions   | 2016/17    | 2017/18    |
|---|------------|------------|
| ▪ <b>Rate of inflation</b>  |            |            |
| - RPI   | 3.6%       | 3.3%       |
| - CPI   | 2.7%       | 2.3%       |
| ▪ <b>Rate of increase in salaries</b>                                     | 4.2%       | 3.8%       |
| ▪ <b>Rate of increase in pensions</b>                                     | 2.7%       | 2.3%       |
| ▪ <b>Discount rate</b>  | 2.7%       | 2.55%      |
| ▪ <b>Mortality assumptions for members retiring in normal health:</b>     |            |            |
| - Life expectancy for future pensioners retiring in 20 years' time at 65: |            |            |
| ▪ Male  | 24.3 years | 24.4 years |
| ▪ Female  | 26.9 years | 27 years   |
| - Life expectancy of current pensioners retiring today aged 65:           |            |            |
| ▪ Male  | 22.1 years | 22.2 years |
| ▪ Female  | 24.6 years | 24.7 years |
| ▪ <b>Expected rate of return on assets in the scheme</b>                  | 19%        | 9%         |

The actuarial assumptions used in the calculation of the liabilities for Teachers' additional unfunded pensions were those shown above, with the following exceptions:

| Assumptions                           | 2016/17 | 2017/18 |
|---------------------------------------|---------|---------|
| ▪ <b>Rate of inflation</b>            |         |         |
| - RPI                                 | 3.0%    | 3.35%   |
| - CPI                                 | 2.1%    | 2.35%   |
| ▪ <b>Rate of increase in pensions</b> | 2.1%    | 2.35%   |
| ▪ <b>Discount rate</b>                | 1.7%    | 2.3%    |

## Statement of Accounts - Notes to the Financial Statements

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions used. Sensitivity analysis has been undertaken, based on reasonably possible changes of the assumptions occurring at the end of the reporting period. This assumes, for each change, that the assumption analysed changes, whilst all the other assumptions remain constant. In practice, changes in some of the assumptions may be inter-related. The estimations in the sensitivity analysis have followed the accounting policies for the scheme (i.e. on an actuarial basis using the projected unit credit method).

| Local Government Pension Scheme                                 | Effect of change in assumptions |             |                 |
|---|---------------------------------|-------------|-----------------|
|   | £000                            | £000        | £000            |
| <b>Adjustment to discount rate</b>                              | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,166,799                       | 3,224,588   | 3,283,490       |
| Projected Service Cost  | 84,005                          | 86,085      | 88,218          |
| <b>Adjustment to long term salary increase</b>                  | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,229,381                       | 3,224,588   | 3,218,925       |
| Projected Service Cost  | 86,085                          | 86,085      | 86,085          |
| <b>Adjustment to pension increases and deferred revaluation</b> | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,278,784                       | 3,224,588   | 3,171,366       |
| Projected Service Cost  | 88,222                          | 86,085      | 83,998          |
| <b>Adjustment to mortality age rating assumption</b>            | <b>+ 1 year</b>                 | <b>None</b> | <b>- 1 year</b> |
| Present value of total obligation                               | 3,347,226                       | 3,224,588   | 3,106,584       |
| Projected Service Cost  | 88,831                          | 86,085      | 83,424          |

| Unfunded Teachers' Pensions                                     | Effect of change in assumptions |             |                 |
|---|---------------------------------|-------------|-----------------|
|   | £000                            | £000        | £000            |
| <b>Adjustment to discount rate</b>                              | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 31,852                          | 32,114      | 32,378          |
| <b>Adjustment to pension increases and deferred revaluation</b> | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 32,378                          | 32,114      | 31,852          |
| <b>Adjustment to life expectancy assumptions</b>                | <b>+ 1 year</b>                 | <b>None</b> | <b>- 1 year</b> |
| Present value of total obligation                               | 33,592                          | 32,114      | 30,701          |

The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period.

# Statement of Accounts - Notes to the Financial Statements

## 32.5 Impact on the Council's Cash Flows

The objectives of the LGPS are to keep employers' contributions at as constant a rate as possible. There are no minimum funding requirements in the LGPS, but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis. The next triennial valuation is being carried out as at **31 March 2019** and will set the contributions for the period 1 April 2020 to 31 March 2023.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31<sup>st</sup> March 2019 is **£45.246m**. Although there are not expected to be any contributions with respect to active members, the total unfunded pensions in respect of teachers are estimated to be **£2.920m** for the year to 31<sup>st</sup> March 2019.

The weighted average duration of the pension obligation for the Local Government Pension Scheme members is **19** years. For the Teachers additional unfunded pensions, it is **8** years.

## 33. Audit costs

The following costs were incurred in relation to the audit of the Statement of Accounts and in respect of non-audit services provided by the Council's External Auditor:

| 2016/17   |  | 2017/18            |
|---|--|--------------------|
| £000  |  | £000               |
| <b>Audit fees payable to the appointed auditor</b>                |  |                    |
| 203   | External audit services carried out by appointed auditor | <b>182</b>         |
| 14  | Other services carried out by appointed auditor          | <b>13</b>          |
| <u>217</u>  |  | <u><b>195</b></u>  |
| <b>Rebates received in respect of fees paid in previous years</b> |  |                    |
| Rebates received from Public Sector Auditor                       |  |                    |
| -   | Appointments (PSAA)                                      | <b>(24)</b>        |
| <u>-</u>  |  | <u><b>(24)</b></u> |
| <u>217</u>  | <b>Net total</b>   | <u><b>171</b></u>  |

The fee for 'other services carried out by the appointed auditor' relates to the certification of the Teachers Pensions grant claim, which is not covered by the Public Sector Auditor Appointments (PSAA) certification arrangements but external audit certification is nevertheless required by the grant awarding body.

# Statement of Accounts - Notes to the Financial Statements

## 34. Members' allowances and expenses

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

| 2016/17<br>£000 |                                   | 2017/18<br>£000 |
|-----------------|-----------------------------------|-----------------|
|                 | <b>Members allowances</b>         |                 |
| 887             | Basic allowances                  | 899             |
| 611             | Special responsibility allowances | 625             |
| <u>1,498</u>    |                                   | <u>1,524</u>    |
| 57              | <b>Members expenses</b>           | 63              |
| <u>1,555</u>    |                                   | <u>1,587</u>    |

## 35. Pooled budgets

### 35.1 Better Care Fund

The Better Care Fund aims to 'drive closer integration and improve outcomes for patients and service users and carers'. It is comprised of a number of funding streams:

- **Contributions from NHS Clinical Commissioning Groups (CCGs)** – funding for social care services, community health services, carers' breaks and reablement to reduce avoidable hospital admissions and to facilitate more timely hospital discharges.
- **Disabled Facilities Grant** – funding to facilitate changes to a person's home.
- **Improved Better Care Fund** – funding for adult social care, reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready, and ensuring that the local social care provider market is supported.

Whilst the Better Care Fund was established as a pooled budget, the operation of the pool can involve the members ceding control of funds to a lead commissioner / principal or the arrangement being a joint operation.

The Essex Better Care Fund comprises six pooled funds:

- A countywide pool, comprised of NHS contributions to social care (including reablement) and the Improved Better Care Fund;
- Five other pools (one for each of the five CCGs), comprised of the Disabled Facilities Grant, carers' breaks funding and CCGs' contributions to community health services.

Each pool is governed by a Section 75 Agreement, with an overarching collaboration agreement signed by the Council and each of the CCGs. For each service included within the Section 75 agreements, either the Council or a CCG is solely responsible for the delivery of the service.

The contributions and expenses of the Pool for 2017/18 were as follows:

| 2016/17                        |                         |           |                  |            |              |          | 2017/18                        |                         |           |                  |            |              |           |
|--------------------------------|-------------------------|-----------|------------------|------------|--------------|----------|--------------------------------|-------------------------|-----------|------------------|------------|--------------|-----------|
| Basildon & Brentwood           | Castle Point & Rochford | Mid Essex | North East Essex | West Essex | Central Pool | Total    | Basildon & Brentwood           | Castle Point & Rochford | Mid Essex | North East Essex | West Essex | Central Pool | Total     |
| £000                           | £000                    | £000      | £000             | £000       | £000         | £000     | £000                           | £000                    | £000      | £000             | £000       | £000         | £000      |
| <b>Contributions</b>           |                         |           |                  |            |              |          | <b>Contributions</b>           |                         |           |                  |            |              |           |
| Clinical Commissioning Groups  |                         |           |                  |            |              |          | Clinical Commissioning Groups  |                         |           |                  |            |              |           |
| (16,267)                       | -                       | -         | -                | -          | -            | (16,267) | (16,560)                       | -                       | -         | -                | -          | -            | (16,560)  |
| -                              | (11,264)                | -         | -                | -          | -            | (11,264) | -                              | (11,300)                | -         | -                | -          | -            | (11,300)  |
| -                              | -                       | (22,296)  | -                | -          | -            | (22,296) | -                              | -                       | (22,788)  | -                | -          | -            | (22,788)  |
| -                              | -                       | -         | (21,305)         | -          | -            | (21,305) | -                              | -                       | -         | (21,688)         | -          | -            | (21,688)  |
| -                              | -                       | -         | -                | (19,308)   | -            | (19,308) | -                              | -                       | -         | -                | (19,414)   | -            | (19,414)  |
| (16,267)                       | (11,264)                | (22,296)  | (21,305)         | (19,308)   | -            | (90,440) | (16,560)                       | (11,300)                | (22,788)  | (21,688)         | (19,414)   | -            | (91,750)  |
| -                              | -                       | -         | -                | -          | (8,217)      | (8,217)  | -                              | -                       | -         | -                | -          | (29,106)     | (29,106)  |
| (16,267)                       | (11,264)                | (22,296)  | (21,305)         | (19,308)   | (8,217)      | (98,657) | (16,560)                       | (11,300)                | (22,788)  | (21,688)         | (19,414)   | (29,106)     | (120,856) |
| <b>Total Contributions</b>     |                         |           |                  |            |              |          | <b>Total Contributions</b>     |                         |           |                  |            |              |           |
| <b>Expenditure</b>             |                         |           |                  |            |              |          | <b>Expenditure</b>             |                         |           |                  |            |              |           |
| Clinical Commissioning Groups  |                         |           |                  |            |              |          | Clinical Commissioning Groups  |                         |           |                  |            |              |           |
| 9,917                          | -                       | -         | -                | -          | -            | 9,917    | 10,095                         | -                       | -         | -                | -          | -            | 10,095    |
| -                              | 6,788                   | -         | -                | -          | -            | 6,788    | -                              | 6,743                   | -         | -                | -          | -            | 6,743     |
| -                              | -                       | 13,158    | -                | -          | -            | 13,158   | -                              | -                       | 13,485    | -                | -          | -            | 13,485    |
| -                              | -                       | -         | 13,305           | -          | -            | 13,305   | -                              | -                       | -         | 13,539           | -          | -            | 13,539    |
| -                              | -                       | -         | -                | 12,143     | -            | 12,143   | -                              | -                       | -         | -                | 12,119     | -            | 12,119    |
| 9,917                          | 6,788                   | 13,158    | 13,305           | 12,143     | -            | 55,311   | 10,095                         | 6,743                   | 13,485    | 13,539           | 12,119     | -            | 55,981    |
| 6,350                          | 4,476                   | 9,138     | 8,000            | 7,165      | 8,217        | 43,346   | 6,465                          | 4,557                   | 9,303     | 8,149            | 7,295      | 29,106       | 64,875    |
| 16,267                         | 11,264                  | 22,296    | 21,305           | 19,308     | 8,217        | 98,657   | 16,560                         | 11,300                  | 22,788    | 21,688           | 19,414     | 29,106       | 120,856   |
| -                              | -                       | -         | -                | -          | -            | -        | -                              | -                       | -         | -                | -          | -            | -         |
| <b>Net (surplus) / deficit</b> |                         |           |                  |            |              |          | <b>Net (surplus) / deficit</b> |                         |           |                  |            |              |           |

# Statement of Accounts - Notes to the Financial Statements

## 35.2 Equipment Pool

The Council entered into a pooled budget arrangement with various local authority and NHS partners in 2014/15. The primary purpose of this arrangement is to manage and control the sourcing, delivery, fitting, return and refurbishment of community equipment, adaptations and aids to daily living in service users' homes as part of an integrated community equipment service.

The agreement in place stipulates that partners will contribute to the 'pool' on the basis of their assumed activity levels. Where a partner has paid more into the pool than has been spent, the partner can either choose to carry their 'surplus' forward for use in the next financial year, or to have their 'surplus' repaid. Where there is a shortfall in the contributions made by a partner, they are expected to redress this position.

The contributions and expenses of the Pool for 2017/18 were as follows:

| 2016/17                              |               |                         | 2017/18         |               |                         |
|--------------------------------------|---------------|-------------------------|-----------------|---------------|-------------------------|
| Contributions                        | Expenditure   | Net (surplus) / deficit | Contributions   | Expenditure   | Net (surplus) / deficit |
| £000                                 | £000          | £000                    | £000            | £000          | £000                    |
| <b>Local authorities</b>             |               |                         |                 |               |                         |
| (7,312)                              | 7,312         | -                       | (8,446)         | 8,446         | -                       |
| (558)                                | 558           | -                       | (511)           | 511           | -                       |
| <b>Clinical Commissioning Groups</b> |               |                         |                 |               |                         |
| (2,368)                              | 2,368         | -                       | (2,421)         | 2,421         | -                       |
| <b>NHS Trusts</b>                    |               |                         |                 |               |                         |
| (2,519)                              | 2,519         | -                       | (2,423)         | 2,423         | -                       |
| (60)                                 | 60            | -                       | (52)            | 52            | -                       |
| (248)                                | 248           | -                       | (264)           | 264           | -                       |
| (1,705)                              | 1,705         | -                       | (1,667)         | 1,667         | -                       |
| <b>(14,770)</b>                      | <b>14,770</b> | <b>-</b>                | <b>(15,784)</b> | <b>15,784</b> | <b>-</b>                |
| <b>Total</b>                         |               |                         | <b>Total</b>    |               |                         |

## 35.3 Transforming Care Partnership Pool

The Council entered into a pooled budget arrangement with various local authority and NHS partners in 2017/18, with the aim of ensuring that people with learning disabilities, autism or both are able to live in the community, with the right support, thereby reducing their need for in-patient services and improving their quality of life.

All the current releasable funding for the hospital placements is paid into the pool, to fund both Clinical Commissioning Group commissioned hospital placements and community placements when people are discharged from hospital. Funds released through discharges from NHSE Specialist Commissioning placements transfers into the pool at the point of discharge. If there is insufficient funding within the pooled budget to fund all the community placements, the deficit is met by the local authority partner in whose administrative area the deficit occurs.



# Statement of Accounts - Notes to the Financial Statements

The contributions and expenses of the Pool for 2017/18 were as follows:

| 2016/17       |             |                         | 2017/18                              |              |                         |
|---------------|-------------|-------------------------|--------------------------------------|--------------|-------------------------|
| Contributions | Expenditure | Net (surplus) / deficit | Contributions                        | Expenditure  | Net (surplus) / deficit |
| £000          | £000        | £000                    | £000                                 | £000         | £000                    |
|               |             |                         | <b>Local authorities</b>             |              |                         |
| -             | -           | -                       | (192)                                | 535          | 343                     |
| -             | -           | -                       | (1)                                  | -            | (1)                     |
|               |             |                         | <b>Clinical Commissioning Groups</b> |              |                         |
| -             | -           | -                       | (1)                                  | -            | (1)                     |
| -             | -           | -                       | (1)                                  | -            | (1)                     |
| -             | -           | -                       | (273)                                | 167          | (106)                   |
| -             | -           | -                       | (327)                                | 177          | (150)                   |
| -             | -           | -                       | (332)                                | 332          | -                       |
| -             | -           | -                       | (217)                                | 133          | (84)                    |
| -             | -           | -                       | <b>(1,344)</b>                       | <b>1,344</b> | <b>-</b>                |
|               |             |                         | <b>Total</b>                         |              |                         |

Thurrock Council and Thurrock CCG are not participating in the pooled budget arrangement but remain part of the Essex Transforming Care Partnership.

## 36. Officers' remuneration

Officers' remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax and the money value of benefits. It should be emphasised that this relates to payments to individuals, so part year employment can produce distortions in the presentation.

Pension payments made, whether from a funded or unfunded scheme, do not count as remuneration for this purpose.

The numbers of officers whose remuneration amounted to £50,000 or more, grouped in rising bands of £5,000, are shown overleaf.

| 2016/17     |         |       | Remuneration band |    |          | 2017/18     |         |       |
|-------------|---------|-------|-------------------|----|----------|-------------|---------|-------|
| Non-schools | Schools | Total |                   |    |          | Non-schools | Schools | Total |
| 165         | 146     | 311   | £50,000           | to | £54,999  | 176         | 125     | 301   |
| 87          | 92      | 179   | £55,000           | to | £59,999  | 83          | 88      | 171   |
| 71          | 89      | 160   | £60,000           | to | £64,999  | 71          | 68      | 139   |
| 40          | 48      | 88    | £65,000           | to | £69,999  | 33          | 64      | 97    |
| 27          | 25      | 52    | £70,000           | to | £74,999  | 31          | 22      | 53    |
| 27          | 11      | 38    | £75,000           | to | £79,999  | 18          | 14      | 32    |
| 22          | 7       | 29    | £80,000           | to | £84,999  | 28          | 7       | 35    |
| 12          | 2       | 14    | £85,000           | to | £89,999  | 11          | 5       | 16    |
| 11          | 1       | 12    | £90,000           | to | £94,999  | 6           | 2       | 8     |
| 9           | 2       | 11    | £95,000           | to | £99,999  | 8           | 1       | 9     |
| 5           | 1       | 6     | £100,000          | to | £104,999 | 11          | 1       | 12    |
| 3           | -       | 3     | £105,000          | to | £109,999 | 4           | -       | 4     |
| 3           | -       | 3     | £110,000          | to | £114,999 | 8           | -       | 8     |
| 2           | -       | 2     | £115,000          | to | £119,999 | 1           | -       | 1     |
| 3           | 1       | 4     | £120,000          | to | £124,999 | 2           | -       | 2     |
| 1           | -       | 1     | £125,000          | to | £129,999 | 4           | -       | 4     |
| -           | -       | -     | £130,000          | to | £134,999 | 3           | -       | 3     |
| -           | -       | -     | £135,000          | to | £139,999 | 2           | -       | 2     |
| -           | -       | -     | £140,000          | to | £144,999 | 2           | -       | 2     |
| -           | -       | -     | £145,000          | to | £149,999 | 2           | -       | 2     |
| 1           | -       | 1     | £150,000          | to | £154,999 | -           | -       | -     |
| -           | -       | -     | £155,000          | to | £159,999 | 1           | -       | 1     |
| 1           | -       | 1     | £160,000          | to | £164,999 | -           | -       | -     |
| 490         | 425     | 915   | Total             |    |          | 505         | 397     | 902   |

Notes: Senior officers whose individual remuneration is disclosed in note 37 (page 121) are excluded from the remuneration bandings shown in the above analysis.

# Statement of Accounts - Notes to the Financial Statements

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## 37. Senior officers' remuneration

### 37.1 Senior officers

Senior officers include all members of the Council's Corporate Management Board and other statutory officers.

### 37.2 Disclosure of senior officers' remuneration

Senior Officers' remuneration is disclosed overleaf.

Where a senior officer's annual 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.

The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual.

Bonus payments have been disclosed in the year of payment, but relate to performance in the preceding financial year.

### 37.3 Fees paid in respect of individuals employed on an interim basis

The Council also secured services from various other individuals on an interim basis during 2016/17 and/or 2017/18. The fees charged to the Council in respect of some of these individuals amounted to **£150,000** or more, in 2016/17 and/or 2017/18, as follows:

- Mr Jon Babb, who held the position of **Interim Head of Delivery** until December 2017 at a cost to the Council in 2017/18 of **£143,127** (2016/17: £172,815);
- Mr Marc Cohen, who held the position of **Senior Project Manager** at a cost to the Council in 2017/18 of **£95,888** (2016/17: £156,860);
- Ms Pamela Parkes, who held the position of **Interim Director for Human Resources and Organisation Development** at a cost to the Council in 2016/17 of **£161,817**; Ms Parkes was subsequently appointed to the role of Director, Organisational Development and People on a substantive basis, with effect from 1 April 2017;
- Mrs Fran Arnold, who held the position of **Regional Development Manager – Adoption**, at a cost to the Council of £157,141 in 2017/18; and
- Ms Akosua Bame-Ashiagbor, who held the position of **Senior Project Manager**, at a cost to the Council of **£152,933** in 2017/18 (2016/17: £122,598).

The amounts disclosed in respect of these individuals are the costs incurred by the Council to secure their services, and not the amounts these individuals actually received (which will have been lower).

| 2016/17  | Notes  | Remuneration                        |                   |                                     |   |  |  |   |
|--|--------|-------------------------------------|-------------------|-------------------------------------|---|--|--|---|
|  |        | Salaries,<br>fees and<br>allowances | Bonus<br>payments | Expense<br>allowances /<br>benefits | Compensation<br>for loss of<br>employment | Total<br>remuneration<br>Excl pension<br>contributions | Employer's<br>contribution<br>to pension | Total<br>remuneration<br>Incl. pension<br>contributions |
|  |        | £                                   | £                 | £                                   | £   | £  | £  | £   |
| Chief Executive - Mr Gavin Jones   |        | 195,075                             | -                 | 8,758                               | -   | 203,833  | 27,495                                   | 231,328   |
| Executive Director for People Commissioning<br>Mr David Hill                   | (i)    | 187,617                             | -                 | 1,221                               | -   | 188,838  | 25,357                                   | 214,195   |
| Executive Director for People Operations<br>Ms Helen Lincoln                   |        | 157,556                             | 2,280             | 1,627                               | -   | 161,463  | 21,550                                   | 183,013   |
| Executive Director for Corporate and Customer<br>Services - Mrs Margaret Lee   | (ii)   | 161,530                             | 2,295             | 1,627                               | -   | 165,452  | 22,058                                   | 187,510   |
| Executive Director for Place Commissioning<br>Mrs Sonia Davidson-Grant         | (iii)  | 137,640                             | -                 | 1,198                               | 133,561                                   | 272,399  | 30,956                                   | 303,355   |
| Executive Director for Place Operations  | (iv)   | 139,860                             | -                 | -                                   | -   | 139,860  | -  | 139,860   |
| Executive Director, Economy, Localities and Public<br>Health - Mr Mark Carroll | (v)    | 11,962                              | -                 | -                                   | -   | 11,962   | 1,687                                    | 13,649  |
| Director of Commissioning: Healthy Lifestyles<br>Dr Michael Gogarty            | (vi)   | 165,321                             | 1,519             | 2,208                               | -   | 169,048  | 23,825                                   | 192,873   |
| Director of Adult Social Care  | (vii)  | 103,388                             | 1,770             | 907                                 | -   | 106,065  | 13,980                                   | 120,045   |
| Interim Director of Adult Social Care  | (vii)  | 31,965                              | -                 | -                                   | -   | 31,965   | 4,419                                    | 36,384  |
| Director for Corporate Law and Assurance                                       | (viii) | 12,271                              | -                 | 111                                 | 113,277                                   | 125,659  | 13,062                                   | 138,721   |
| Principal Lawyer (Governance)  | (viii) | 68,190                              | -                 | -                                   | -   | 68,190   | 9,615                                    | 77,805  |

## Notes:

|   |   |
|---|---|
| (i) The <b>Executive Director for People Commissioning</b> fulfilled the statutory role of Director of Children's Services, appointed under Section 18 of the Children Act 2004.  | (ii) The <b>Executive Director for Corporate and Customer Services</b> fulfilled the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972.  |
| (iii) The <b>Executive Director for Place Commissioning</b> left the Council on 31 <sup>st</sup> December 2016.   | (iv) The role of <b>Executive Director for Place Operations</b> was filled on an interim basis throughout 2016/17 by the Council's Chief Information Officer.   |
| (v) The <b>Executive Director, Economy, Localities and Public Health</b> was appointed with effect from 6 <sup>th</sup> March 2017.   | (vi) The Council's <b>Director of Commissioning: Healthy Lifestyles</b> fulfils the statutory role of Director of Public Health.  |
| (vii) The Council's <b>Director of Adult Social Care</b> fulfilled the statutory role of Director of Adult Social Services (DASS) until 31 <sup>st</sup> December 2016. Another officer filled this role on an acting basis from 1 <sup>st</sup> January 2017, until being appointing into the role on a permanent basis with effect from 1 <sup>st</sup> April 2017. | (viii) The Council's <b>Director for Corporate Law and Assurance</b> , who fulfilled the statutory role of Monitoring Officer, left the Council on 30 <sup>th</sup> April 2016. The Council's <b>Principal Lawyer (Governance)</b> fulfilled the statutory Monitoring Officer role thereafter, pending permanent appointment to the role. |

| 2017/18  | Notes  | Remuneration                        |                   |                                     |   |  |  |   |
|--|--------|-------------------------------------|-------------------|-------------------------------------|---|--|--|---|
|  |        | Salaries,<br>fees and<br>allowances | Bonus<br>payments | Expense<br>allowances /<br>benefits | Compensation<br>for loss of<br>employment | Total<br>remuneration<br>Excl pension<br>contributions | Employer's<br>contribution<br>to pension | Total<br>remuneration<br>Incl. pension<br>contributions |
|  |        | £                                   | £                 | £                                   | £   | £  | £  | £   |
| Chief Executive - Mr Gavin Jones   |        | 195,000                             | -                 | 10,454                              | -   | 205,454  | 31,395                                   | 236,849   |
| Executive Director, Social Care and Education<br>Mr David Hill                 |        | 187,285                             | -                 | 2,250                               | -   | 189,535  | 29,026                                   | 218,561   |
| Executive Director, Children and Families<br>Ms Helen Lincoln                  | (i)    | 161,833                             | -                 | 1,800                               | -   | 163,633  | 24,928                                   | 188,561   |
| Executive Director, Corporate and Customer<br>Services - Mrs Margaret Lee      | (ii)   | 162,177                             | -                 | 1,800                               | -   | 163,977  | 24,983                                   | 188,960   |
| Executive Director, Corporate Development<br>Mr Jason Kitcat                   | (iii)  | 134,375                             | -                 | 1,690                               | -   | 136,065  | 20,702                                   | 156,767   |
| Executive Director, Economy, Localities and Public<br>Health - Mr Mark Carroll |        | 163,038                             | -                 | 1,690                               | -   | 164,728  | 25,035                                   | 189,763   |
| Executive Director, Infrastructure and Environment<br>Ms Nicola Beach          | (iv)   | 121,875                             | -                 | -                                   | -   | 121,875  | 18,777                                   | 140,652   |
| Director, Wellbeing, Public Health and Communities<br>Dr Michael Gogarty       | (v)    | 165,087                             | -                 | 2,354                               | -   | 167,441  | 26,579                                   | 194,020   |
| Director, Digital  | (vi)   | 79,085                              | -                 | -                                   | 108,200                                   | 187,285  | -  | 187,285   |
| Director, Adult Social Care  | (vii)  | 130,135                             | -                 | -                                   | -   | 130,135  | 20,549                                   | 150,684   |
| Director, Legal and Assurance  | (viii) | 102,500                             | -                 | -                                   | -   | 102,500  | 16,100                                   | 118,600   |
| Director, Organisation Development and People                                  |        | 140,000                             | -                 | 1,045                               | -   | 141,045  | 22,137                                   | 163,182   |

## Notes:

(i) The **Executive Director, Children and Families** fulfils the statutory role of Director of Children's Services, appointed under Section 18 of the Children Act 2004.

(iii) The **Executive Director, Corporate Development** was appointed with effect from 5th June 2017.

(v) The Council's **Director, Wellbeing, Public Health and Communities** fulfils the statutory role of Director of Public Health.

(vii) The Council's **Director, Adult Social Care** fulfils the statutory role of Director for Adult Social Services (DASS).

(ii) The **Executive Director, Corporate and Customer Services** fulfils the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972.

(iv) The **Executive Director, Infrastructure and Environment** was appointed with effect from 1st July 2017.

(vi) The **Director, Digital** was a member of the Council's Corporate Management Board until the Executive Director, Corporate Development was appointed. He left the Council on 31<sup>st</sup> October 2017.

(viii) The Council's **Director, Legal and Assurance** was appointed with effect from 1<sup>st</sup> April 2017 and fulfils the statutory role of Monitoring Officer.

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## 38. 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.

| Related party   | Declaration  |
|-----------------|--|
| UK Government   | 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 a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are detailed in notes 13 (page 74) and 14 (page 74)  |
| Elected members | <p>Members of the Council have direct control over the Council's financial and operating policies. The Council's <a href="#">Constitution</a> requires members to declare their pecuniary interests and any other interests that could reasonably be regarded as likely to prejudice their judgement of the public interest in a <a href="#">Register of Interests</a> and at relevant meetings. The Register of Interests is published on the Council's website. In addition, members are asked to declare separately any related party transactions with the Authority.</p> <p>On the basis of these declarations, the following matters require disclosure as related party transactions:</p> <ul style="list-style-type: none"> <li>• <b>Cllr Derrick Louis</b> is a non-executive director and vice chair of Provide. The Council made payments totalling <b>£23.106m</b> to this organisation during 2017/18 (2016/17: £28.998m). Cllr Louis was Chairman of the Council's Place Services and Economic Growth Policy and Scrutiny Committee until May 2017 and, thereafter, was the Vice Chairman of the Corporate Policy and Scrutiny Committee.</li> <li>• <b>Cllr David Kendall</b> is a trustee of Brentwood Community Transport, a registered charity providing transport to people who find mainstream public transport difficult to access. The Council provided <b>£122,000</b> to this charity in 2017/18 (2016/17: £169,000). Cllr Kendall is a member of the Council's Place Services and Economic Growth Policy and Scrutiny Committee.</li> <li>• <b>Cllr June Lumley</b> is a trustee of Wyvern Community Transport, a registered charity providing transport to people who find mainstream public transport difficult to access. The Council provided <b>£121,000</b> to this charity in 2017/18. Cllr Lumley is a member of the People and Families Policy and Scrutiny Committee.</li> </ul> <p><b>Cllr Lumley</b> is also a trustee of Supporting Carers and Families Together, a registered charity whose objective it is to relieve the social, emotional, mental, physical and educational needs of carers and families in Essex. The Council provided <b>£19,000</b> to this charity in 2017/18.</p> |

## Statement of Accounts - Notes to the Financial Statements

| Related party      | Declaration  |
|--------------------|--|
|                    | <ul style="list-style-type: none"> <li>• <b>Cllr Mark Platt</b> is a trustee of Tendring Eldercare, a charity which seeks to relieve elderly people in Tendring who are in need. The Council provided <b>£38,000</b> to this charity in 2017/18.</li> <li>• <b>Cllr Roger Walters</b>, who was a County Councillor until May 2017, was a non-executive director of Essex Cares Ltd until 31<sup>st</sup> March 2017; he received an allowance of <b>£18,000</b> from Essex Cares in respect of this role in 2016/17.</li> <li>• <b>Cllr Stephen Canning</b> was appointed as a non-executive director of Essex Cares Ltd on 14<sup>th</sup> August 2017; he received an allowance of <b>£9,566</b> from Essex Cares in respect of this role in 2017/18. Cllr Canning was a member of the Place Services and Economic Growth Policy and Scrutiny Committee, and of the Corporate Policy and Scrutiny Committee, with effect from May 2017.</li> <li>• Further details of the Council's relationship and transactions with Essex Cares Ltd are provided on page 126.</li> </ul>  |
|                    | <ul style="list-style-type: none"> <li>• <b>Cllr Roger Hirst</b> was elected as the Police and Crime Commissioner for Essex in May 2016. He stood down as a County Councillor in May 2017. The Council made payments totalling <b>£1.182m</b> to Essex Police, and received income of <b>£1.245m</b>, in 2016/17. The income from Essex Police included <b>£287,000</b> for Coroner services, <b>£51,000</b> for Legal services and <b>£176,000</b> for Pensions; of these amounts <b>£368,000</b> remained outstanding at 31<sup>st</sup> March 2017.</li> <li>• <b>Cllr Michael Page</b>, who was a County Councillor until May 2017, was a trustee of the Rural Community Council of Essex (RCCE), a registered charity that works with local community groups in villages and market towns across the County. The Council provided <b>£726,000</b> to the charity during 2016/17.</li> <li>• <b>Cllr Michael Page</b> was also a member of the Executive Committee of the Essex Association of Local Councils. The Council provided <b>£41,000</b> to this organisation in 2016/17.</li> <li>• <b>Cllr Simon Walsh</b>, who is Cabinet Member for Environment and Waste, became a trustee of the Rural Community Council of Essex (RCCE) in July 2017. The Council provided <b>£837,000</b> to the charity during 2017/18.</li> </ul> <p>The total of members' allowances paid is shown in note 34 (page 116).</p> |
| Officers           | <p>Members of the Council's Corporate Management Board, and other officers with independent statutory powers, can influence significantly the policies of the authority. However, officers are bound by a <a href="#">Code of Conduct</a> which seeks to prevent related parties exerting undue influence over the Council. In addition, they are required to declare any transactions with the Council.</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.</p> <p>The Council charged <b>£2.713m</b> for administering the Fund during 2017/18, of which <b>£258,000</b> was outstanding at 31st March 2018 (2016/17: £2.516m, of which £2.228m was outstanding at 31st March 2017).</p>   |

## Statement of Accounts - Notes to the Financial Statements

| Related party                           | Declaration   |
|---|---|
| Essex Fire Authority                    | <p>The Council's Assistant County Solicitor was employed as the Monitoring Officer for the Essex Fire Authority during 2017/18.</p> <p>The total value of these services in 2017/18 was <b>£326,000</b>, none of which was outstanding at 31st March 2018 (2016/17: £477,000, of which £49,000 was outstanding at 31st March 2017).</p>   |
| Essex Cares Ltd                         | <p>Essex Cares Ltd is a wholly 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 129 to 143.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of <b>£30.7m</b> in 2017/18 (2016/17: £29.8m).</p> <p>The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2017/18; the value of these services in 2017/18 was <b>£179,000</b> (2016/17: £279,000).</p> <p>The Council also provided cash management support to Essex Cares Ltd. The Council charged interest of <b>£46,600</b> (net) on the amounts it lent to Essex Cares Ltd; <b>£550</b> of this total was outstanding at 31st March 2018 (2016/17: charged interest of £21,000 (net) on amounts it lent, £7,000 of which was outstanding at 31st March 2017).</p> <p>As noted on page 125, a County Councillor held a position on Essex Cares' Board of Directors during 2017/18.</p> |
| Rochford District Council               | <p>The Council provided Section 151 Officer and Internal Audit support to Rochford Council during 2017/18, at a cost of <b>£60,000</b>, all of which was outstanding at 31st March 2018 (2016/17: £91,000, of which £30,000 was outstanding at 31st March 2017).</p>  |
| South East Local Enterprise Partnership | <p>The South East Local Enterprise Partnership (South East LEP) is a business-led, public / private body established to drive economic growth across East Sussex, Essex, Kent, Medway, Southend and Thurrock. It has a range of members (<i>including representatives from businesses, local authorities and higher / further education</i>).</p> <p>The South East LEP secured <b>£92.088m</b> from the Government's Local Growth Fund in 2017/18 to support economic growth in the area, of which <b>£15.875m</b> was allocated to the Council to fund major transport schemes (2016/17: £6.826m). In addition, the South East LEP awarded the Council a capital loan of <b>£1.373m</b> from its Growing Places fund. The funding allocated to the Council by the South East LEP followed a competitive bidding process.</p>  |



# Statement of Accounts - Notes to the Financial Statements

## 39. Accounting for schools

All locally maintained schools are deemed to be entities controlled by the Council, which means their transactions, unspent resources and current assets and liabilities are consolidated into the Council's single entity accounts.

With regard to Property, Plant and Equipment, the Council only recognises the assets of its Community and Foundation Schools (other than those owned by religious bodies), and the playing fields for all categories of local maintained schools, in its Balance Sheet. It does not recognise the school building assets of the other categories of local maintained school, as there is no evidence that the rights of ownership for these buildings have been assigned either to the school governing bodies or to the Council, and it is therefore assumed that the Trustees have retained their substantive rights to take back the school property without causal action by the schools. However, the Trustees are, by Regulation, required to give a minimum of two years' notice of their intention to terminate a school's occupancy of a site, to allow the Council and/or school governing body time to make alternative arrangements for the pupils.

The number of locally maintained schools deemed to be controlled by the Council is as follows:

| 2016/17         |                 |                   |                 |       | 2017/18                      |                 |                 |                   |                 |       |
|-----------------|-----------------|-------------------|-----------------|-------|------------------------------|-----------------|-----------------|-------------------|-----------------|-------|
| Nursery schools | Primary Schools | Secondary schools | Special schools | Total |                              | Nursery schools | Primary Schools | Secondary schools | Special schools | Total |
| 1               | 162             | 1                 | 11              | 175   | Community schools            | 1               | 149             | 1                 | 10              | 161   |
| -               | 34              | 1                 | 2               | 37    | Foundation schools           | -               | 30              | 1                 | 2               | 33    |
| -               | 4               | -                 | -               | 4     | Foundation schools (C of E)  | -               | 4               | -                 | -               | 4     |
| -               | 58              | 1                 | -               | 59    | Voluntary controlled schools | -               | 57              | -                 | -               | 57    |
| -               | 55              | 3                 | -               | 58    | Voluntary aided schools      | -               | 53              | 3                 | -               | 56    |
| 1               | 313             | 6                 | 13              | 333   | Total                        | 1               | 293             | 5                 | 12              | 311   |

The financial relationship between the Council and the schools it maintains is set out in a 'Scheme for Financing Schools'. The Scheme is produced in line with statutory requirements and is subject to approval by members of the local Schools' Forum representing maintained schools. It deals with financial management issues, and sets out the approach to, and existence of, surplus and deficit balances in schools.

The Scheme allows schools to carry forward from one financial year to the next any shortfall in expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year. The scheme also contains a provision which has the effect of carrying forward deficit balances, but providing for deficits to be deducted from the following year's budget share. The scheme makes it clear that the Council cannot write off the deficit balance of any school. The Council can only give assistance towards elimination of a deficit balance from the Council's own schools budget (budget held centrally) where this has been agreed by the Schools Forum.

# Statement of Accounts - Notes to the Financial Statements

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Note 15 on the Dedicated Schools Grant (see page 76) shows the total of the Individual Schools budget, which is divided into a budget share for each maintained school.

The reduction in the number of locally maintained schools between 2016/17 and 2017/18 shown in the above table primarily results from schools converting to academy status during the year.

Academy schools are publically funded independent schools that are held accountable through a legally binding 'funding agreement' with the Government. This means that they cease to be local maintained schools upon conversion. A school wishing to convert to academy status has to apply to the Department for Education, following consultation with such persons as the school thinks appropriate.

The conversion process usually involves at least five elements:

- The setting up of an academy trust;
- Putting in place a funding agreement between the academy trust and the Secretary of State for the running and funding of the academy school;
- Transferring the employment of the staff of the school from the local authority or governing body (as applicable) to the academy trust;
- Negotiating the transfer of assets and contracts of the school from the local authority and/or governing body to the academy trust; and
- Arranging for the academy trust to have use of the land and buildings of the school(s), usually by way of a 125 year lease with the local authority or the transfer of the freehold of the land, as applicable.

To the extent that the land and buildings of a school converting to academy status are either leased by, or transferred from, the Council, or school governing body, the Property, Plant and Equipment is removed from the Council's Balance Sheet, and a loss on disposal is reported in the Comprehensive Income and Expenditure Statement (as a component of 'Other Operating Expenditure').

## 40. Events after the Balance Sheet Date

The Statement of Accounts was certified by the Executive Director, Corporate and Customer Services on **30th July 2018**. Events taking place after this date were not reflected in the financial statements or notes.

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

These statements (*the purposes of which are explained on page 30*), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages, as detailed below.

| Contents   | Page |
|--|------|
| Group Comprehensive Income and Expenditure Statement | 130  |
| Group Movement in Reserves Statement                 | 131  |
| Group Balance Sheet                                  | 132  |
| Group Cash Flow Statement                            | 134  |
| Notes to the Group Accounts                          | 135  |

# Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2018

| 2016/17           |                   |              |                 | 2017/18           |                   |              |                 |
|-------------------|-------------------|--------------|-----------------|-------------------|-------------------|--------------|-----------------|
| Gross expenditure | Government grants | Other Income | Net Expenditure | Gross expenditure | Government grants | Other income | Net expenditure |
| £000              | £000              | £000         | £000            | £000              | £000              | £000         | £000            |
| 127,686           | (9,904)           | (2,598)      | 115,184         | 138,920           | (11,678)          | (6,717)      | 120,525         |
| 32,019            | (90)              | (6,815)      | 25,114          | 29,133            | (326)             | (6,497)      | 22,310          |
| 14,694            | -                 | (1,345)      | 13,349          | 11,796            | (2,519)           | (1,429)      | 7,848           |
|                   |                   |              |                 |                   |                   |              |                 |
| 604,700           | (556,446)         | (44,944)     | 3,310           | 581,423           | (550,668)         | (38,987)     | (8,232)         |
| 158,903           | (42,477)          | (23,479)     | 92,947          | 203,580           | (46,171)          | (39,142)     | 118,267         |
| 88,466            | (211)             | (8,190)      | 80,065          | 95,527            | (1,093)           | (8,269)      | 86,165          |
| 636,947           | (69,727)          | (130,351)    | 436,869         | 648,679           | (87,551)          | (145,038)    | 416,090         |
| 84,416            | (1,760)           | (16,379)     | 66,277          | 85,154            | (16,342)          | (14,887)     | 53,925          |
| 5,903             | (196)             | (1,165)      | 4,542           | 6,421             | (145)             | (1,304)      | 4,972           |
| (6,591)           | (42)              | (295)        | (6,928)         | (945)             | (170)             | (559)        | (1,674)         |
| 17,793            | (297)             | (844)        | 16,652          | 15,557            | (275)             | (2,433)      | 12,849          |
|                   |                   |              |                 |                   |                   |              |                 |
| 1,928             | -                 | -            | 1,928           | 2,408             | -                 | -            | 2,408           |
| 85,148            | -                 | -            | 85,148          | 98,649            | -                 | -            | 98,649          |
| 13,444            | -                 | -            | 13,444          | 11,546            | -                 | -            | 11,546          |
| 1,865,456         | (681,150)         | (236,405)    | 947,901         | 1,927,848         | (716,938)         | (265,262)    | 945,648         |
|                   |                   |              |                 |                   |                   |              |                 |
| 169,971           | -                 | -            | 169,971         | 115,786           | -                 | -            | 115,786         |
| 123,910           | -                 | (68,097)     | 55,813          | 125,914           | -                 | (58,781)     | 67,133          |
| -                 | (417,535)         | (626,037)    | (1,043,572)     | -                 | (340,152)         | (649,638)    | (989,790)       |
| 2,159,337         | (1,098,685)       | (930,539)    | 130,113         | 2,169,548         | (1,057,090)       | (973,681)    | 138,777         |
|                   |                   |              |                 |                   |                   |              |                 |
|                   |                   |              | -               |                   |                   |              | -               |
|                   |                   |              | 130,113         |                   |                   |              | 138,777         |
|                   |                   |              | (138,875)       |                   |                   |              | (100,136)       |
|                   |                   |              | 341             |                   |                   |              | -               |
|                   |                   |              | 408             |                   |                   |              | (492)           |
|                   |                   |              | 315,670         |                   |                   |              | (248,663)       |
|                   |                   |              | 177,544         |                   |                   |              | (349,291)       |
|                   |                   |              | 307,657         |                   |                   |              | (210,514)       |

## Group Movement in Reserves Statement

For the years ended 31st March 2017 and 31st March 2018

|   | 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           | £000                     | £000                                      |
| <b>Balance at 31 March 2016</b>                                       | (285,442)                  | (79,731)             | (1,095)  | (660)  | -                               | (2,791)                          | (369,719)             | (925,517)               | (1,295,236)    | (1,293,481)              | (1,755)                                   |
| <b>Movement in Reserves during 2016/17</b>                            |                            |                      |  |  |                                 |                                  |                       |                         |                |                          |   |
| Total Comprehensive Expenditure and Income                            | -                          | 131,854              | (1,741)  | 818  | -                               | -                                | 130,931               | 176,726                 | 307,657        | 308,580                  | (923)                                     |
| Adjustments between accounting basis and funding under regulations    | -                          | (101,504)            | 1,791  | (1,791)  | -                               | 56                               | (101,448)             | 101,448                 | -              | -                        | -   |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b> | -                          | 30,350               | 50   | (973)  | -                               | 56                               | 29,483                | 278,174                 | 307,657        | 308,580                  | (923)                                     |
| Transfers from Earmarked Reserves                                     | 5,918                      | (5,918)              | -  | -  | -                               | -                                | -                     | -                       | -              | -                        | -   |
| <b>(Increase) / decrease in 2016/17</b>                               | 5,918                      | 24,432               | 50   | (973)  | -                               | 56                               | 29,483                | 278,174                 | 307,657        | 308,580                  | (923)                                     |
| <b>Balance at 31 March 2017</b>                                       | (279,524)                  | (55,299)             | (1,045)  | (1,633)  | -                               | (2,735)                          | (340,236)             | (647,343)               | (987,579)      | (984,901)                | (2,678)                                   |
| <b>Movement in Reserves during 2017/18</b>                            |                            |                      |  |  |                                 |                                  |                       |                         |                |                          |   |
| Total Comprehensive Expenditure and Income                            | -                          | 138,635              | 142  | (2,292)  | -                               | -                                | 136,485               | (346,999)               | (210,514)      | (208,364)                | (2,150)                                   |
| Adjustments between accounting basis and funding under regulations    | -                          | (144,021)            | (999)  | 999  | -                               | 178                              | (143,843)             | 143,843                 | -              | -                        | -   |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b> | -                          | (5,386)              | (857)  | (1,293)  | -                               | 178                              | (7,358)               | (203,156)               | (210,514)      | (208,364)                | (2,150)                                   |
| Transfers to Earmarked Reserves                                       | (5,473)                    | 5,473                | -  | -  | -                               | -                                | -                     | -                       | -              | -                        | -   |
| <b>(Increase) / decrease in 2017/18</b>                               | (5,473)                    | 87                   | (857)  | (1,293)  | -                               | 178                              | (7,358)               | (203,156)               | (210,514)      | (208,364)                | (2,150)                                   |
| <b>Balance at 31 March 2018</b>                                       | (284,997)                  | (55,212)             | (1,902)  | (2,926)  | -                               | (2,557)                          | (347,594)             | (850,499)               | (1,198,093)    | (1,193,265)              | (4,828)                                   |

# Statement of Accounts - Group Accounts

## Group Balance Sheet as at 31st March 2018

| 31 March 2017 | Note |  | 31 March 2018 |             |
|---------------|------|--|---------------|-------------|
| £000          |      |  | £000          | £000        |
|               |      | <b>Property, Plant and Equipment</b>       |               |             |
|               |      | <b>Operational assets</b>                  |               |             |
| 1,600,880     |      | Land and buildings                         | 1,571,218     |             |
| 24,893        |      | Vehicles, plant and equipment              | 16,425        |             |
| 991,596       |      | Infrastructure                             | 1,075,953     |             |
| 2,347         |      | Community assets                           | 3,117         |             |
|               |      | <b>Non operational assets</b>              |               |             |
| 114,905       |      | Assets under construction                  | 135,115       |             |
| 34,299        |      | Surplus assets held pending disposal       | 45,003        |             |
|               |      |  |               |             |
| 2,768,920     |      | <b>Total Property, Plant and Equipment</b> | 2,846,831     |             |
| 14,505        |      | Heritage assets                            | 14,501        |             |
| 12,511        |      | Investment property                        | 39,920        |             |
| 11,946        |      | Intangible assets                          | 9,523         |             |
| 12,128        |      | Long term investments                      | 12,746        |             |
| 17,342        |      | Long term debtors                          | 17,292        |             |
| 2,837,352     |      | <b>Long term assets</b>                    |               | 2,940,813   |
| 230,700       |      | Short term investments                     | 211,561       |             |
| 1,972         |      | Inventories                                | 8,038         |             |
| 149,396       | 5    | Short term debtors                         | 164,244       |             |
| 71,270        |      | Cash and cash equivalents                  | 40,573        |             |
| 9,497         |      | Assets held for sale                       | 3,795         |             |
| 373           |      | Investment Properties held for sale        | -             |             |
| 463,208       |      | <b>Current assets</b>                      |               | 428,211     |
| (8,227)       |      | Short-term borrowing                       | (7,382)       |             |
| (250,291)     | 5    | Creditors                                  | (295,301)     |             |
| (9,315)       |      | Revenue grant receipts in advance          | (13,507)      |             |
| (57,268)      |      | Capital grant receipts in advance          | (54,528)      |             |
| (14,264)      |      | Provisions (current)                       | (12,908)      |             |
| (6,285)       |      | Finance lease obligations - short term     | (8,028)       |             |
| (345,650)     |      | <b>Current liabilities</b>                 |               | (391,654)   |
| (112)         |      | Long term creditors                        | (124)         |             |
| (24,278)      |      | Provisions (non-current)                   | (30,240)      |             |
| (511,758)     |      | Long term borrowing                        | (514,914)     |             |
|               |      | Other long term liabilities                |               |             |
| (147,424)     |      | Finance lease obligations - long term      | (138,945)     |             |
| (13,053)      |      | Deferred credits                           | (12,303)      |             |
| (1,270,706)   | 6    | Net Pensions liability                     | (1,082,751)   |             |
| (1,967,331)   |      | <b>Long term liabilities</b>               |               | (1,779,277) |
| 987,579       |      | <b>Net Assets</b>                          |               | 1,198,093   |

# Statement of Accounts - Group Accounts

## Group Balance Sheet as at 31st March 2018

| 31 March 2017    | Note |  | 31 March 2018 |                    |
|------------------|------|--|---------------|--------------------|
| £000             |      |  | £000          | £000               |
|                  |      | <b>Usable reserves</b>                               |               |                    |
| (279,524)        |      | Earmarked reserves                                   | (284,997)     |                    |
| (55,299)         |      | General Fund Balance                                 | (55,212)      |                    |
| (1,045)          |      | Profit and Loss reserve                              | (1,902)       |                    |
| (1,633)          | 6    | Pension reserve                                      | (2,926)       |                    |
| -                |      | Usable capital receipts reserve                      | -             |                    |
| (2,735)          |      | Capital grants unapplied                             | (2,557)       |                    |
| <u>(340,236)</u> |      |  |               | (347,594)          |
|                  |      | <b>Unusable reserves</b>                             |               |                    |
| (578,469)        |      | Revaluation reserve                                  | (616,624)     |                    |
| (1,340,533)      |      | Capital Adjustments Account                          | (1,316,405)   |                    |
| 3,101            |      | Financial Instruments Adjustment Account             | 3,061         |                    |
| (369)            |      | Available for Sale Financial Instruments Reserve     | (861)         |                    |
| 1,272,339        | 6    | Pension reserve                                      | 1,085,677     |                    |
| (2,492)          |      | Deferred capital receipts                            | (2,535)       |                    |
| (17,426)         |      | Collection Fund Adjustment Account                   | (15,696)      |                    |
| 16,506           |      | Accumulating Compensated Absences Adjustment Account | 12,884        |                    |
| <u>(647,343)</u> |      |  |               | (850,499)          |
| <u>(987,579)</u> |      | <b>Total Reserves</b>                                |               | <u>(1,198,093)</u> |

# Statement of Accounts - Group Accounts

## Group Cash Flow Statement

For the year ended 31st March 2018

| 2016/17<br>£000 | Notes |   | 2017/18<br>£000 |
|-----------------|-------|---|-----------------|
| (19,329)        | 7     | Operating activities  | (82,367)        |
| 160,789         | ↓     | Investing activities  | 106,816         |
| (153,836)       |       | Financing activities  | 6,248           |
| <u>(12,376)</u> |       | <b>Net (increase) / decrease in cash and cash equivalents</b> | <u>30,697</u>   |
| 58,894          |       | Cash and cash equivalents at 1st April                        | 71,270          |
| 71,270          |       | Cash and cash equivalents at 31st March                       | 40,573          |



# Statement of Accounts - Group Accounts

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## 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 the acquisition accounting basis of consolidation.

None of the 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;
- Consolidated the financial statements of the company with those of the Council on a line by line basis; and
- Eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

### 3. Group Expenditure and Funding Analysis

| 2016/17   |  |   | 2017/18                                    |  |   |
|---|--|---|--|--|---|
| Net expenditure chargeable to General Fund                | Adjustments between the Funding and Accounting basis | Net expenditure in the Comprehensive Income and Expenditure Statement | Net expenditure chargeable to General Fund | Adjustments between the Funding and Accounting basis | Net expenditure in the Comprehensive Income and Expenditure Statement |
| £000  | £000   | £000  | £000                                       | £000   | £000  |
| 114,925   | 259  | 115,184   | 113,232                                    | 7,293  | 120,525   |
| 20,656  | 4,458  | 25,114  | 19,576                                     | 2,734  | 22,310  |
| 7,752   | 5,597  | 13,349  | 7,640                                      | 208  | 7,848   |
| 4,824   | (1,514)  | 3,310   | 6,798                                      | (15,030)   | (8,232)   |
| 78,620  | 14,327   | 92,947  | 73,457                                     | 44,810   | 118,267   |
| 76,777  | 3,288  | 80,065  | 78,493                                     | 7,672  | 86,165  |
| 433,181   | 3,688  | 436,869   | 409,258                                    | 6,832  | 416,090   |
| 43,499  | 22,778   | 66,277  | 41,367                                     | 12,558   | 53,925  |
| 3,375   | 1,167  | 4,542   | 3,595                                      | 1,377  | 4,972   |
| 7,911   | (14,839)   | (6,928)   | 9,911                                      | (11,585)   | (1,674)   |
| 18,712  | (2,060)  | 16,652  | 14,749                                     | (1,900)  | 12,849  |
| 1,843   | 85   | 1,928   | 1,932                                      | 476  | 2,408   |
| 71,669  | 13,479   | 85,148  | 77,622                                     | 21,027   | 98,649  |
| 13,249  | 195  | 13,444  | 10,330                                     | 1,216  | 11,546  |
| 896,993   | 50,908   | 947,901   | 867,960                                    | 77,688   | 945,648   |
| (866,593)   | 48,805   | (817,788)   | (874,203)                                  | 67,332   | (806,871)   |
| 30,400  | 99,713   | 130,113   | (6,243)                                    | 145,020  | 138,777   |
| <b>General Fund Balance &amp; Profit and Loss Reserve</b> |  |   |  |  |   |
| (80,826)  |  |   | (56,344)                                   |  |   |
| 30,400  |  |   | (6,243)                                    |  |   |
| (5,918)   |  |   | 5,473                                      |  |   |
| (56,344)  |  |   | (57,114)                                   |  |   |

## 4. Note to the Group Expenditure and Funding Analysis

| 2016/17  | Adjustments<br>for capital<br>purposes | Net change for<br>Pension<br>Adjustments | Other adjustments<br>between<br>funding and<br>accounting | Other<br>differences | Adjustments<br>between the<br>Funding and<br>Accounting basis |
|--|--|--|---|----------------------|---|
|  | £000                                   | £000                                     | £000  | £000                 | £000  |
| Children and Families  | 576                                    | (346)                                    | 29  | -                    | 259   |
| Culture, Communities and Customer  | 4,131                                  | 325                                      | 2   | -                    | 4,458   |
| Economic Growth, Skills, Infrastructure and Digital Economy  | 5,523                                  | 79                                       | (5)   | -                    | 5,597   |
| Education  |  |  |   |                      |   |
| Dedicated Schools Budget   | (6,283)                                | -  | 6,022   | (1,253)              | (1,514)   |
| Non Dedicated Schools Budget   | 21,897                                 | 1,994                                    | (37)  | (9,527)              | 14,327  |
| Environment and Waste  | 3,183                                  | 116                                      | (3)   | (8)                  | 3,288   |
| Health and Adult Social Care   | 2,867                                  | 825                                      | (4)   | -                    | 3,688   |
| Highways   | 32,241                                 | 213                                      | (24)  | (9,652)              | 22,778  |
| Housing, Planning and Property   | 1,083                                  | 95                                       | (11)  | -                    | 1,167   |
| Leader   | (4,064)                                | (15,777)                                 | (7)   | 5,009                | (14,839)  |
| Resources  | -                                      | (62)                                     | -   | (1,998)              | (2,060)   |
| Recharged Strategic Support Services   |  |  |   |                      |   |
| Culture, Communities and Customer  | -                                      | 94                                       | (9)   | -                    | 85  |
| Resources  | 12,860                                 | 953                                      | (63)  | (271)                | 13,479  |
| Leader   | -                                      | 249                                      | (54)  | -                    | 195   |
| <b>Cost of services - continuing operations</b>  | <b>74,014</b>                          | <b>(11,242)</b>                          | <b>5,836</b>  | <b>(17,700)</b>      | <b>50,908</b>   |
| Other income and expenditure not charged to services   | 884                                    | 32,740                                   | (2,519)   | 17,700               | 48,805  |
| <b>Difference between General Fund Surplus or Deficit<br/>and Comprehensive Income and Expenditure</b> |  |  |   |                      |   |
| <b>Statement surplus or deficit on the Provision of Services</b>                                       | <b>74,898</b>                          | <b>21,498</b>                            | <b>3,317</b>  | <b>-</b>             | <b>99,713</b>   |

2017/18

|  | Adjustments<br>for capital<br>purposes | Net change for<br>Pension<br>Adjustments | Other adjustments<br>between<br>funding and<br>accounting | Other<br>differences | Adjustments<br>between the<br>Funding and<br>Accounting basis |
|--|--|--|---|----------------------|---|
|  | £000                                   | £000                                     | £000  | £000                 | £000  |
| Children and Families  | 644                                    | 6,659                                    | (10)  | -                    | 7,293   |
| Culture, Communities and Customer  | 1,431                                  | 1,331                                    | (28)  | -                    | 2,734   |
| Economic Growth, Skills, Infrastructure and Digital Economy  | (275)                                  | 493                                      | (10)  | -                    | 208   |
| Education and Lifelong Learning  |  |  |   |                      |   |
| Dedicated Schools Budget   | -                                      | -  | (3,574)   | (11,456)             | (15,030)  |
| Non Dedicated Schools Budget   | 38,580                                 | 15,514                                   | 40  | (9,324)              | 44,810  |
| Environment and Waste  | 7,143                                  | 531                                      | 8   | (10)                 | 7,672   |
| Health and Adult Social Care   | 2,425                                  | 4,372                                    | 35  | -                    | 6,832   |
| Highways   | 21,379                                 | 890                                      | (7)   | (9,704)              | 12,558  |
| Housing, Planning and Property   | 968                                    | 406                                      | 3   | -                    | 1,377   |
| Leader   | 1,293                                  | (11,202)                                 | (2)   | (1,674)              | (11,585)  |
| Resources  | 2                                      | 20                                       | 12  | (1,934)              | (1,900)   |
| Recharged Strategic Support Services   |  |  |   |                      |   |
| Culture, Communities and Customer  | -                                      | 469                                      | 7   | -                    | 476   |
| Resources  | 15,819                                 | 5,324                                    | 14  | (130)                | 21,027  |
| Leader   | -                                      | 1,236                                    | (20)  | -                    | 1,216   |
| <b>Cost of services - continuing operations</b>  | <b>89,409</b>                          | <b>26,043</b>                            | <b>(3,532)</b>  | <b>(34,232)</b>      | <b>77,688</b>   |
| Other income and expenditure not charged to services   | (3,165)                                | 34,665                                   | 1,600   | 34,232               | 67,332  |
| <b>Difference between General Fund Surplus or Deficit<br/>and Comprehensive Income and Expenditure</b> |  |  |   |                      |   |
| <b>Statement surplus or deficit on the Provision of Services</b>                                       | <b>86,244</b>                          | <b>60,708</b>                            | <b>(1,932)</b>  | <b>-</b>             | <b>145,020</b>  |

# Statement of Accounts - Group Accounts

## 5. Debtors and creditors

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

## 6. Defined Benefit Pension Schemes

Note 32 of the Council's single entity accounts provides an explanation of 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 Local Government Pension Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2017/18 in relation to participation in the Local Government Pension Scheme:

| 2016/17  |                    |               | 2017/18         |                    |               |
|--|--------------------|---------------|-----------------|--------------------|---------------|
| Council<br>£000  | Subsidiary<br>£000 | Group<br>£000 | Council<br>£000 | Subsidiary<br>£000 | Group<br>£000 |
| <b>Comprehensive Income and Expenditure Statement</b>                      |                    |               |                 |                    |               |
| <b>Cost of Services</b>  |                    |               |                 |                    |               |
| 63,072   | 1,137              | 64,209        | 92,567          | 1,588              | 94,155        |
| 498  | -                  | 498           | 2,674           | 20                 | 2,694         |
| (16,304)   | (2,145)            | (18,449)      | (14,132)        | -                  | (14,132)      |
| 47,266   | (1,008)            | 46,258        | 81,109          | 1,608              | 82,717        |
| <b>Financing and Investment Income and Expenditure</b>                     |                    |               |                 |                    |               |
| 31,593   | (224)              | 31,369        | 33,304          | (106)              | 33,198        |
| 31,593   | (224)              | 31,369        | 33,304          | (106)              | 33,198        |
| 78,859   | (1,232)            | 77,627        | 114,413         | 1,502              | 115,915       |
| <b>Total charge to the Surplus / Deficit on Provision of Services</b>      |                    |               |                 |                    |               |
| <b>Re-measurement of the net pensions liability</b>                        |                    |               |                 |                    |               |
| (270,838)  | (9,833)            | (280,671)     | (93,100)        | (4,447)            | (97,547)      |
| 648,705  | 14,424             | 663,129       | (152,334)       | 2,618              | (149,716)     |
| (51,230)   | (410)              | (51,640)      | -               | -                  | -             |
| 956  | (2,751)            | (1,795)       | -               | -                  | -             |
| (8,875)  | (408)              | (9,283)       | -               | -                  | -             |
| -  | (204)              | (204)         | -               | (463)              | (463)         |
| 318,718  | 818                | 319,536       | (245,434)       | (2,292)            | (247,726)     |
| 397,577  | (414)              | 397,163       | (131,021)       | (790)              | (131,811)     |
| <b>Total charged to the Comprehensive Income and Expenditure Statement</b> |                    |               |                 |                    |               |
| <b>Movement on the Authority's General Fund Balance</b>                    |                    |               |                 |                    |               |
| (78,859)   | 1,232              | (77,627)      | (114,413)       | (1,502)            | (115,915)     |
| 53,654   | 559                | 54,213        | 52,427          | 503                | 52,930        |
| (25,205)   | 1,791              | (23,414)      | (61,986)        | (999)              | (62,985)      |

## Statement of Accounts - Group Accounts

The amount included within the Group Balance Sheet in respect of its Local Government Pension Scheme defined benefit plan is:

| 2016/17         |                    |               |  | 2017/18         |                    |               |
|-----------------|--------------------|---------------|--|-----------------|--------------------|---------------|
| Council<br>£000 | Subsidiary<br>£000 | Total<br>£000 |  | Council<br>£000 | Subsidiary<br>£000 | Total<br>£000 |
| 3,288,495       | 67,235             | 3,355,730     | Present value of the defined benefit obligation        | 3,224,588       | 72,528             | 3,297,116     |
| (2,051,484)     | (71,724)           | (2,123,208)   | Fair value of plan assets                              | (2,171,025)     | (77,847)           | (2,248,872)   |
| 1,237,011       | (4,489)            | 1,232,522     | Sub total  | 1,053,563       | (5,319)            | 1,048,244     |
| -               | 2,856              | 2,856         | Impact of asset ceiling                                | -               | 2,393              | 2,393         |
| 1,237,011       | (1,633)            | 1,235,378     | Net liability arising from defined benefit obligations | 1,053,563       | (2,926)            | 1,050,637     |

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

| 2016/17         |                    |               |  | 2017/18         |                    |               |
|-----------------|--------------------|---------------|--|-----------------|--------------------|---------------|
| Council<br>£000 | Subsidiary<br>£000 | Group<br>£000 |  | Council<br>£000 | Subsidiary<br>£000 | Group<br>£000 |
| 2,627,336       | 54,711             | 2,682,047     | Balance as at 1 April  | 3,288,495       | 67,235             | 3,355,730     |
| 63,072          | 1,137              | 64,209        | Current service cost   | 92,567          | 1,588              | 94,155        |
| 92,868          | 1,956              | 94,824        | Interest Cost  | 87,492          | 1,863              | 89,355        |
| 16,622          | 283                | 16,905        | Contributions by scheme participants                                       | 16,132          | 264                | 16,396        |
|                 |                    |               | Actuarial (gains) / losses   |                 |                    |               |
| (51,230)        | (410)              | (51,640)      | Actuarial (gains) / losses arising from changes in demographic assumptions | -               | -                  | -             |
| 648,705         | 14,424             | 663,129       | Actuarial (gains) / losses arising from changes in financial assumptions   | (152,334)       | 2,618              | (149,716)     |
| -               | (2,751)            | (2,751)       | Experience loss ( gain) on defined benefit obligation                      | -               | -                  | -             |
| 956             | 3,910              | 4,866         | Other  | -               | -                  | -             |
| 498             | -                  | 498           | Past service costs   | 2,674           | 20                 | 2,694         |
| (85,494)        | (1,165)            | (86,659)      | Benefits paid  | (86,958)        | (1,060)            | (88,018)      |
| (24,838)        | (4,860)            | (29,698)      | Liabilities extinguished on settlements                                    | (23,480)        | -                  | (23,480)      |
| 3,288,495       | 67,235             | 3,355,730     | Balance as at 31 March   | 3,224,588       | 72,528             | 3,297,116     |

# Statement of Accounts - Group Accounts

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

| 2016/17         |                    |               |   | 2017/18         |                    |               |
|-----------------|--------------------|---------------|---|-----------------|--------------------|---------------|
| Council<br>£000 | Subsidiary<br>£000 | Group<br>£000 |   | Council<br>£000 | Subsidiary<br>£000 | Group<br>£000 |
| 1,734,248       | 58,431             | 1,792,679     | Balance as at 1 April   | 2,051,484       | 71,724             | 2,123,208     |
| 61,275          | 2,180              | 63,455        | Interest income   | 54,188          | 1,969              | 56,157        |
|                 |                    |               | Remeasurement gain / (loss)                                       |                 |                    |               |
| 270,838         | 9,833              | 280,671       | Return on plan assets (excl. amount incl in net interest expense) | 93,100          | 4,447              | 97,547        |
| 8,875           | 4,318              | 13,193        | Other   | -               | -                  | -             |
| 53,654          | 559                | 54,213        | Contributions by Employer   | 52,427          | 503                | 52,930        |
| 16,622          | 283                | 16,905        | Contributions by scheme participants                              | 16,132          | 264                | 16,396        |
| (85,494)        | (1,165)            | (86,659)      | Benefits paid   | (86,958)        | (1,060)            | (88,018)      |
| (8,534)         | (2,715)            | (11,249)      | Settlements   | (9,348)         | -                  | (9,348)       |
| 2,051,484       | 71,724             | 2,123,208     | Balance as at 31 March  | 2,171,025       | 77,847             | 2,248,872     |

The Local Government Pension Scheme assets comprised:

| 31 March 2017 |        |                           | 31 March 2018 |        |  |
|---------------|--------|---------------------------|---------------|--------|--|
| £000          | %      |                           | £000          | %      |  |
| 1,450,481     | 68.0%  | Equities                  | 1,467,206     | 65.3%  |  |
| 80,102        | 4.0%   | Gilts                     | 149,276       | 6.7%   |  |
| 87,009        | 4.0%   | Other bonds               | 85,641        | 3.7%   |  |
| 206,455       | 10.0%  | Property                  | 213,050       | 9.5%   |  |
| 63,908        | 3.0%   | Cash and cash equivalents | 77,533        | 3.4%   |  |
| 141,201       | 7.0%   | Alternative Assets        | 165,248       | 7.4%   |  |
| 94,052        | 4.0%   | Other managed funds       | 90,918        | 4.1%   |  |
| 2,123,208     | 100.0% | Total assets              | 2,248,872     | 100.1% |  |

Note 32.4 of the Council's 'single entity' accounts, which commences on page 113, set out the significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period. It assumes for each change that the assumption analysed changes, while all other assumptions remain constant.

## Statement of Accounts - Group Accounts

| Local Government Pension Scheme                                 | Effect of change in assumptions |             |                 |
|---|---------------------------------|-------------|-----------------|
|   | £000                            | £000        | £000            |
| <b>Adjustment to discount rate</b>                              | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,209,695                       | 3,297,116   | 3,328,225       |
| Projected Service Cost  | 84,853                          | 86,954      | 89,108          |
| <b>Adjustment to long term salary increase</b>                  | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,273,273                       | 3,297,116   | 3,262,647       |
| Projected Service Cost  | 86,954                          | 86,954      | 86,954          |
| <b>Adjustment to pension increases and deferred revaluation</b> | <b>+ 0.1%</b>                   | <b>0.0%</b> | <b>- 0.1%</b>   |
| Present value of total obligation                               | 3,323,437                       | 3,297,116   | 3,211,343       |
| Projected Service Cost  | 89,110                          | 86,954      | 84,848          |
| <b>Adjustment to mortality age rating assumption</b>            | <b>+ 1 year</b>                 | <b>None</b> | <b>- 1 year</b> |
| Present value of total obligation                               | 3,392,636                       | 3,297,116   | 3,148,845       |
| Projected Service Cost  | 89,727                          | 86,954      | 84,266          |



# Statement of Accounts - Group Accounts

## 7. Cash Flow

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

| 2016/17<br>£000                                       |  | 2017/18<br>£000      £000 |                    |
|---|--|---------------------------|--------------------|
| <b>Cash flows from operating activities</b>           |  |                           |                    |
| <b>Cash inflows</b>                                   |  |                           |                    |
| (623,555)   | Taxation   | (651,368)                 |                    |
| (951,746)   | Grants   | (936,582)                 |                    |
| (250,142)   | Sales of goods and rendering of services   | (280,966)                 |                    |
| (3,032)   | Interest received  | (3,014)                   |                    |
| <u>(1,828,475)</u>                                    |  |                           | <u>(1,871,930)</u> |
| <b>Cash outflows</b>                                  |  |                           |                    |
| 509,084   | Cash paid to and on behalf of employees  | 490,155                   |                    |
| 36,463  | Interest paid  | 38,237                    |                    |
| 1,139,916   | Cash paid to suppliers of goods and services   | 1,144,378                 |                    |
| 123,683   | Other payments for operating activities  | 116,793                   |                    |
| <u>1,809,146</u>                                      |  |                           | <u>1,789,563</u>   |
| <u>(19,329)</u>                                       | <b>Net inflow of cash from operating activities</b>  |                           | <u>(82,367)</u>    |
| <b>Cash flows from investing activities</b>           |  |                           |                    |
| <b>Cash inflows</b>                                   |  |                           |                    |
| (28,235)  | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (8,424)                   |                    |
| -   | Proceeds from short and long term investments  | (20,443)                  |                    |
| (128,925)   | Other receipts from investing activities   | (125,072)                 |                    |
| <u>(157,160)</u>                                      |  |                           | <u>(153,939)</u>   |
| <b>Cash outflows</b>                                  |  |                           |                    |
| 196,733   | Purchase of property, plant and equipment, investment property and intangible assets               | 211,730                   |                    |
| 82,702  | Purchase of short and long term investments  | 134                       |                    |
| 38,514  | Other payments for investing activities  | 48,891                    |                    |
| <u>317,949</u>  |  |                           | <u>260,755</u>     |
| <u>160,789</u>  | <b>Net outflow of cash from investing activities</b>   |                           | <u>106,816</u>     |
| <b>Cash flows generated from financing activities</b> |  |                           |                    |
| <b>Cash inflows</b>                                   |  |                           |                    |
| (163,000)   | Cash receipts of short and long term borrowing   | (4,371)                   |                    |
| (228)   | Other receipts from financing activities   | -                         |                    |
| <u>(163,228)</u>                                      |  |                           | <u>(4,371)</u>     |
| <b>Cash outflows</b>                                  |  |                           |                    |
| 6,794   | Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)     | 7,347                     |                    |
| 2,598   | Repayment of short and long term borrowing   | 3,272                     |                    |
| <u>9,392</u>  |  |                           | <u>10,619</u>      |
| <u>(153,836)</u>                                      | <b>Net (inflow) / outflow of cash from financing activities</b>                                    |                           | <u>6,248</u>       |
| <u>(12,376)</u>                                       | <b>Net (increase) / decrease in cash and cash equivalents</b>                                      |                           | <u>30,697</u>      |

# Statement of Accounts - Pension Fund Accounts

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## Introduction

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

|   | Page       |
|---|------------|
| <b>Fund Account</b>                       | <b>145</b> |
| <b>Net Assets Statement</b>               | <b>146</b> |
| <b>Notes to the Pension Fund Accounts</b> | <b>147</b> |

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Fund Account for the year ended 31st March 2018

| 2016/17<br>£000    | Note |   | 2017/18   |                    |
|--------------------|------|---|-----------|--------------------|
|                    |      |   | £000      | £000               |
|                    |      | <b>Dealing with members and others directly involved in the Fund</b>                    |           |                    |
|                    |      | <b>Income</b>   |           |                    |
|                    |      | Contributions receivable  |           |                    |
| (54,497)           | 9    | Member contributions  | (56,186)  |                    |
| (169,859)          | 9    | Employers' contributions  | (219,932) |                    |
| (12,465)           | 9    | Transfers in from other Pension Funds   | (10,877)  |                    |
| (1,720)            |      | Other income  | (2,155)   |                    |
| <u>(238,541)</u>   |      | <b>Total income</b>   |           | (289,150)          |
|                    |      | <b>Expenditure</b>  |           |                    |
|                    |      | Benefits payable  |           |                    |
| 183,131            | 9    | Pensions  | 189,425   |                    |
| 36,481             |      | Commutation of pensions & lump sum retirement benefits                                  | 35,072    |                    |
| 5,693              |      | Lump sum death benefits   | 5,526     |                    |
|                    |      | Payments to and on account of Leavers   |           |                    |
| 680                |      | Refunds of contributions  | 655       |                    |
| 378                |      | State scheme premiums   | 114       |                    |
| 11,890             | 9    | Transfers out to other schemes  | 11,497    |                    |
| 36,645             | 11   | Management expenses   | 44,545    |                    |
| <u>274,898</u>     |      | <b>Total expenditure</b>  |           | 286,834            |
| 36,357             |      | <b>Net additions from dealings with members</b>   |           | (2,316)            |
|                    |      | <b>Returns on investments</b>   |           |                    |
| (85,320)           | 10   | Investment income   | (96,614)  |                    |
| (947,557)          | 12   | Profit and losses on disposal of investments and changes in market value of investments | (392,865) |                    |
| 2,571              | 15   | Taxes on income   | 3,965     |                    |
| <u>(1,030,306)</u> |      | <b>Net returns on investments</b>   |           | (485,514)          |
| (993,949)          |      | <b>Net (increase)/decrease in the assets available for benefits during the year</b>     |           | (487,830)          |
| (5,037,104)        |      | <b>Net assets as at 1 April</b>   |           | (6,031,053)        |
| <u>(6,031,053)</u> |      | <b>Net assets as at 31 March</b>  |           | <u>(6,518,883)</u> |

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Net Assets Statement as at 31st March 2018

| 31 March 2017<br>£000 | Note |  | 31 March 2018<br>£000 | £000             |
|-----------------------|------|--|-----------------------|------------------|
|                       | 12   | <b>Investments at market value</b>                         |                       |                  |
|                       |      | Investment assets  |                       |                  |
| 241,885               |      | Fixed interest securities                                  | 242,167               |                  |
| 3,797,199             |      | Equities   | 3,955,138             |                  |
| 252,209               |      | Index linked securities                                    | 433,664               |                  |
| 366,185               |      | Property   | 393,885               |                  |
| 211,841               |      | Property unit trusts                                       | 224,468               |                  |
| 297,552               |      | Private Equity   | 299,451               |                  |
| 191,819               |      | Infrastructure   | 297,756               |                  |
| 101,983               |      | Timber   | 109,869               |                  |
| 101,367               |      | Private Debt   | 106,570               |                  |
| 261,836               |      | Other managed funds  | 264,399               |                  |
| 20,544                |      | Derivative contracts                                       | 18,489                |                  |
| 156,226               |      | Cash/deposits  | 149,108               |                  |
| 9,084                 |      | Other investment balances                                  | 36,703                |                  |
| 6,009,730             |      |  |                       | 6,531,667        |
|                       |      | Investment liabilities                                     |                       |                  |
| (21,941)              |      | Derivative contracts                                       | (46,059)              |                  |
| (2,977)               |      | Other investment balances                                  | (5,095)               |                  |
| (24,918)              |      |  |                       | (51,154)         |
| 5,984,812             |      | <b>Total Investments</b>                                   |                       | <b>6,480,513</b> |
|                       |      | <b>Long term assets</b>                                    |                       |                  |
| 4,294                 |      | Contributions due from employers                           |                       | 2,869            |
|                       | 14   | <b>Current assets and liabilities</b>                      |                       |                  |
|                       |      | Current Assets   |                       |                  |
| 35,592                |      | Cash   |                       | 23,729           |
| 17,257                |      | Contributions due from employers and other current assets  |                       | 19,944           |
| 6,041,955             |      |  |                       | 6,527,055        |
|                       |      | Current liabilities  |                       |                  |
| (10,902)              |      | Unpaid benefits and other current liabilities              |                       | (8,172)          |
| 6,031,053             |      | <b>Net assets of the scheme available to fund benefits</b> |                       | <b>6,518,883</b> |

# Statement of Accounts - Pension Fund Accounts

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## Notes to the Pension Fund Accounts

### 1. Background

#### 1.1 General description of the Fund

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund ("the Fund").

The Essex Pension Fund is part of the Local Government Pension Scheme and is administered by Essex County Council ("the Administering Authority") which is the reporting entity for this pension fund.

Established by the Local Government Superannuation Regulation 1974 the scheme is governed by the Public Service Pensions Act 2013, the Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme (LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It 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. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and 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.

The Council has delegated its pension functions to the Essex Pension Fund Strategy Board (PSB) and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director, Corporate and Customer Services along with the Director for Essex Pension Fund.

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 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 Strategy Board. The Fund's Investment Strategy Statement, formally known as the Statement of Investment Principles, is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website ([www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk)).

# Statement of Accounts - Pension Fund Accounts

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## 1.2 Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Essex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are around **620** active employer organisations within Essex Pension Fund including the County Council itself.

## 1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31st March 2018. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31st March 2016**. Details can be found on the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

## 1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Essex Pension Fund website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

# Statement of Accounts - Pension Fund Accounts

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## 2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 2017/18 (SORP). The Code also incorporates the 2015 Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes'.

The financial statements summarise the Fund's transactions for the financial year ended 31st March 2018 and its position as at 31st March 2018. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits (IAS 26) as at 31st March 2018 using IAS 19 methodology can be found in section 3.3.

The accounts are prepared on a going concern basis.

## 3. Actuarial valuation

The contributions payable for 2017/18 were determined by the 2016 Actuarial Valuation.

### 3.1 Actuarial Valuation 2016

An actuarial valuation of the Essex Pension Fund was carried out as at 31st March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. 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 **£4,993m** (on a smoothed basis) represented **89%** of the Funding Target liabilities of **£5,598m** at the valuation date. The valuation also showed that a primary rate of contribution of **16.3%** of Pensionable Pay per annum was required from employers. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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.

# Statement of Accounts - Pension Fund Accounts

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

The main financial assumptions used were as follows:

| Assumptions                                     | Past and future liabilities<br>Rate per annum   |
|---|---|
| Rate of discount                                | 5.10%   |
| Short term pay increase                         | In line with CPI assumptions for 31st March 2016 to 31 March 2020   |
| Long term pay increase                          | 3.90%   |
| Rate of increase to pensions in payment         | 2.40%   |
| Pension increases on Guaranteed Minimum Pension | Funds will pay limited increases for members that have reached State Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that have reached SPA after this date, we have assumed that funds will be required to pay the entire inflationary increase. |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2020.

## 3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

## 3.3 Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used 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 2016.



# Statement of Accounts - Pension Fund Accounts

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Liabilities are valued using a discount rate based on corporate bond yields.

An estimate of the Fund's future cash flows is made using notional cash flows based on the estimated duration above. These estimated cash flows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2018 is **19 years** which in turn means a discount rate of **2.55%** per annum (2.7% as at 31 March 2017). The value of the Fund's promised retirement benefits as at 31 March 2018 was **£9.447bn** (£9.485bn as at 31 March 2017).

## 4. Accounting policies

### 4.1 Fund Account – revenue recognition

#### 4.1.1 Contribution income

Normal contributions (also referred to as Primary 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.

Employer deficit funding contributions (also referred to as Secondary Contributions) are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid are 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 9 which commences on page 161).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

# Statement of Accounts - Pension Fund Accounts

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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 9 which commences on page 161).

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 Assets 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 15 (page 177) of the accounting notes that accompany these financial statements.

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

This income from fixed interest and index linked securities, cash and short term deposits are 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**

This income is accounted for on an accruals basis. Any amount not received by the end of the financial year is disclosed in the Net Assets 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.

Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

### ▪ **Change in market value of investments**

This 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.

# Statement of Accounts - Pension Fund Accounts

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## 4.2 Fund Account – Expense items

### 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 Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave 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 15).

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 *Management expenses*

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses where possible in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses 2016'.

### 4.2.4 *Administrative expenses*

All administrative expenses are accounted for on an accruals basis. All staff costs of the administration part of the function are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2017/18 this totalled **£2.377m** (2016/17: £1.955m).

The Fund in 2016/17 changed its policy on the treatment of administration recharges in accordance with CIPFA's guidance. In prior years admin expenses were offset by the administration income received to the Fund from employers. Administration expenses are now shown gross of this income. The income totalling **£1.429m** (2016/17: £1.306m) is now shown under other income in the Fund Account. The change in policy has a net nil effect.

# Statement of Accounts - Pension Fund Accounts

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## **4.2.5 Oversight and governance**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2017/18, this totalled **£1.436m** (2016/17: £1.249m).

## **4.2.6 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 the respective mandates governing their appointments. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs. The gross up of management fees are offset through the change in market value of these investments.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, **£3.301m** of fees is based on such estimates (2016/17: £4.186m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs.

The cost of obtaining investment advice from external consultants is included in investment management charges. Transaction costs and custody fees are included within investment management expenses.

## **4.3 Net Assets Statement**

### **4.3.1 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 Asset 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 in the Fund Account.

# Statement of Accounts - Pension Fund Accounts

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The values of investments shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 12). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted where possible, the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG / Investment Association, 2016).

## **4.3.2** *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 Pension Fund'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 probably and can be reliably measured.

## **4.3.3** *Valuation of investments*

The value of investments as shown in the Net Assets Statement is 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**

Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2017/18, these are mainly valued as at 31 December 2017, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31st March 2018 has been made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31st March 2018.

Investments in unquoted property, private debt, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

### ▪ **Directly held investments**

These include investments in limited partnerships, 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 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.

# Statement of Accounts - Pension Fund Accounts

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- **Unit trusts and managed funds**

These 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**

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 10).

- **Direct Property Investments**

Direct property investments have been valued, at open market value as at 31st March 2018, by Knight Frank (31<sup>st</sup> March 2017: Jones Lang LaSalle, Chartered Surveyors). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

#### **4.3.4 Derivatives**

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held 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 (see note 12).

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. No future contracts were entered into in the year of reporting, or in the prior year.

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.

#### **4.3.5 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.

# Statement of Accounts - Pension Fund Accounts

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## **4.3.6 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.

## **4.3.7 Financial Liabilities**

Financial liabilities are recognised at fair value as at the financial year end date of 31<sup>st</sup> March. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability, and any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

## **4.3.8 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 Pension Fund'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.

## **4.3.9 Other 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.

# Statement of Accounts - Pension Fund Accounts

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## 5. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 4, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Fund Accounts are:

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is 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 31st March 2018 was **£299.5m** (31st March 2017: £297.6m).

- **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 MandG Investments is 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 31st March 2018 was **£297.8m** (31st March 2017: £191.8m).

- **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 31st March 2018 was **£109.9m** (31st March 2017: £102.0m).

- **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 International Accounting Standard (IAS) 19. Assumptions underpinning the valuation are agreed with the Actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement. This is shown in Note 3.3.



# Statement of Accounts - Pension Fund Accounts

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

The Fund Accounts contain estimated figures that are based on assumptions made 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 net assets statement at 31st March 2018 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   |
|---|---|--|
| <p>Actuarial present value of promised retirement benefits</p> <p><i>Note:<br/>Results are taken from the 2016 Actuarial valuation)</i></p> | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p> | <p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a <b>0.1%</b> decrease in the discount rate assumption would result in an increase in the pension liability of <b>£89m</b>.</p> <p>An increase of the CPI assumption by <b>0.1%</b> per annum increases the value of liabilities by approximately <b>£76m</b>.</p> <p>A <b>0.1%</b> increase in the long-term rate of salary increase would increase the value of liabilities by approximately <b>£8m</b>.</p> <p>Increasing the long-term rate of improvement used in the mortality projection by <b>0.25%</b> per annum would increase the liability by approximately <b>£54m</b>.</p> |
| <p>Pooled property funds and directly held freehold and leasehold property</p>  | <p>Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property.</p> <p>Where possible, these valuation techniques are based on observable data but where this is not possible management uses the best available data.</p> <p>Changes in the valuation assumptions used, together with</p>                                  | <p>The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of directly held property currently valued as <b>£393.9m</b>.</p>   |

## Statement of Accounts - Pension Fund Accounts

| Item   | Uncertainties   | Effect if actual results differ from assumptions  |
|--|---|---|
|  | significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.  |   |
| Private equity /<br>Infrastructure / Timber / Private debt | Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity, infrastructure, timber and private debt investments in the financial statements are <b>£813.6m</b> . There is a risk that this investment may be under or overstated in the accounts. |

### 7. Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

### 8. Accounting standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires the disclosure of information relating to the expected impact of changes that will be required by a new standard that has been introduced but not yet adopted and applies to the adoption of the following disclosures as amended in the 2018/19 Code:

- IFRS 9 *Financial Instruments* (related to the classification and measurement of financial assets after initial recognition).

# Statement of Accounts - Pension Fund Accounts

The Code requires implementation of the above disclosure from 1 April 2018. These changes are not considered to have a material effect on the Pension Fund accounts of 2017/18.

## 9. Membership activities

### 9.1 Membership

| 31 March<br>2017 |                     | 31 March<br>2018 |
|------------------|---------------------|------------------|
| 59,954           | Contributors        | 66,449           |
| 55,536           | Deferred pensioners | 55,904           |
| 39,106           | Pensioners          | 40,528           |

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

### 9.2 Pension benefits payable

| 2016/17<br>£000 |                             | 2017/18<br>£000 |
|-----------------|-----------------------------|-----------------|
| 66,286          | Administering Authority     | 67,776          |
| 99,054          | Scheduled Bodies            | 102,914         |
| 11,207          | Community Admission Bodies  | 11,588          |
| 6,002           | Transferee Admission Bodies | 6,523           |
| 582             | Resolution Bodies           | 624             |
| <b>183,131</b>  |                             | <b>189,425</b>  |

# Statement of Accounts - Pension Fund Accounts

## 9.3 Contributions receivable

### 9.3.1 By category

Contributions receivable from employers are set out below:

| 2016/17        |   | 2017/18 |                |
|----------------|---|---------|----------------|
| £000           |   | £000    | £000           |
| 54,497         | Employee's normal contributions           |         | 56,186         |
|                | Employers' normal contributions           |         |                |
| 116,907        | Normal contributions                      | 140,926 |                |
| 48,613         | Employers' deficit recovery contributions | 75,342  |                |
| 4,339          | Employers' augmentation                   | 3,664   |                |
| <u>169,859</u> |   |         | <u>219,932</u> |
| <u>224,356</u> |   |         | <u>276,118</u> |

The terminology used in the Actuarial Report for both employer contribution categories have been changed to:

- Employer normal contributions – primary contributions;
- Deficit contribution – secondary contributions;
- Employer augmentation relates to payments for the cost of early retirements.

In 2015/16 Essex County Scout Council entered into a five year cessation plan. The third instalment of **£30,000** was received in 2017/18. Two further payments of **£30,000** are due in 2018/19 and 2019/20.

In 2016/17, Southend Domestic Abuse Projects entered into a payment plan, agreeing five years of instalments totalling **£76,000**, with a review agreed as at March 2019 valuation. In 2017/18, payments totalling **£10,000** were received.

In 2017/18, final termination amounts were received from Spurgeons (**£52,000**), Tendring Enterprise Studio School MAT (**£87,000**) and Churchill Epping St John contract (**£8,000**).

In 2016/17, final termination amounts were received from University College London of **£457,000** and Inclusion Trust of **£500,000**.

# Statement of Accounts - Pension Fund Accounts

## 9.3.2 By type

| 2016/17        |                  |                             | 2017/18        |                  |
|----------------|------------------|-----------------------------|----------------|------------------|
| Member<br>£000 | Employer<br>£000 |                             | Member<br>£000 | Employer<br>£000 |
| 16,631         | 49,942           | Administering Authority     | 16,191         | 50,011           |
| 34,657         | 109,190          | Scheduled Bodies            | 36,661         | 157,969          |
| 1,257          | 4,408            | Community Admission Bodies  | 1,712          | 7,028            |
| 1,667          | 5,438            | Transferee Admission Bodies | 1,321          | 3,977            |
| 285            | 881              | Resolution Bodies           | 301            | 947              |
| 54,497         | 169,859          |                             | 56,186         | 219,932          |

## 9.4 Transfers in from, and out to, other pension funds

| 2016/17              |                       |                      | 2017/18              |                       |
|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| Transfers in<br>£000 | Transfers out<br>£000 |                      | Transfers in<br>£000 | Transfers out<br>£000 |
| -                    | 1,560                 | Group transfers      | -                    | 1,719                 |
| 12,465               | 10,330                | Individual transfers | 10,877               | 9,778                 |
| 12,465               | 11,890                | Total                | 10,877               | 11,497                |

In 2017/18, a bulk transfer of **£1.719m** was made in respect of Essex Police to West Yorkshire Pension Fund. In 2016/17, there were two bulk transfers out both to Bedfordshire Pension Fund, Single Fraud Investigation Unit for **£706,000** and Police for **£854,000**.

# Statement of Accounts - Pension Fund Accounts

## 10. Investment Income

### 10.1 By Type

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
| 27,863          | Dividends from equities                                    | 30,092          |
| 597             | Income from index linked securities                        | 403             |
| 7,385           | Private Equity income                                      | 7,257           |
| 10,216          | Infrastructure / timberland income                         | 15,943          |
| 11,589          | Managed fund income  | 9,785           |
| 8,383           | Income from pooled property investments                    | 7,001           |
| 14,120          | Net rent from properties                                   | 22,032          |
| 528             | Interest from cash deposits                                | 712             |
| 1,722           | Other  | 446             |
| <b>82,403</b>   | <b>Total investment income showing net property rent</b>   | <b>93,671</b>   |
|                 | Add back:  |                 |
| 2,917           | Property operating expenses                                | 2,943           |
| <b>85,320</b>   | <b>Total investment income showing gross property rent</b> | <b>96,614</b>   |

In line with 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.

### 10.2 Investment property net rental

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
| 16,494          | Rental Income from investment property                     | 22,711          |
| (2,124)         | Direct operating expenses arising from investment property | (2,670)         |
| <b>14,370</b>   | <b>Total</b>   | <b>20,041</b>   |

# Statement of Accounts - Pension Fund Accounts

## 10.3 Contractual rental receivable

The table below shows the contractual amount of rental income due to the Fund as at 31 March:

| 2016/17<br>£000 |                            | 2017/18<br>£000 |
|-----------------|----------------------------|-----------------|
| 17,372          | Within one year            | 18,472          |
| 48,684          | Between one and five years | 50,676          |
| 34,010          | Beyond five years          | 39,784          |
| <b>100,066</b>  | <b>Total</b>               | <b>108,932</b>  |

## 10.4 Movement in the fair value of investment properties

|                                    | Freehold<br>£000 | Leasehold<br>£000 | Total<br>£000  |
|------------------------------------|------------------|-------------------|----------------|
| <b>Fair value at 1 April 2016</b>  | <b>284,570</b>   | <b>74,210</b>     | <b>358,780</b> |
| Additions                          | 34,088           | 23                | 34,111         |
| Disposals                          | (17,519)         | (4,968)           | (22,487)       |
| Net gain/loss on fair value        | (3,724)          | (495)             | (4,219)        |
| <b>Fair value at 31 March 2017</b> | <b>297,415</b>   | <b>68,770</b>     | <b>366,185</b> |
| Additions                          | 43,359           | -                 | 43,359         |
| Disposals                          | (36,769)         | -                 | (36,769)       |
| Net gain/loss on fair value        | 19,380           | 1,730             | 21,110         |
| <b>Fair value at 31 March 2018</b> | <b>323,385</b>   | <b>70,500</b>     | <b>393,885</b> |

## 11. Management expenses

### 11.1 By type

| 2016/17<br>£000 |                                | 2017/18<br>£000 |
|-----------------|--------------------------------|-----------------|
| 1,955           | Administration costs           | 2,377           |
| 33,441          | Investment management expenses | 40,732          |
| 1,249           | Oversight and governance       | 1,436           |
| <b>36,645</b>   | <b>Total</b>                   | <b>44,545</b>   |

The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs.

# Statement of Accounts - Pension Fund Accounts

Administrative costs are now shown gross of administration income received from employers. Administration income received from employers totalled **£1.429m** for 2017/18 (£2016/17: £1.306m) and is now shown within 'Other Income' on the face of the Fund Account.

Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£791,000** for 2017/18 (2016/17: £723,000).

## 11.2 Investment management expenses

| 2016/17       |                   | 2017/18       |
|---------------|-------------------|---------------|
| £000          |                   | £000          |
| 32,325        | Management fees   | 39,522        |
| 393           | Custody fees      | 419           |
| 723           | Transaction costs | 791           |
| <u>33,441</u> | <b>Total</b>      | <u>40,732</u> |



# Statement of Accounts - Pension Fund Accounts

## 12. Investments

### 12.1 Value of investments held by managers

The value of investments held by each fund manager on 31 March was as follows:

| 2017  |       |  | 2018  |       |  |
|-------|-------|--|-------|-------|--|
| £m    | %     |  | £m    | %     |  |
| 110   | 1.8   | Alcentra Ltd                                       | 116   | 1.8   |  |
| 614   | 10.3  | Aviva Investors                                    | 657   | 10.1  |  |
| 545   | 9.1   | Baillie Gifford and Co                             | 685   | 10.6  |  |
| 310   | 5.2   | Stewart Investors (formerly First State)           | 315   | 4.9   |  |
| 242   | 4.0   | Goldman Sachs Asset Management International       | 242   | 3.7   |  |
| 315   | 5.3   | Hamilton Lane                                      | 334   | 5.2   |  |
| -     | -     | IFM Investors                                      | 73    | 1.1   |  |
| -     | -     | JPMorgan Asset Management                          | 74    | 1.1   |  |
| 1,785 | 29.8  | Legal and General Investment Management            | -     | -     |  |
| (2)   | -     | Legal and General Investment Management (Currency) | -     | -     |  |
| 496   | 8.3   | Longview Partners                                  | 503   | 7.8   |  |
| 515   | 8.6   | Marathon Asset Management Ltd                      | 526   | 8.1   |  |
| 474   | 7.9   | M&G Investments                                    | 471   | 7.3   |  |
| 255   | 4.3   | M&G Investments Alpha Opportunities                | 263   | 4.1   |  |
| 38    | 0.6   | M&G Investments Infracapital                       | -     | -     |  |
| 6     | 0.1   | M&G Investments Financing Fund                     | 1     | -     |  |
| 161   | 2.7   | Partners Group Management II S.à r.l               | 151   | 2.3   |  |
| -     | -     | UBS Asset Management                               | 1,945 | 30.0  |  |
| 3     | -     | RWC Specialist UK Focus Fund (formerly Hermes)     | -     | -     |  |
| 105   | 1.8   | Stafford Timberland Limited                        | 110   | 1.7   |  |
| 13    | 0.2   | Other  | 15    | 0.2   |  |
| 5,985 | 100.0 |  | 6,481 | 100.0 |  |

# Statement of Accounts - Pension Fund Accounts

## 12.2 Investments by asset type

The tables below provide an analysis of investment assets by type and show the movements in the market value of the investments, including profits and losses realised on the sales of investments:

| 2016/17  | Value at<br>1 April 2016 | 2016/17 Movement |                  |                  |                              |                  | Value at 31<br>March 2017 |
|--|--------------------------|------------------|------------------|------------------|------------------------------|------------------|---------------------------|
|  |                          | Purchases        | Net<br>Transfers | Sale<br>Proceeds | Change in<br>Market<br>Value | Cash<br>Movement |                           |
|  | £000                     | £000             | £000             | £000             | £000                         | £000             | £000                      |
| <b>Fixed interest securities</b>                     |                          |                  |                  |                  |                              |                  |                           |
| UK quoted  | 235,486                  | -                | -                | -                | 6,399                        | -                | 241,885                   |
| <b>Equities</b>                                      |                          |                  |                  |                  |                              |                  |                           |
| UK quoted  | 120,027                  | 42,803           | -                | (36,939)         | 24,471                       | -                | 150,362                   |
| Overseas quoted                                      | 1,243,844                | 244,753          | -                | (251,333)        | 403,677                      | -                | 1,640,941                 |
| UK unit trust life assurance policies                | 263,814                  | -                | -                | (44,720)         | 46,475                       | -                | 265,569                   |
| Overseas unit trust life assurance policies          | 794,022                  | -                | -                | (236,832)        | 225,271                      | -                | 782,461                   |
| Global unit life assurance policies                  | 355,774                  | -                | -                | (699)            | 129,024                      | -                | 484,099                   |
| Global unit trusts                                   | 346,624                  | 1,512            | -                | (3,682)          | 129,313                      | -                | 473,767                   |
| <b>Index linked securities</b>                       |                          |                  |                  |                  |                              |                  |                           |
| Index unit linked life assurance policies            | 50,770                   | 99,700           | -                | (29,706)         | 17,232                       | -                | 137,996                   |
| UK public sector quoted                              | 93,599                   | 6,575            | -                | (6,004)          | 20,043                       | -                | 114,213                   |
| <b>Property</b>                                      |                          |                  |                  |                  |                              |                  |                           |
| UK properties (freehold)                             | 284,570                  | 34,088           | -                | (17,519)         | (3,724)                      | -                | 297,415                   |
| UK properties (leasehold)                            | 74,210                   | 23               | -                | (4,968)          | (495)                        | -                | 68,770                    |
| Property unit trusts                                 | 215,089                  | 12,163           | 1                | (15,200)         | (212)                        | -                | 211,841                   |
| <b>Private equity</b>                                |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 39                       | -                | -                | (13)             | (5)                          | -                | 21                        |
| Overseas unquoted                                    | 247,242                  | 51,049           | -                | (77,129)         | 76,369                       | -                | 297,531                   |
| <b>Infrastructure</b>                                |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 60,724                   | -                | -                | (45,744)         | 16,316                       | -                | 31,296                    |
| overseas unquoted                                    | 101,361                  | 59,354           | -                | (19,272)         | 19,080                       | -                | 160,523                   |
| <b>Timber (Overseas unquoted)</b>                    | 77,675                   | 15,991           | -                | (1,003)          | 9,320                        | -                | 101,983                   |
| <b>Private Debt</b>                                  |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 25,294                   | -                | -                | (126)            | 3,084                        | -                | 28,252                    |
| Overseas unquoted                                    | 51,411                   | 35,028           | -                | (11,928)         | (1,396)                      | -                | 73,115                    |
| <b>Other managed funds</b>                           |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 248,358                  | 6,721            | -                | (6,983)          | 13,740                       | -                | 261,836                   |
| <b>Cash</b>  |                          |                  |                  |                  |                              |                  |                           |
| Cash deposits held at the custodian/other            |                          |                  |                  |                  |                              |                  |                           |
| Sterling   | 76,543                   | -                | -                | -                | -                            | 25,531           | 102,074                   |
| Foreign currency                                     | 40,149                   | -                | -                | 186,425          | (186,425)                    | 14,003           | 54,152                    |
|  | 5,006,625                | 609,760          | 1                | (623,375)        | 947,557                      | 39,534           | 5,980,102                 |
| <b>Other investment balances</b>                     |                          |                  |                  |                  |                              |                  |                           |
| Assets   |                          |                  |                  |                  |                              |                  |                           |
| Amounts receivable for sales of investments          | 1,720                    |                  |                  |                  |                              |                  | 2,663                     |
| Investment income due                                | 5,912                    |                  |                  |                  |                              |                  | 6,421                     |
| Liabilities  |                          |                  |                  |                  |                              |                  |                           |
| Amounts payable for purchase of investments          | (203)                    |                  |                  |                  |                              |                  | (2,619)                   |
| Investment withholding tax payable                   | (150)                    |                  |                  |                  |                              |                  | (255)                     |
| Amounts payable in respect of the GLF purchases      | -                        |                  |                  |                  |                              |                  | (103)                     |
| <b>Derivative pending foreign currency contracts</b> |                          |                  |                  |                  |                              |                  |                           |
| Assets   | 17,300                   |                  |                  |                  |                              |                  | 20,544                    |
| Liabilities  | (35,744)                 |                  |                  |                  |                              |                  | (21,941)                  |
|  | 4,995,460                |                  |                  |                  |                              |                  | 5,984,812                 |

The change in market value includes all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments since 1 April.

# Statement of Accounts - Pension Fund Accounts

For 2017/18, the total transaction costs were **£791,000** (2016/17: £723,000). These are included within investment management expenses (see note 11).

| 2017/18  | Value at<br>1 April 2017 | 2017/18 Movement |                  |                  |                              |                  | Value at 31<br>March 2018 |
|--|--------------------------|------------------|------------------|------------------|------------------------------|------------------|---------------------------|
|  |                          | Purchases        | Net<br>Transfers | Sale<br>Proceeds | Change in<br>Market<br>Value | Cash<br>Movement |                           |
|  | £000                     | £000             | £000             | £000             | £000                         | £000             | £000                      |
| <b>Fixed interest securities</b>                         |                          |                  |                  |                  |                              |                  |                           |
| UK quoted  | 241,885                  | -                | -                | -                | 282                          | -                | 242,167                   |
| <b>Equities</b>  |                          |                  |                  |                  |                              |                  |                           |
| UK quoted  | 150,362                  | 31,721           | -                | (38,511)         | (8,906)                      | -                | 134,666                   |
| Overseas quoted  | 1,640,941                | 411,571          | -                | (370,576)        | 156,286                      | -                | 1,838,222                 |
| UK unit trust life assurance policies                    | 265,569                  | -                | 605              | (35,901)         | 9,616                        | -                | 239,889                   |
| Overseas unit trust life assurance policies              | 782,461                  | 30,312           | (8,846)          | (63,496)         | 33,729                       | -                | 774,160                   |
| Global unit life assurance policies                      | 484,099                  | 140              | 32,900           | (33,996)         | 13,651                       | -                | 496,794                   |
| Global unit trusts                                       | 473,767                  | 1,828            | -                | (4,380)          | 192                          | -                | 471,407                   |
| <b>Index linked securities (UK public sector quoted)</b> |                          |                  |                  |                  |                              |                  |                           |
| Index linked unit life assurance policies                | 137,996                  | 178,043          | 148,498          | (38,606)         | 7,733                        | -                | 433,664                   |
| UK public sector quoted                                  | 114,213                  | 8,615            | (109,247)        | (8,117)          | (5,464)                      | -                | -                         |
| <b>Property</b>  |                          |                  |                  |                  |                              |                  |                           |
| UK properties (freehold)                                 | 297,415                  | 43,359           | -                | (36,769)         | 19,380                       | -                | 323,385                   |
| UK properties (leasehold)                                | 68,770                   | -                | -                | -                | 1,730                        | -                | 70,500                    |
| Property unit trusts                                     | 211,841                  | 11,888           | -                | (18,523)         | 19,262                       | -                | 224,468                   |
| <b>Private equity</b>                                    |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 21                       | -                | -                | -                | (14)                         | -                | 7                         |
| Overseas unquoted  | 297,531                  | 56,640           | -                | (77,110)         | 22,383                       | -                | 299,444                   |
| <b>Infrastructure</b>                                    |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 31,296                   | -                | -                | (31,742)         | 447                          | -                | 1                         |
| overseas unquoted  | 160,523                  | 177,427          | -                | (55,310)         | 15,115                       | -                | 297,755                   |
| <b>Timber (Overseas unquoted)</b>                        | 101,983                  | 18,439           | -                | (3,714)          | (6,839)                      | -                | 109,869                   |
| <b>Private Debt</b>                                      |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 28,252                   | -                | -                | (124)            | 1,548                        | -                | 29,676                    |
| Overseas unquoted  | 73,115                   | 18,641           | -                | (15,864)         | 1,002                        | -                | 76,894                    |
| <b>Other managed funds</b>                               |                          |                  |                  |                  |                              |                  |                           |
| UK unquoted  | 261,836                  | 4,558            | -                | (6,842)          | 4,847                        | -                | 264,399                   |
| <b>Cash</b>  |                          |                  |                  |                  |                              |                  |                           |
| Cash deposits held at the custodian/other                |                          |                  |                  |                  |                              |                  |                           |
| Sterling   | 102,074                  | -                | -                | -                | -                            | (16,587)         | 85,487                    |
| Foreign currency   | 54,152                   | -                | -                | (106,885)        | 106,885                      | 9,469            | 63,621                    |
|  | 5,980,102                | 993,182          | 63,910           | (946,466)        | 392,865                      | (7,118)          | 6,476,475                 |
| <b>Other investment balances</b>                         |                          |                  |                  |                  |                              |                  |                           |
| Assets   |                          |                  |                  |                  |                              |                  |                           |
| Amounts receivable for sales of investments              | 2,663                    |                  |                  |                  |                              |                  | 30,932                    |
| Investment income due                                    | 6,421                    |                  |                  |                  |                              |                  | 5,771                     |
| Liabilities  |                          |                  |                  |                  |                              |                  |                           |
| Amounts payable for purchase of investments              | (2,619)                  |                  |                  |                  |                              |                  | (3,971)                   |
| Investment withholding tax payable                       | (255)                    |                  |                  |                  |                              |                  | (143)                     |
| Amounts payable in respect of the GLF purchases          | (103)                    |                  |                  |                  |                              |                  | (981)                     |
| <b>Derivative pending foreign currency contracts</b>     |                          |                  |                  |                  |                              |                  |                           |
| Assets   | 20,544                   |                  |                  |                  |                              |                  | 18,489                    |
| Liabilities  | (21,941)                 |                  |                  |                  |                              |                  | (46,059)                  |
|  | 5,984,812                |                  |                  |                  |                              |                  | 6,480,513                 |

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| 31 March<br>2017<br>£000 |   | 31 March<br>2018<br>£000 |
|--------------------------|---|--------------------------|
|                          | <b>Fixed interest securities</b>                                  |                          |
| 241,885                  | UK quoted   | 242,167                  |
|                          | <b>Equities</b>   |                          |
| 150,362                  | UK quoted   | 134,666                  |
| 1,640,941                | Overseas quoted   | 1,838,222                |
| 265,569                  | UK unit trust life assurance policies                             | 239,889                  |
| 782,461                  | Overseas unit trust life assurance policies                       | 774,160                  |
| 484,099                  | Global unit life assurance policies                               | 496,794                  |
| 473,767                  | Global unit trusts  | 471,407                  |
|                          | <b>Index linked securities: UK public sector quoted</b>           |                          |
| 137,996                  | UK unit linked life assurance policies                            | 433,664                  |
| 114,213                  | UK public sector quoted   | -                        |
|                          | <b>Property</b>   |                          |
| 297,415                  | UK properties (freehold)  | 323,385                  |
| 68,770                   | UK properties (leasehold)   | 70,500                   |
| 211,841                  | Property unit trusts  | 224,468                  |
|                          | <b>Private equity</b>   |                          |
| 21                       | UK unquoted   | 7                        |
| 297,531                  | Overseas unquoted   | 299,444                  |
|                          | <b>Infrastructure</b>   |                          |
| 31,296                   | UK unquoted   | 1                        |
| 160,523                  | Overseas unquoted   | 297,755                  |
| 101,983                  | <b>Timber: Overseas unquoted</b>                                  | 109,869                  |
|                          | <b>Private Debt</b>   |                          |
| 28,252                   | UK unquoted   | 29,676                   |
| 73,115                   | Overseas unquoted   | 76,894                   |
| 261,836                  | <b>Other managed funds: UK unquoted</b>                           | 264,399                  |
|                          | <b>Derivative contracts</b>                                       |                          |
| 20,544                   | <b>Assets:</b> Derivative pending foreign currency contracts      | 18,489                   |
| (21,941)                 | <b>Liabilities:</b> Derivative pending foreign currency contracts | (46,059)                 |
|                          | <b>Cash deposits</b>  |                          |
|                          | <b>Cash deposits held at custodian/other</b>                      |                          |
| 102,074                  | Sterling  | 85,487                   |
| 54,152                   | Foreign currency  | 63,621                   |
| 5,978,705                |   | 6,448,905                |
|                          | <b>Other investment balances</b>                                  |                          |
|                          | <b>Assets</b>   |                          |
| 2,663                    | Amounts receivable for sales of investments                       | 30,932                   |
| 6,421                    | Investment income due   | 5,771                    |
|                          | <b>Liabilities</b>  |                          |
| (2,619)                  | Amounts payable for purchase of investments                       | (3,971)                  |
| (255)                    | Investment withholding tax payable                                | (143)                    |
| (103)                    | Amounts payable re. GLF   | (981)                    |
| 5,984,812                | <b>Value at 31 March</b>  | 6,480,513                |

# Statement of Accounts - Pension Fund Accounts

## 12.3 Pooled investments representing 5% or more of net assets

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

| 31 March 2017 |      |   | 31 March 2018 |      |  |
|---------------|------|---|---------------|------|--|
| £000          | %    |   | £000          | %    |  |
| -             | 0.0% | UBS Asset Management Life All World Equity Tracker  | 496,794       | 7.6% |  |
| 473,767       | 7.9% | M&G Global Dividend Fund                            | 471,407       | 7.2% |  |
| -             | 0.0% | UBS Asset Management Life Over 5 Year Index Tracker | 433,664       | 6.7% |  |
| -             | 0.0% | UBS Asset Management Life USA Equity Tracker Hedged | 345,618       | 5.3% |  |
| 484,099       | 8.0% | Legal & General FTSE RAFI AW 3000 Index             | -             | 0.0% |  |
| 340,024       | 5.6% | Legal & General North America Equity Index          | -             | 0.0% |  |
| 258,444       | 4.3% | Legal & General Europe (Ex UK) Equity Index         | -             | 0.0% |  |

## 12.4 Single investments in excess of 5% 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:

| 31 March 2017      |       | Asset type / Asset name            | 31 March 2018 |       |
|--------------------|-------|------------------------------------|---------------|-------|
| £000               | %     |                                    | £000          | %     |
| UK QUOTED EQUITIES |       |                                    |               |       |
| 16,096             | 10.7% | Compass Group Ord GBP0.10          | 19,308        | 14.3% |
| 18,933             | 12.6% | WPP Plc Ord GBP0.10                | 19,206        | 14.3% |
| 12,932             | 8.6%  | Lloyds Banking GP Ord GBP0.1       | 18,086        | 13.4% |
| 25,396             | 16.9% | Unilever plc Ord GBP0.031          | 17,142        | 12.7% |
| 16,428             | 10.9% | Whitbread Ord GBP0.76              | 15,357        | 11.4% |
| PROPERTY           |       |                                    |               |       |
| 30,140             | 8.2%  | Canning Town Business Park, London | 36,700        | 9.3%  |
| 29,150             | 8.0%  | 201 Deansgate, Manchester          | 30,000        | 7.6%  |
| -                  | -     | Kett House Station Road, Cambridge | 21,600        | 5.5%  |
| 20,800             | 5.7%  | 48-49 Chancery Lane, London        | 20,700        | 5.3%  |

# Statement of Accounts - Pension Fund Accounts

| 31 March 2017        |       | Asset type / Asset name                                   | 31 March 2018 |       |
|----------------------|-------|---|---------------|-------|
| £000                 | %     |   | £000          | %     |
| PROPERTY UNIT TRUSTS |       |   |               |       |
| 20,958               | 9.9%  | Industrial Property Investment Fund                       | 25,371        | 11.3% |
| 25,711               | 12.1% | Aviva Investors Property Fund                             | 23,415        | 10.4% |
| 19,081               | 9.0%  | Unite UK Student Accomodation Fund                        | 20,194        | 9.0%  |
| 18,855               | 8.9%  | Blackrock UK Property Fund                                | 20,051        | 8.9%  |
| 15,353               | 7.2%  | Airport Industrial Fund                                   | 17,058        | 7.6%  |
| 15,495               | 7.3%  | Lothbury Property Fund                                    | 17,005        | 7.6%  |
| 10,621               | 5.0%  | M&G UK Residential Property Fund                          | 15,814        | 7.0%  |
| 13,639               | 6.4%  | Standard Life UK Shopping Centre                          | 13,584        | 6.1%  |
| 10,900               | 5.1%  | Henderson UK Retail Warehouse Fund                        | 11,000        | 4.9%  |
| 16,456               | 7.8%  | Standard Life Property Fund Closed                        | 10,166        | 4.5%  |
| PRIVATE EQUITY       |       |   |               |       |
| 16,088               | 5.4%  | American Securities Partners VI LP                        | 5,119         | 1.7%  |
| INFRASTRUCTURE       |       |   |               |       |
| -                    | -     | Infrastructure Investment Fund IIF UK 1 LP                | 73,749        | 24.8% |
| -                    | -     | IFM Global Infrastructure (UK) B, LP Class C              | 73,267        | 24.6% |
| -                    | -     | Partners Group Direct Infrastructure 2015 S.C.A., SICAR   | 49,556        | 16.6% |
| 47,252               | 24.6% | Partners Group Global Infrastructure 2012 LP              | 39,853        | 13.4% |
| 52,777               | 27.5% | Partners Group Global Infrastructure 2009 S.C.A., SICAR   | 34,719        | 11.7% |
| 34,967               | 18.2% | Partners Group Global Infrastructure 2015 (USD) SCA SICAR | 15,649        | 5.2%  |
| 16,586               | 8.6%  | Partners Group Global Infrastructure 2011 S.C.A.,SICAR    | 10,963        | 3.7%  |
| 31,296               | 16.3% | Infracapital Partners                                     | 1             | -     |
| TIMBER               |       |   |               |       |
| 52,523               | 51.5% | Stafford International Timberland VI Fund LP              | 50,082        | 45.6% |
| 49,460               | 48.5% | Stafford International Timberland VII Fund (No 2) LP      | 48,914        | 44.5% |
| -                    | -     | Stafford International Timberland VIII Fund (No 2) LP     | 10,873        | 9.9%  |
| PRIVATE DEBT         |       |   |               |       |
| 25,890               | 25.5% | Clareant European Direct Lending Fund II (GBP) LP         | 45,089        | 42.3% |
| 47,225               | 46.6% | Clareant European DLF Investor Feeder (No.2) LP           | 31,805        | 29.8% |
| 28,252               | 27.9% | Alcentra Global Multi-Credit Solutions Class IV A GBP     | 29,676        | 27.9% |
| OTHER MANAGED FUNDS  |       |   |               |       |
| 255,159              | 97.4% | M&G Alpha Opportunities Fund                              | 263,311       | 99.6% |
| CASH                 |       |   |               |       |
| 50,057               | 32.1% | Northern Trust Liquidity Fund GBP                         | 39,320        | 26.4% |
| 40,861               | 26.2% | BNP Paribas Investment Partners GBP                       | 34,561        | 23.2% |
| 10,106               | 6.5%  | BNP Paribas Investment Partners US\$                      | 23,184        | 15.5% |
| 29,906               | 19.2% | Northern Trust Liquidity Fund US\$                        | 22,989        | 15.4% |

## 12.5 Derivative contracts

### 12.5.1 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.

# Statement of Accounts - Pension Fund Accounts

## 12.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31st March 2018 and 31st March 2017.

## 12.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **67%** of the Fund's NAS is in overseas assets as at 31st March 2018 (31st March 2017: 66.6%).

To reduce the volatility associated with fluctuating currency rates (currency risk) the Fund has a passive currency programme in place which was managed by Legal and General Investment Management up until 28 February 2018, before transferring to the new passive provider, UBS Asset Management on 1 March 2018. The Fund hedges **50%** of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

## 12.5.4 Open forward currency contracts

| Settlement                                       | Currency Bought | Local value<br>000 | Currency sold | Local value<br>000 | Asset value<br>£000 | Liability value<br>£000 | Net value<br>£000 |
|--|-----------------|--------------------|---------------|--------------------|---------------------|-------------------------|-------------------|
| Up to one month                                  | AUD             | 27,196             | GBP           | 16,918             | -                   | (327)                   | (327)             |
| Up to one month                                  | CAD             | 25,990             | GBP           | 15,683             | -                   | (98)                    | (98)              |
| Up to one month                                  | CHF             | 25,253             | GBP           | 20,392             | -                   | (216)                   | (216)             |
| Up to one month                                  | EUR             | 83,857             | GBP           | 72,700             | -                   | (974)                   | (974)             |
| Up to one month                                  | GBP             | 15,885             | AUD           | 27,247             | -                   | (738)                   | (738)             |
| Up to one month                                  | GBP             | 15,620             | CAD           | 25,990             | 36                  | -                       | 36                |
| Up to one month                                  | GBP             | 19,898             | CHF           | 25,253             | -                   | (278)                   | (278)             |
| Up to one month                                  | GBP             | 88,527             | EUR           | 104,232            | -                   | (631)                   | (631)             |
| Up to one month                                  | GBP             | 54,176             | JPY           | 7,901,132          | -                   | (2,529)                 | (2,529)           |
| Up to one month                                  | GBP             | 9,085              | SEK           | 104,857            | -                   | (307)                   | (307)             |
| Up to one month                                  | GBP             | 367,192            | USD           | 455,626            | 2,822               | -                       | 2,822             |
| Up to one month                                  | GBP             | 38                 | ZAR           | 632                | -                   | -                       | -                 |
| Up to one month                                  | GBP             | 17                 | BRL           | 68                 | -                   | -                       | -                 |
| Up to one month                                  | GBP             | 29                 | HKD           | 279                | -                   | -                       | -                 |
| Up to one month                                  | JPY             | 7,901,132          | GBP           | 56,478             | 227                 | -                       | 227               |
| Up to one month                                  | JPY             | 62,384             | USD           | 561                | -                   | (1)                     | (1)               |
| Up to one month                                  | SEK             | 101,405            | GBP           | 9,261              | -                   | (179)                   | (179)             |
| Up to one month                                  | USD             | 454,155            | GBP           | 365,872            | -                   | (2,679)                 | (2,679)           |
| Up to one month                                  | USD             | 4                  | JPY           | 484                | -                   | -                       | -                 |
| Up to one month                                  | ZAR             | 14                 | GBP           | 1                  | -                   | -                       | -                 |
| One to six months                                | GBP             | 49,574             | AUD           | 81,078             | 244                 | -                       | 244               |
| One to six months                                | GBP             | 47,470             | CAD           | 78,129             | 651                 | -                       | 651               |
| One to six months                                | GBP             | 61,391             | CHF           | 76,328             | 270                 | -                       | 270               |
| One to six months                                | GBP             | 239,024            | EUR           | 278,444            | 508                 | -                       | 508               |
| One to six months                                | GBP             | 169,580            | JPY           | 23,826,145         | -                   | (1,584)                 | (1,584)           |
| One to six months                                | GBP             | 25,707             | SEK           | 284,145            | 215                 | -                       | 215               |
| One to six months                                | GBP             | 1,134,218          | USD           | 1,415,236          | 4,171               | -                       | 4,171             |
| Open forward currency contracts at 31 March 2017 |                 |                    |               |                    | 9,144               | (10,541)                | (1,397)           |
| Open forward currency contracts at 31 March 2016 |                 |                    |               |                    | 20,031              | (38,475)                | (18,444)          |

# Statement of Accounts - Pension Fund Accounts

| Settlement                                       | Currency Bought | Local value 000 | Currency sold | Local value 000 | Asset value £000 | Liability value £000 | Net value £000 |
|--|-----------------|-----------------|---------------|-----------------|------------------|----------------------|----------------|
| Up to one month                                  | AUD             | 84,216          | GBP           | (47,559)        | -                | (1,512)              | (1,512)        |
| Up to one month                                  | CAD             | 84,841          | GBP           | (48,014)        | -                | (1,105)              | (1,105)        |
| Up to one month                                  | CHF             | 76,700          | GBP           | (58,988)        | -                | (1,889)              | (1,889)        |
| Up to one month                                  | EUR             | 289,830         | GBP           | (256,813)       | -                | (2,709)              | (2,709)        |
| Up to one month                                  | EUR             | 85              | USD           | (105)           | -                | -                    | -              |
| Up to one month                                  | GBP             | 47,735          | AUD           | (84,216)        | 1,688            | -                    | 1,688          |
| Up to one month                                  | GBP             | 48,536          | CAD           | (84,841)        | 1,627            | -                    | 1,627          |
| Up to one month                                  | GBP             | 57,861          | CHF           | (76,700)        | 762              | -                    | 762            |
| Up to one month                                  | GBP             | 268,227         | EUR           | (305,026)       | 795              | -                    | 795            |
| Up to one month                                  | GBP             | 179,129         | JPY           | (27,605,832)    | -                | (5,915)              | (5,915)        |
| Up to one month                                  | GBP             | 25,502          | SEK           | (285,911)       | 1,164            | -                    | 1,164          |
| Up to one month                                  | GBP             | 1,156,985       | USD           | (1,619,826)     | 2,325            | -                    | 2,325          |
| Up to one month                                  | GBP             | 232             | HKD           | (2,558)         | -                | -                    | -              |
| Up to one month                                  | JPY             | 27,605,832      | GBP           | (187,928)       | -                | (2,884)              | (2,884)        |
| Up to one month                                  | JPY             | 201,329         | USD           | (1,896)         | -                | (2)                  | (2)            |
| Up to one month                                  | SEK             | 285,911         | GBP           | (25,071)        | -                | (733)                | (733)          |
| Up to one month                                  | USD             | 1,871           | CHF           | (1,792)         | -                | (1)                  | (1)            |
| Up to one month                                  | USD             | 1,621,059       | GBP           | (1,174,719)     | -                | (19,181)             | (19,181)       |
| Up to one month                                  | USD             | 180             | SEK           | (1,503)         | -                | -                    | -              |
| Up to one month                                  | USD             | 78              | DKK           | (469)           | -                | -                    | -              |
| Up to one month                                  | ZAR             | 1,792           | USD           | (152)           | -                | (1)                  | (1)            |
| Up to one month                                  | MXN             | 2,692           | USD           | (147)           | 1                | -                    | 1              |
| Open forward currency contracts at 31 March 2018 |                 |                 |               |                 | 8,362            | (35,932)             | (27,570)       |
| Open forward currency contracts at 31 March 2017 |                 |                 |               |                 | 9,144            | (10,541)             | (1,397)        |

## 13. 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, Prudential 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, Prudential and Standard Life to the Fund is shown in the table below.



# Statement of Accounts - Pension Fund Accounts

## 13.1 Reconciliation of movements in AVC investments

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
| 5,837           | Value of AVC fund at beginning of year       | 6,336           |
| 703             | Employees contributions                      | 1,741           |
| 669             | Investment income and change in market value | 173             |
| (873)           | Benefits paid and transfers out              | (948)           |
| <u>6,336</u>    |  | <u>7,302</u>    |

## 13.2 Analysis of AVC investments by Provider

| 2016/17<br>£000 |                | 2017/18<br>£000 |
|-----------------|----------------|-----------------|
| 112             | Equitable Life | 94              |
| 1,031           | Prudential     | 2,523           |
| 5,193           | Standard Life  | 4,685           |
| <u>6,336</u>    |                | <u>7,302</u>    |

## 14. Current assets and liabilities

### 14.1 Analysis of current assets

| 31 March 2017<br>£000                  |   | 31 March 2018<br>£000 | £000          |
|--|---|-----------------------|---------------|
| <b>Cash Balances</b>                   |   |                       |               |
| 1,560                                  | Cash at bank                                | 80                    |               |
| 34,032                                 | Cash on short term deposits within 3 months | 23,649                |               |
| <u>35,592</u>                          |   |                       | 23,729        |
| <b>Debtors and payments in advance</b> |   |                       |               |
| 4,091                                  | Contributions due – employees               | 4,291                 |               |
| 12,410                                 | Contributions due – employers               | 14,263                |               |
| 756                                    | Sundry debtors                              | 1,390                 |               |
| <u>17,257</u>                          |   |                       | 19,944        |
| <u>52,849</u>                          | <b>Total</b>                                |                       | <u>43,673</u> |

# Statement of Accounts - Pension Fund Accounts

## 14.2 Analysis of debtors

| 31 March 2017 |           |                         | 31 March 2018 |           |  |
|---------------|-----------|-------------------------|---------------|-----------|--|
| Short term    | Long term |                         | Short term    | Long term |  |
| £000          | £000      |                         | £000          | £000      |  |
| 4,513         | 3,810     | Central Government      | 5,368         | 2,517     |  |
| 10,107        | 17        | Other Local Authorities | 11,172        | 10        |  |
| 19            | -         | NHS Bodies              | 18            | -         |  |
| 1,968         | 467       | Public Funded Bodies    | 2,311         | 342       |  |
| 650           | -         | Other                   | 1,075         | -         |  |
| 17,257        | 4,294     | <b>Total</b>            | 19,944        | 2,869     |  |

## 14.3 Analysis of long term debtors

| 31 March<br>2017 |                                  | 31 March<br>2018 |
|------------------|----------------------------------|------------------|
| £000             |                                  | £000             |
| 160              | Financial strain instalments due | 39               |
| 4,134            | Other employer contributions due | 2,830            |
| 4,294            | <b>Total</b>                     | 2,869            |

## 14.4 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.

## 14.5 Analysis of current liabilities

| 31 March<br>2017                                     |                                 | 31 March<br>2018 |
|--|---------------------------------|------------------|
| £000   |                                 | £000             |
| <b>Unpaid benefits and other current liabilities</b> |                                 |                  |
| (316)  | Contributions due – employers   | (179)            |
| (4,186)  | Investment manager fees payable | (3,483)          |
| (4,246)  | Benefits payable                | (4,229)          |
| (2,154)  | Other                           | (281)            |
| (10,902)   | <b>Total</b>                    | (8,172)          |

# Statement of Accounts - Pension Fund Accounts

## 14.6 Analysis of creditors

| 31 March<br>2017<br>£000 |  | 31 March<br>2018<br>£000 |
|--------------------------|--|--------------------------|
|                          | <b>Creditors and receipts in advance</b> |                          |
| (282)                    | Central Government                       | (317)                    |
| (3,668)                  | Other Local Authorities                  | (1,690)                  |
| -                        | NHS Bodies                               | -                        |
| (296)                    | Public Funded Bodies                     | (207)                    |
| (6,656)                  | Other                                    | (5,958)                  |
| <u>(10,902)</u>          | <b>Total</b>                             | <u>(8,172)</u>           |

## 14.7 Contingent liabilities and contractual commitments

As at 31st March 2018, the Fund had a commitment to contribute a further **£563.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, private debt and financing (31st March 2017: £654.7m). 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.

## 15. Taxes on income

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

| 2016/17<br>£000 |  | 2017/18<br>£000 |
|-----------------|--|-----------------|
| 206             | UK withholding tax                                   | 102             |
| 2,130           | Overseas withholding tax                             | 3,264           |
| 235             | Payment to HMRC in respect of returned contributions | 599             |
| <u>2,571</u>    |  | <u>3,965</u>    |

## 16. 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.

# Statement of Accounts - Pension Fund Accounts

## 16.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£2.713m** in 2017/18 (2016/17: £2.516m) 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 **£50.011m** to the Fund in 2017/18 (2016/17: **£49.942m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Investment Steering Committee **4 April 2017**. This service is provided to the Fund at a cost of **£27,000** (2016/17: £27,000).

During the year to 31st March 2018, the Pension Fund had an average investment balance of **£30.786m** (2016/17: £30.618m) earning **£84,000** interest (2016/17: £117,000).

## 16.2 Governance

Under IAS 24 '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 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.

## 16.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2015, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2017/18, were also members of the LGPS are listed below.

| Representative of scheme members            | County Councillors      |
|---|-------------------------|
| ▪ S. Child                                  | ▪ Cllr N. J. Hume *     |
| Representative of scheme employers          | ▪ Cllr S. Barker        |
| ▪ C. Riley                                  | ▪ Cllr J. Whitehouse ** |
| Representatives of smaller employing bodies | ▪ Cllr K. Bobbin **     |
| ▪ J. Moore                                  | ▪ Cllr M. Mackrory **   |

# Statement of Accounts - Pension Fund Accounts

|  |  |
|--|--|
|  | <b>County Councillors</b>  |
|  | <ul style="list-style-type: none"> <li>▪ Cllr M. Maddocks</li> </ul> |
|  | <ul style="list-style-type: none"> <li>▪ Cllr A. Erskine</li> </ul>  |

\* Membership of the PSB and ISC ceased 15 May 2017.

\*\* Membership of the PSB and ISC ceased 15 May 2017. Membership of the Fund relates to non councillor service.

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2017/18, were also members of the LGPS are listed below:

| <b>Representative of scheme employers</b>                         | <b>Representative of scheme members</b>                       |
|---|---|
| <ul style="list-style-type: none"> <li>▪ J. Durrant</li> </ul>    | <ul style="list-style-type: none"> <li>▪ A. Coburn</li> </ul> |
| <ul style="list-style-type: none"> <li>▪ Cllr S. Walsh</li> </ul> | <ul style="list-style-type: none"> <li>▪ P. Hewitt</li> </ul> |
|   | <ul style="list-style-type: none"> <li>▪ J. Hunt</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>▪ M. Paget</li> </ul>  |

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2017/18 were the Executive Director, Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2017/18 approximately **2%** (2016/17: 2%) of the Executive Director, Corporate and Customer Services 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 2017/18 was **£157,000** (2016/17: £156,000). The 2017/18 current service cost in respect of these personnel was **£110,000** (2016/17: £68,000). 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.

## 17. Agency Services

The Essex Pension Fund pays discretionary awards to former employees of both current and former employers' of the Fund. The amounts paid are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

# Statement of Accounts - Pension Fund Accounts

The sums are disclosed below:

| 2016/17<br>£000 |                            | 2017/18<br>£000 |
|-----------------|----------------------------|-----------------|
| 1,514           | Administering Authority    | 1,463           |
| 5,356           | Scheduled Bodies           | 5,239           |
| 137             | Community Admission Bodies | 132             |
| 2               | Resolution Bodies          | 2               |
| 22              | Former employers           | 22              |
| <b>7,031</b>    | <b>Total</b>               | <b>6,858</b>    |

## 18. Financial Instruments

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

### 18.1 Classification of financial instruments

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

Statutory debtors and creditors are excluded from the financial instrument note and only contractual debtors and creditors are shown.

The debtor figure of **£22.813m** as at 31st March 2018 (£2016/17: £21.551m) has been classified as statutory debtors and therefore been excluded from the below note.

The creditor figure of **£8.172m** as at 31st March 2018 (2016/17: £10.902m) excludes statutory creditors of **£4.689m** (2016/17: £6.716m).

In addition, financial assets held by the Fund on a direct basis, for example direct property, have also been excluded from the below note.

## Statement of Accounts - Pension Fund Accounts

| 31 March 2017   |                                     |  | Asset type                            | 31 March 2018   |                                     |  |
|---|-------------------------------------|--|---------------------------------------|---|-------------------------------------|--|
| Designated<br>as fair value<br>through<br>profit and loss<br>£000 | Loans<br>and<br>receivables<br>£000 | Financial<br>liabilities<br>at amortised<br>cost<br>£000 |                                       | Designated<br>as fair value<br>through<br>profit and loss<br>£000 | Loans<br>and<br>receivables<br>£000 | Financial<br>liabilities<br>at amortised<br>cost<br>£000 |
|   |                                     |  | <b>Financial assets</b>               |   |                                     |  |
| 241,885   | -                                   | -  | Fixed interest securities             | 242,167   | -                                   | -  |
| 3,797,199   | -                                   | -  | Equities                              | 3,955,138   | -                                   | -  |
| 252,209   | -                                   | -  | Index linked securities               | 433,664   | -                                   | -  |
| 211,841   | -                                   | -  | Pooled unit trusts                    | 224,468   | -                                   | -  |
| 297,552   | -                                   | -  | Private equity                        | 299,451   | -                                   | -  |
| 140,266   | -                                   | -  | Infrastructure                        | 237,237   | -                                   | -  |
| 101,983   | -                                   | -  | Timber                                | 109,869   | -                                   | -  |
| 28,252  | -                                   | -  | Private debt                          | 29,676  | -                                   | -  |
| 261,836   | -                                   | -  | Other managed funds                   | 264,399   | -                                   | -  |
| 20,544  | -                                   | -  | Derivative contracts                  | 18,489  | -                                   | -  |
| -   | 191,818                             | -  | Cash deposits                         | -   | 172,837                             | -  |
| 9,084   | -                                   | -  | Other investment balances             | 36,703  | -                                   | -  |
| -   | -                                   | -  | Debtors                               | -   | -                                   | -  |
| 5,362,651   | 191,818                             | -  |                                       | 5,851,261   | 172,837                             |  |
|   |                                     |  | <b>Financial liabilities</b>          |   |                                     |  |
| (21,941)  | -                                   | -  | Derivative contracts                  | (46,059)  | -                                   | -  |
| (2,977)   | -                                   | -  | Other investments balances            | (5,095)   | -                                   | -  |
| -   | -                                   | (4,186)  | Creditors                             | -   | -                                   | (3,483)  |
| (24,918)  | -                                   | (4,186)  |                                       | (51,154)  | -                                   | (3,483)  |
| 5,337,733   | 191,818                             | (4,186)  | <b>Balance at the end of the year</b> | 5,800,107   | 172,837                             | (3,483)  |
|   |                                     | 5,525,365  | <b>Total</b>                          |   |                                     | 5,969,461  |

## 18.2 Net gains and losses on financial instruments

| Asset value<br>as at<br>31 Mar 2017<br>£000 |                                    | Asset value<br>as at<br>31 Mar 2018<br>£000 |
|---|------------------------------------|---|
|   | <b>Financial assets</b>            |   |
| 1,133,174                                   | Fair value through profit and loss | 258,609                                     |
| (186,425)                                   | Loans and receivables              | 106,885                                     |
| <hr/> 946,749                               | <b>Total</b>                       | <hr/> 365,494                               |

Financial assets held by the Fund on a direct basis (e.g. direct property) have also been excluded from the above note.

The net gains and losses differ from the Fund Account by gains and losses of financial assets held directly. These gains and losses totalled **£27.370m** as at 31st March 2018 (31st March 2017: £808,000).

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## 18.3 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 where the fair values 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 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 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.

The table that follows shows the hierarchy level as per different asset types:

| Asset   | Valuation Hierarchy | Basis of Valuation  | Observable and Unobservable inputs                    | Key Sensitivities affecting the Valuation   |
|---|---------------------|---|---|---|
| Market Quoted Equities<br>Unit Trusts<br>Money Market Funds<br>Absolute Returns | Level 1             | Published Bid Market Price                                | N/A   | N/A   |
| Unit Linked Life Assurance Policies   | Level 2             | Valuation technique with quoted prices of a similar asset | Price of recent transactions for identical instrument | Significant change in economic circumstances or time lapse since the transaction took place |
| Fixed Income  | Level 2             | The prices are published reflecting the NAV at            | Price of recent transactions for                      | Significant change in economic circumstances  |



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| Asset                                | Valuation Hierarchy | Basis of Valuation  | Observable and Unobservable inputs   | Key Sensitivities affecting the Valuation   |
|--------------------------------------|---------------------|---|--|---|
|                                      |                     | each dealing point but are not exchange traded  | identical instrument   | or time lapse since the transaction took place  |
| Forward Foreign Exchange Derivatives | Level 2             | Market exchange rates at the year end   | Price of recent transactions for identical instrument  | Risk of an exchange rate changing between the transaction date and the subsequent settlement date<br>volatility of the exchange rates during the hedge period   |
| Property                             | Level 3             | Assets are based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund          | Pricing inputs are unobservable and include situations where there is little market activity<br>Estimated rental growth<br>Covenant strength for existing tendencies<br>Discount rate<br>Land/building valuation surveys | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices and volume of sales and purchases   |
| Distressed Debt                      | Level 3             | The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are sustainably the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation | These techniques may include a number of assumptions relating to variables such as credit risk and interest rates  | Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis |
| Infrastructure                       | Level 3             | The valuation of the investment assets is 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                             | Management's cash flow projections<br>Estimates of growth expectations and profitability<br>Profit margin expectations<br>Adjustments to current prices for similar assets<br>Valuation techniques                       | Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments   |
| Private Equity                       | Level 3             | The valuation of the investment are carried at fair value as determined in good faith by the General  | Management's cash flow projections<br>Estimates of growth expectations and profitability   | Valuations could be affected by material events occurring between the date of the financial statements  |

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| Asset       | Valuation Hierarchy | Basis of Valuation   | Observable and Unobservable inputs   | Key Sensitivities affecting the Valuation   |
|-------------|---------------------|--|--|---|
|             |                     | Partner in accordance with the terms of the Partnership Agreement and US GAAP  | Profit margin expectations<br>Adjustments to current prices for similar assets<br>Valuation techniques   | provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis  |
| Timberlands | Level 3             | Valuation technique is based on accepted valuation techniques that include discounted cashflow and multiple earnings | Management's cash flow projections<br>Estimates of growth expectations and profitability<br>Profit margin expectations<br>Adjustments to current prices for similar assets<br>Valuation techniques | Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis |

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 2017                    |  |  | Values as at 31 March 2018                    |  |  |
|---|--|--|---|--|--|
| Level 1<br>Quoted<br>market<br>prices<br>£000 | Level 2<br>Using<br>observable<br>inputs<br>£000 | Level 3<br>Significant<br>unobservable<br>inputs<br>£000 | Level 1<br>Quoted<br>market<br>prices<br>£000 | Level 2<br>Using<br>observable<br>inputs<br>£000 | Level 3<br>Significant<br>unobservable<br>inputs<br>£000 |
| <b>Financial assets</b>                       |  |  |   |  |  |
| 2,630,251                                     | 1,952,506  | 779,894  | 2,723,164                                     | 2,451,863  | 676,233  |
| 191,818                                       | -  | -  | 172,837                                       | -  | -  |
| 2,822,069                                     | 1,952,506  | 779,894  | 2,896,001                                     | 2,451,863  | 676,233  |
| <b>Non financial assets</b>                   |  |  |   |  |  |
| -   | -  | 490,853  | -   | -  | 531,298  |
| <b>Financial liabilities</b>                  |  |  |   |  |  |
| (2,977)                                       | (21,941)   | -  | (5,095)                                       | (46,059)   | -  |
| (4,186)                                       | -  | -  | -   | -  | -  |
| (7,163)                                       | (21,941)   | -  | (3,483)                                       | -  | -  |
| 2,814,906                                     | 1,930,565  | 1,270,747  | 2,887,423                                     | 2,405,804  | 1,207,531  |
| <b>Total net assets per level</b>             |  |  |   |  |  |
| <b>6,016,218</b>                              |  |  | <b>6,500,758</b>                              |  |  |
| <b>Total Net Assets</b>                       |  |  |   |  |  |

## 18.4 Transfers between hierarchy levels

The Pensions Research Accountants Group (PRAG) published a practical guidance for investment disclosures during 2016, in response to FRS102 amendments in respect of the fair value hierarchy

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disclosures alignment with IFRS. The paper states that pooled fund holdings should not just be analysed in terms of their underlying investments but should also be dependent on the nature and the investors' ability to exit the holding. In addition, pooled property was also reclassified. Taking this into account, the following movements have been made to 31<sup>st</sup> March 2017 and are reflected in the previous table. The pooled property classification has since been reviewed by the Fund's property manager, Aviva Investors, and has subsequently been reclassified into level 2.

| Values as at 31 March 2017                 |   |  | Values as at 31 March 2018                 |  |  |
|--|---|--|--|--|--|
| Movement to/(from)                         |   |  | Movement to/(from)                         |  |  |
| Level 1<br>Quoted market<br>prices<br>£000 | Level 2<br>Using observable<br>inputs<br>£000 | Level 3<br>Significant<br>unobservable<br>inputs<br>£000 | Level 1<br>Quoted market<br>prices<br>£000 | Level 2<br>Using<br>observable<br>inputs<br>£000 | Level 3<br>Significant<br>unobservable<br>inputs<br>£000 |
| <b>Financial assets</b>                    |   |  |  |  |  |
| Fair value through profit and loss         |   |  |  |  |  |
| (1,532,129)                                | 1,532,129                                     | -  | -  | -  | -  |
| (137,996)                                  | 137,996                                       | -  | -  | -  | -  |
| (20,544)                                   | 20,544  | -  | -  | -  | -  |
| -  | (211,841)                                     | 211,841  | -  | 224,468  | (224,468)  |
| (1,690,669)                                | 1,478,828                                     | 211,841  | -  | 224,468  | (224,468)  |
| <b>Financial liabilities</b>               |   |  |  |  |  |
| Fair value through profit and loss         |   |  |  |  |  |
| 21,941                                     | (21,941)                                      | -  | -  | -  | -  |
| 21,941                                     | (21,941)                                      | -  | -  | -  | -  |
| (1,668,728)                                | 1,456,887                                     | 211,841  | -  | 224,468  | (224,468)  |
| Movement between levels                    |   |  |  |  |  |

## 18.5 Reconciliation of fair value measurements within Level 3

| 2017/18                           | Value at<br>1 April 2017<br>£000 | 2017/18 Movement                  |                   |                          |                          |                                       |                                     | Value at 31<br>March 2018<br>£000 |
|-----------------------------------|----------------------------------|-----------------------------------|-------------------|--------------------------|--------------------------|---------------------------------------|-------------------------------------|-----------------------------------|
|                                   |                                  | Transfer<br>to Level<br>3<br>£000 | Purchases<br>£000 | Net<br>Transfers<br>£000 | Sale<br>Proceeds<br>£000 | Unrealised<br>profit/<br>loss<br>£000 | Realised<br>profit/<br>loss<br>£000 |                                   |
| <b>Properties</b>                 |                                  |                                   |                   |                          |                          |                                       |                                     |                                   |
| UK properties (freehold)          | 297,415                          | -                                 | 43,359            | -                        | (36,769)                 | 9,352                                 | 10,028                              | 323,385                           |
| UK properties (leasehold)         | 68,770                           | -                                 | -                 | -                        | -                        | 1,730                                 | -                                   | 70,500                            |
| Property unit trusts              | 211,841                          | (211,841)                         | -                 | -                        | -                        | -                                     | -                                   | -                                 |
| <b>Private equity</b>             |                                  |                                   |                   |                          |                          |                                       |                                     |                                   |
| UK unquoted                       | 21                               | -                                 | -                 | -                        | -                        | 1,579                                 | (1,593)                             | 7                                 |
| Overseas unquoted                 | 297,531                          | -                                 | 56,640            | -                        | (77,110)                 | (15,016)                              | 37,399                              | 299,444                           |
| <b>Infrastructure</b>             |                                  |                                   |                   |                          |                          |                                       |                                     |                                   |
| UK unquoted                       | 31,296                           | -                                 | -                 | -                        | (31,742)                 | (31,295)                              | 31,742                              | 1                                 |
| Overseas unquoted                 | 160,523                          | -                                 | 177,427           | -                        | (55,310)                 | 5,248                                 | 9,867                               | 297,755                           |
| <b>Timber (Overseas unquoted)</b> | 101,983                          | -                                 | 18,439            | -                        | (3,714)                  | (6,891)                               | 52                                  | 109,869                           |
| <b>Private Debt</b>               |                                  |                                   |                   |                          |                          |                                       |                                     |                                   |
| UK unquoted                       | 28,252                           | -                                 | -                 | -                        | (124)                    | 1,548                                 | -                                   | 29,676                            |
| Overseas unquoted                 | 73,115                           | -                                 | 18,641            | -                        | (15,864)                 | 1,169                                 | (167)                               | 76,894                            |
|                                   | 1,270,747                        | (211,841)                         | 314,506           | -                        | (220,633)                | (32,576)                              | 87,328                              | 1,207,531                         |

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## 19. Nature and extent of risks arising

### 19.1 Risk and risk management

The Fund's primary 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 minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Fund's 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 Fund 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 Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### 19.2 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 the Fund's independent adviser 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 Investment Strategy Statement (formerly referred to as the Statement of Investment Principles) which is available from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk). Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

### 19.3 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.

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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.

## 19.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, 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 2017/18.

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.

| 31st March 2017<br>Potential Market<br>movement<br>% | Asset type                  | 31st March 2018<br>Potential Market<br>movement<br>% |
|--|-----------------------------|--|
| 8.7%   | UK bonds                    | 8.7%   |
| 15.8%  | UK equities                 | 16.8%  |
| 18.4%  | Overseas equities           | 17.9%  |
| 7.1%   | UK index linked bonds       | 7.2%   |
| 14.2%  | Pooled property unit trusts | 14.3%  |
| 28.5%  | Private equity              | 28.3%  |
| 11.3%  | Infrastructure funds        | 11.5%  |
| 11.3%  | Timber                      | 11.5%  |
| 12.3%  | Private debt                | 12.6%  |
| 14.2%  | Property                    | 14.3%  |
| 0.0%   | Cash                        | 0.5%   |

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:

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| 31st March<br>2017<br>£000 | Percentage<br>change<br>% | Value<br>increase<br>£000 | Value<br>decrease<br>£000 | Asset type                             | 31st March<br>2018<br>£000 | Percentage<br>change<br>% | Value<br>increase<br>£000 | Value<br>decrease<br>£000 |
|----------------------------|---------------------------|---------------------------|---------------------------|--|----------------------------|---------------------------|---------------------------|---------------------------|
| 156,226                    | -                         | 156,226                   | 156,226                   | Cash and equivalents                   | 149,108                    | 0.5%                      | 149,854                   | 148,362                   |
|                            |                           |                           |                           | Investment portfolio assets            |                            |                           |                           |                           |
| 241,885                    | 8.7%                      | 262,929                   | 220,841                   | UK bonds                               | 242,167                    | 8.7%                      | 263,236                   | 221,098                   |
| 150,362                    | 15.8%                     | 174,119                   | 126,605                   | UK equities                            | 134,666                    | 16.8%                     | 157,290                   | 112,042                   |
| 1,640,941                  | 18.4%                     | 1,942,874                 | 1,339,008                 | Overseas equities                      | 1,838,222                  | 17.9%                     | 2,167,264                 | 1,509,180                 |
| 265,569                    | 15.8%                     | 307,529                   | 223,609                   | UK equities unit insurance policies    | 239,889                    | 16.8%                     | 280,190                   | 199,588                   |
| 782,461                    | 18.4%                     | 926,434                   | 638,488                   | Overseas equities insurance policies   | 774,160                    | 17.9%                     | 912,735                   | 635,585                   |
| 484,099                    | 18.4%                     | 573,173                   | 395,025                   | Global equities insurance policies     | 496,794                    | 17.9%                     | 585,720                   | 407,868                   |
| 473,767                    | 18.4%                     | 560,940                   | 386,594                   | Global unit trusts                     | 471,407                    | 17.9%                     | 555,789                   | 387,025                   |
| 252,209                    | 7.1%                      | 270,116                   | 234,302                   | UK index linked bonds                  | 433,664                    | 7.2%                      | 464,888                   | 402,440                   |
| 211,841                    | 14.2%                     | 241,922                   | 181,760                   | Pooled property unit trusts            | 224,468                    | 14.3%                     | 256,567                   | 192,369                   |
| 297,552                    | 28.5%                     | 382,354                   | 212,750                   | Private equity                         | 299,451                    | 28.3%                     | 384,196                   | 214,706                   |
| 191,819                    | 11.3%                     | 213,495                   | 170,143                   | Infrastructure                         | 297,756                    | 11.5%                     | 331,998                   | 263,514                   |
| 101,983                    | 11.3%                     | 113,507                   | 90,459                    | Timber                                 | 109,869                    | 11.5%                     | 122,504                   | 97,234                    |
| 101,367                    | 12.3%                     | 113,835                   | 88,899                    | Private Debt                           | 106,570                    | 12.6%                     | 119,998                   | 93,142                    |
| 261,836                    | 11.3%                     | 291,423                   | 232,249                   | Other managed funds                    | 264,399                    | 11.5%                     | 294,805                   | 233,993                   |
| 366,185                    | 14.2%                     | 418,183                   | 314,187                   | Property                               | 393,885                    | 14.3%                     | 450,211                   | 337,559                   |
| (1,397)                    | -                         | (1,397)                   | (1,397)                   | Net derivative assets                  | (27,570)                   | -                         | (27,570)                  | (27,570)                  |
| 6,421                      | -                         | 6,421                     | 6,421                     | Investment income due                  | 5,771                      | -                         | 5,771                     | 5,771                     |
| (255)                      | -                         | (255)                     | (255)                     | WHT payable                            | (143)                      | -                         | (143)                     | (143)                     |
| 2,663                      | -                         | 2,663                     | 2,663                     | Amounts receivable for sales           | 30,932                     | -                         | 30,932                    | 30,932                    |
| (2,619)                    | -                         | (2,619)                   | (2,619)                   | Amounts payable for purchases          | (3,971)                    | -                         | (3,971)                   | (3,971)                   |
| (103)                      | -                         | (103)                     | (103)                     | Amounts payable for GLF                | (981)                      | -                         | (981)                     | (981)                     |
| 5,984,812                  |                           | 6,953,769                 | 5,015,855                 | Total assets available to pay benefits | 6,480,513                  |                           | 7,501,283                 | 5,459,743                 |

## 19.5 Sensitivity of funding position

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, albeit that a smoothed rather than spot rate methodology is used by the Fund's Actuary.

Barnett Waddingham's approach adopted at the 2016 Actuarial Valuation includes the following features:

- Financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2016 to 30 June 2016. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31st March 2016 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

## 19.6 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 risk, which represent the risk that the fair value of 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; a passive bond mandate with Legal and General (until February 2018), UBS Asset Management (from

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March 2018) and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. In addition the Fund has an investment in a private debt mandate.

The Fund's direct exposure to interest rate movements is shown below. The underlying assets are shown at their fair value.

| Asset value<br>as at<br>31 Mar 2017<br>£000 | Asset type                | Asset value<br>as at<br>31 Mar 2018<br>£000 |
|---|---------------------------|---|
| 156,226                                     | Cash and cash equivalents | 149,108                                     |
| 35,592                                      | Cash balances             | 23,729                                      |
| 241,885                                     | Fixed interest securities | 242,167                                     |
| 252,209                                     | Index-linked securities   | 433,664                                     |
| 101,367                                     | Private debt              | 106,570                                     |
| <b>787,279</b>                              | <b>Total assets</b>       | <b>955,238</b>                              |

### 19.7 Interest rate risk sensitivity analysis

Interest rates 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, have 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<br>as at<br>31 Mar 2017<br>£000 | Change in year in the<br>net assets to pay benefits |                  | Asset type                              | Asset value<br>as at<br>31 Mar 2018<br>£000 | Change in year in the<br>net assets to pay benefits |                  |
|---|---|------------------|---|---|---|------------------|
|   | +100 BPS<br>£000                                    | -100 BPS<br>£000 |   |   | +100 BPS<br>£000                                    | -100 BPS<br>£000 |
| 156,226                                     | 1,562   | (1,562)          | Cash and cash equivalents               | 149,108                                     | 1,491   | (1,491)          |
| 35,592                                      | 356   | (356)            | Cash balances                           | 23,729                                      | 237   | (237)            |
| 241,885                                     | 2,419   | (2,419)          | Fixed interest securities               | 242,167                                     | 2,422   | (2,422)          |
| 252,209                                     | 2,522   | (2,522)          | Index-linked securities                 | 433,664                                     | 4,337   | (4,337)          |
| 101,367                                     | 1,014   | (1,014)          | Private debt                            | 106,570                                     | 1,066   | (1,066)          |
| <b>787,279</b>                              | <b>7,873</b>  | <b>(7,873)</b>   | <b>Total change in assets available</b> | <b>955,238</b>                              | <b>9,553</b>  | <b>(9,553)</b>   |

# Statement of Accounts - Pension Fund Accounts

## 19.8 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 was managed by Legal and General Investment Management until February 2018. From 1 March 2018 it is now managed by the Fund's new passive provider UBS Asset Management. The Fund hedges 50% of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

The following table summarises the Fund's currency exposure as at 31st March 2018 and prior year:

| 31 Mar 2017<br>£000 | Asset type                            | 31 Mar 2018<br>£000 |
|---------------------|---------------------------------------|---------------------|
| 1,640,941           | Overseas equities quoted              | 1,838,222           |
| 782,461             | Overseas unit life assurance policies | 774,160             |
| 484,099             | Global unit life assurance policies   | 496,794             |
| 473,767             | Global unit trusts                    | 471,407             |
| 297,531             | Overseas private equity               | 299,444             |
| 160,523             | Overseas infrastructure               | 297,755             |
| 101,983             | Overseas timber                       | 109,869             |
| 73,115              | Overseas private debt                 | 76,894              |
| <b>4,014,420</b>    | <b>Total overseas assets</b>          | <b>4,364,545</b>    |

## 19.9 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 **13%** (2016/17: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2016/17: 13%) 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:



# Statement of Accounts - Pension Fund Accounts

| Asset value<br>as at<br>31 Mar 2017<br>£000 | Change in year in the<br>net assets to pay benefits |              | Asset type                              | Asset value<br>as at<br>31 Mar 2018<br>£000 | Change in year in the<br>net assets to pay benefits |              |
|---|---|--------------|---|---|---|--------------|
|   | +13%<br>£000  | -13%<br>£000 |   |   | +13%<br>£000  | -13%<br>£000 |
| 1,640,941                                   | 1,854,263   | 1,427,619    | Overseas equities quoted                | 1,838,222                                   | 2,077,191   | 1,599,253    |
| 782,461                                     | 884,181   | 680,741      | Overseas unit life assurance policies   | 774,160                                     | 874,801   | 673,519      |
| 484,099                                     | 547,032   | 421,166      | Global unit life assurance policies     | 496,794                                     | 561,377   | 432,211      |
| 473,767                                     | 535,357   | 412,177      | Global unit trusts                      | 471,407                                     | 532,690   | 410,124      |
| 297,531                                     | 336,210   | 258,852      | Overseas private equity                 | 299,444                                     | 338,372   | 260,516      |
| 160,523                                     | 181,391   | 139,655      | Overseas infrastructure                 | 297,755                                     | 336,463   | 259,047      |
| 101,983                                     | 115,241   | 88,725       | Overseas timber                         | 109,869                                     | 124,152   | 95,586       |
| 73,115                                      | 82,620  | 63,610       | Overseas private debt                   | 76,894                                      | 86,890  | 66,898       |
| 4,014,420                                   | 4,536,295   | 3,492,545    | <b>Total change in assets available</b> | 4,364,545                                   | 4,931,936   | 3,797,154    |

## 19.10 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.

The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) where applicable 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.

## 19.11 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 Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide 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

# Statement of Accounts - Pension Fund Accounts

tax backed scheme employer for any new body. An analysis of debtor balances at 31st March 2018 is provided in Note 14.

## 19.12 Forward currency contracts

Forward currency contracts are undertaken by the Fund's appointed fund managers and Legal and General for the passive currency overlay programme until 28 February 2018. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31st March 2018 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 and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 12.

| Exposure at 31 March 2017 |        | Counterparty                | Exposure at 31 March 2018 |               |
|---------------------------|--------|-----------------------------|---------------------------|---------------|
| £000                      | %      |                             | £000                      | %             |
| 58,779                    | 2.1%   | Barclays Capital            | -                         | -             |
| 140,525                   | 5.0%   | BNP Paribas Capital Markets | 83,717                    | 2.3%          |
| 357,393                   | 12.6%  | Citigroup                   | 886,167                   | 24.8%         |
|                           |        | Credit Suisse First Boston  | 103,367                   | 2.9%          |
| 338,690                   | 11.9%  | Goldman Sachs               | 244,980                   | 6.9%          |
| -                         | -      | Deutsche Bank AG            | 453,627                   | 12.7%         |
| 416,105                   | 14.7%  | HSBC                        | 358,461                   | 10.0%         |
| 115,216                   | 4.1%   | J P Morgan Securities       | 165,683                   | 4.6%          |
| 236,434                   | 8.3%   | Lloyds                      | -                         | -             |
| 171,317                   | 6.0%   | Merrill Lynch               | 541,970                   | 15.2%         |
| -                         | -      | Morgan Stanley              | 142,084                   | 4.0%          |
| 147,062                   | 5.2%   | RBC Europe                  | 134,374                   | 3.8%          |
| 240,276                   | 8.5%   | RBS                         | 73,537                    | 2.1%          |
| -                         | -      | SEB                         | 137,927                   | 3.9%          |
| 117,330                   | 4.1%   | SG Securities               | -                         | -             |
| 396,013                   | 14.0%  | Standard Chartered          | 185,808                   | 5.2%          |
| 19,614                    | 0.7%   | UBS                         | 34,478                    | 1.0%          |
| 79,886                    | 2.8%   | Westpac Bank Corp           | 21,787                    | 0.6%          |
| 2,834,640                 | 100.0% | <b>Total</b>                | <b>3,567,967</b>          | <b>100.0%</b> |

## 19.13 Futures

There were no open future contracts as at 31st March 2017 or 31st March 2018.

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## 19.14 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.

In addition to the passive manager, Legal and General until February 2018, and UBS from January 2018, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31st March 2018, the average credit quality of the MandG bond mandate was **A** rated (**A-** rated as at 31st March 2017). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31st March 2018 or 31<sup>st</sup> March 2017. The average credit rating of the financing fund was **BB** rated as at 31st March 2018 (**BB+** rated as at 31st March 2017), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31st March 2018 had an average credit quality of **AA** (**AA+** rated as at 31st March 2017) and has suffered eleven defaults since inception, five occurring in 2017/18, one occurring in 2016/17, three occurring in 2015/16 and two occurring 2011/12.

## 19.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (A as at 31st March 2017) long term credit rating with Standard and Poor. Cash is invested with Lloyds and 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 ISC. The ISC 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 31st March 2018 **£23.729m** (31st March 2017: £35.592m) 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 Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31st March 2018, the total balance held in the Sterling and US dollar AAA money market funds was **£120.060m** with a smaller balance of **£29.048m** held in the custodian current account (31st March 2017: £130.930m and £25.296m 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.

# Statement of Accounts - Pension Fund Accounts

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

| 31 March 2017                  |                |                                      | 31 March 2018 |                |
|--------------------------------|----------------|--------------------------------------|---------------|----------------|
| Rating                         | £000           |                                      | Rating        | £000           |
| <b>Cash managed externally</b> |                |                                      |               |                |
| Cash held on deposit (GLF)     |                |                                      |               |                |
| AAA                            | 50,967         | BNP Paribas                          | AAA           | 57,745         |
| AAA                            | -              | L&G TA Liquidity Fund                | AAA           | 6              |
| AAA                            | 79,963         | Northern Trust                       | AAA           | 62,309         |
| Cash held in Current Account   |                |                                      |               |                |
| AA                             | 25,296         | Northern Trust                       | AA-           | 29,048         |
|                                | <u>156,226</u> | <b>Total cash managed externally</b> |               | <u>149,108</u> |
| <b>Cash managed internally</b> |                |                                      |               |                |
| Cash held on deposit           |                |                                      |               |                |
| AAA                            | 7,502          | Blackrock                            | AAA           | -              |
| AA-                            | 7,500          | HSBC                                 | AA-           | 5,004          |
| BBB-                           | -              | Royal Bank of Scotland               | BBB+          | 2              |
| A                              | 4,001          | Santander UK                         | A             | 5,002          |
| AAA                            | 10,002         | Standard Life (formerly IGNIS)       | AAA           | 8,602          |
| AA-                            | 5,027          | Svenska Handelsbanken                | AA-           | 5,039          |
| Cash held in Current Account   |                |                                      |               |                |
| A                              | 1,560          | Lloyds Bank plc                      | A             | 80             |
|                                | <u>35,592</u>  | <b>Total cash managed internally</b> |               | <u>23,729</u>  |
|                                | <u>191,818</u> | <b>Total</b>                         |               | <u>172,837</u> |

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

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| 31 March<br>2017                                   |                                      | 31 March<br>2018 | Maximum<br>limit per<br>Financial<br>Institution | Historical<br>risk of<br>default | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability |
|--|--------------------------------------|------------------|--|----------------------------------|--|
|  |                                      | £000             | £000   | %                                | £000   |
| <b>Cash managed externally</b>                     |                                      |                  |  |                                  |  |
| Deposit with bank and other financial institutions |                                      |                  |  |                                  |  |
| 130,930  | AAA Rated                            | 120,060          | 80,000   | 0.0413%                          | 50   |
| 25,296   | AA Rated                             | 29,048           |  | 0.0246%                          | 7  |
| <b>156,226</b>                                     | <b>Total cash managed externally</b> | <b>149,108</b>   |  |                                  | <b>57</b>  |
| <b>Cash managed internally</b>                     |                                      |                  |  |                                  |  |
| Deposit with bank and other financial institutions |                                      |                  |  |                                  |  |
| 17,504   | AAA Rated                            | 8,602            | 10,000   | 0.0413%                          | 4  |
| 12,527   | AA Rated                             | 10,043           | 7,500  | 0.0246%                          | 2  |
| 5,561  | A Rated                              | 5,082            | 5,000  | 0.0539%                          | 3  |
| -  | BBB Rated                            | 2                | 5,000  | 0.1583%                          | -  |
| <b>35,592</b>                                      | <b>Total cash managed internally</b> | <b>23,729</b>    |  |                                  | <b>9</b>   |
| <b>191,818</b>                                     | <b>Total cash</b>                    | <b>172,837</b>   |  |                                  | <b>66</b>  |

## 19.16 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 **21 June 2016**, **27%** of the Fund's assets. In 2017 the ISC took the decision to de-risk reducing its equity allocation as a result of the strategic allocation to alternatives will increase as and when opportunities arise. 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 and investment income 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 31st March 2018 had immediate access to its pension fund cash holdings held internally and externally of **£172.837m** (31st March 2017: £191.818m). These monies are primarily invested on an overnight basis on the money market.

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Investment Strategy Statement 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.

# Statement of Accounts - Pension Fund Accounts

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## 19.17 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.

## 19.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31st March 2018 Northern Trust had **\$8.1 trillion** of assets under custody (31st March 2017: \$7.1 trillion) and had a credit rating of **AA-** (31st March 2017: AA). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

## 19.19 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 2016. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

## 20. Events after the Balance Sheet date

The Statement of Accounts was certified by the Executive Director, Corporate and Customer Services on **30th July 2018**. Events taking place after this date were not reflected in the financial statements or notes.

## 21. Further information

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

Director for Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 03330 138501

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

# Statement of Accounts - Glossary

| Term                                | Explanation   |
|-------------------------------------|---|
| Accruals                            | Sums 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.  |
| 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.   |
| Actuarial valuation                 | A type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities.   |
| 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.  |
| Accumulating Absences               | 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.   |
| 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.  |
| Amortised cost                      | Amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and outstanding premium or discount.   |
| Amortisation                        | Amortisation is the writing down of costs to the Comprehensive Income and Expenditure Statement over a number of years.   |
| Appropriations                      | Appropriations are the transfer of resources between, to and from the various reserves.   |
| Available for sale financial assets | Financial assets that have a quoted market price and/or do not have fixed or determinable payments.   |
| Billing authority                   | City, district and borough councils are responsible for the billing and collection of Council Tax and Non domestic rates (NDR).   |
| Cabinet                             | The Cabinet comprises the Leader, and 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 and are reported to the Council.   |
| Capital Adjustment Account          | <p>This account represents:</p> <ul style="list-style-type: none"> <li>▪ Amounts set aside from revenue resources to repay external loans;</li> <li>▪ The financing of capital payments from capital receipts and revenue reserves; and</li> <li>▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.</li> </ul> |
| 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.  |

# Statement of Accounts - Glossary

| Term                                | Explanation  |
|-------------------------------------|--|
| CIPFA                               | 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 non domestic rates.   |
| 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.   |
| Community Schools                   | Locally maintained schools that are owned and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the schools' admission criteria.   |
| Council tax                         | A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).   |
| Creditors                           | Amounts due, but not yet paid, for work, goods received or services received during the financial year.  |
| Current service cost                | The increase in pension liabilities as a result of service earned during the year.   |
| Current value                       | A measurement reflecting the economic environment prevailing for the service or function the asset is supporting at the reporting date. Current value measurement bases include 'Existing Use Value', 'Depreciated Replacement Cost' and 'Fair Value'.   |
| 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.                                  |
| Depreciated Replacement Cost        | A method of valuation which provides a measure of the current cost of replacing an asset with a modern equivalent asset, less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. It involves imagining what the current asset would need to be substituted with in order to deliver the same level and quality of service currently being delivered. |
| 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                            | Arises from prematurely repaying a loan where the prevailing interest rate is above the rate of interest payable on the loan being repaid - the Council is compensated for the interest rate differential, which 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.   |
| 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   |
|-----------------------|---|
| Employee benefits     | Employee benefits include wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees.   |
| Existing Use Value    | A valuation method that estimates amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction and disregarding potential alternative uses for the asset.   |
| Fair value            | The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.  |
| 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.  |
| Foundation Schools    | Locally maintained schools that are state-funded by the Council. These schools are run by their governing body. The governing bodies employ the staff, determine the school admission policies and own the school land and buildings.   |
| 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.  |
| IAS                   | International Accounting Standards.   |
| IFRS                  | International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.   |
| Inventories           | Assets acquired or produced for resale or to be consumed or distributed in the provision of services.   |
| Investment properties | Properties held solely to earn rentals and/or for capital appreciation purposes. This definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.   |
| 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> |
| Joint operations      | Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.   |
| Lease                 | An arrangement for securing the use of a use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.  |
| Lessee                | The party in a lease arrangement who secures the use of an asset over an agreed period of time in exchange for payment, but does not secure legal title to the asset.   |
| Lessor                | The party in a lease arrangement who retains legal title of an asset but lets out that asset to another   |

# Statement of Accounts - Glossary

| Term  | Explanation   |
|---|---|
|   | party in exchange for rental payments.  |
| Loans and receivables                             | Assets that have fixed or determinable payments but are not quoted in an active market.   |
| Non Domestic Rates                                | These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are collected by the billing authorities and are distributed in accordance government regulations.   |
| Net interest on the net defined benefit liability | The change during the period in the net pension liability that arises from the passage of time. It includes interest income on plan assets and interest costs on the pension liability. It is calculated by applying the discount rate used to measure the net pension obligation at the beginning of the period to the net pension liability at the beginning of the period – taking into account any changes in the net pension liability during the period as a result of contribution and benefit payments. |
| Non-current assets held for sale                  | Property, Plant and Equipment assets that the Council is formally committed to sell and is actively marketing them in their current condition and where sale is expected within the next 12 months.   |
| 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.<br><br>The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).   |
| Past service cost                                 | The increase in pension liabilities arising from a current year pension scheme amendment or a curtailment, whose effect relates to years of service earned in earlier years.  |
| Pooled Budget                                     | A type of partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services.  |
| Precept   | The amount the County Council requires the City, Borough and 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   | Arises from prematurely repaying a loan where the prevailing interest rate is below the rate of interest payable on the loan being repaid. The differential between the two rates is paid to the lender, in the form of a 'premium' arising from early settlement of the loan.  |
| Private Finance Initiative (PFI)                  | 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.  |
| Property, Plant and Equipment                     | Assets that have physical substance and are held for use in the provision or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year.   |
| 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 (PPP)                  | An arrangement where the private sector partner agrees to provide a service to a public sector organisation.  |
| Public Works Loan 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.   |

# Statement of Accounts - Glossary

| Term                                    | Explanation  |
|---|--|
| 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.   |
| Return on plan assets                   | Interest, dividends and other income derived from the Local Government Pension Scheme's assets (excluding amounts included in net interest on the net defined benefit liability), together with realised and unrealised gains or losses on those assets, less costs of managing the assets and any taxes payable.  |
| 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>  |
| Revenue provision for repayment of debt | The minimum amount which must be charged, by Regulation, to the revenue account each year for repaying external loans.   |
| Revenue Support Grant                   | This is the central government financial support towards the general expenditure of local authorities.   |
| Retirement benefits                     | All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable. This is because these are not given in exchange for services rendered by employees.   |
| RICS                                    | The Royal Institution of Chartered Surveyors (RICS) is the professional body for qualifications and standards in land, property, infrastructure and construction.  |
| 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.  |
| SeRCOP                                  | CIPFA Service Reporting Code of Practice provides a framework for consistent financial reporting by local authorities in order that consistency and comparability are achieved.  |
| 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.   |
| Surplus properties                      | Properties not being used to deliver services but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.   |
| 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. |
| Voluntary aided schools                 | In these schools, all of the running costs and the majority of the building costs are funded by central government via the Council. The remaining building costs are met by the religious body that owns the school land and buildings. The governing body, comprising a majority of governors appointed by the  |

## Statement of Accounts - Glossary

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| Term                         | Explanation   |
|------------------------------|---|
|                              | religious body, employs the school staff and sets the school's admission arrangements in consultation with the Council.   |
| Voluntary controlled schools | These schools are state funded via the Council. A religious body has some formal influence in running the school, including appointing a proportion of the school governors, and owns the school land and buildings. The Council employs the school staff though, and has primary responsibility for the school's admission arrangements. |

# Annual Governance Statement



Essex County Council

# Annual Governance Statement

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## Introduction

This statement summarises the outcome of our review of the governance arrangements that have been in place during 2017/18.

We are responsible for ensuring that there is a sound system of governance which incorporates the system of internal control. Our local [code of governance](#) is underpinned by the 7 principles of good governance set out in the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government: Framework 2016'.

Our Governance Framework comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which Essex County Council (ECC) is controlled and governed.

The Governance Framework was reviewed in January 2018 in line with current CIPFA guidance and our Code of Governance external webpages were also refreshed at the same time.

The effectiveness of key elements of the governance framework are assessed throughout the year by the Corporate Governance Steering Board, the Audit, Governance and Standards Committee, Internal Audit and other Officer and Members as required. The review of effectiveness is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Counter Fraud's annual report, our own Service Assurance Statements (completed by all Directors) and from comments received from external auditors and other review agencies and inspectorates.

## Findings

The findings of this review are outlined under points 1 – 20 below:

- 1. Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.**

All our employees and Members must conduct themselves in accordance with the terms of the [Officer Code of Conduct](#) and [Member Code of Conduct](#) (part 5 of the Constitution). All new Members attended induction sessions on the code of conduct in May and June 2017.

Until September 2017 the ECC and Essex Fire Authority Joint Standards Committee's main function in relation to ECC was to promote and maintain high standards of conduct by Councillors and to help them follow the Code of Conduct. Following the abolition of the Essex Fire Authority the responsibility for standards was transferred to a reconstituted committee, known as the Audit, Governance and Standards Committee. The Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available via our website. There were no Standards complaints referred to the Committee during 2017/18.

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Our corporate governance e-learning training include modules called 'How We Behave' and 'Good Decision Making' which cover the Code of Conduct and other expectations we have of Councillors and employees. The modules were launched to ECC Members in September 2017 following the May 2017 elections. Completion rates for all governance e learning modules for Officers and Members are monitored at Corporate Governance Steering Board.

In May 2016 the Council adopted a [Policy](#) that all Members are asked to undergo a Disclosure and Barring Service (DBS) check when elected. This was followed up after the May 2017 elections and all members were DBS checked.

ECC has arrangements in place for employees, consultants or contractors to raise any concerns they have in the workplace. Our Whistle-Blowing Policy is available for employees through our intranet site, and provides advice and guidance about informal and formal ways to raise concerns relating to wrongdoing.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process. These arrangements are also covered in our Anti-Fraud and Corruption corporate governance e-learning.

We have a strong counter-fraud team that supports investigations into allegations raised through any of the above routes and instigates appropriate recovery action where necessary.

All employees must declare any interests in line with our Declaration of Interests Policy, all employees are asked to complete this once a year or whenever their situation changes.

Members are required to register details of Disclosable Pecuniary Interests and a series of interests defined by the Code of Member Conduct. Declarations are required to be completed within 28 days of becoming a Member (or being re-elected or reappointed) in the Authority's Register of Members' Interests. This is set out in section 24.6 of the Constitution. In May 2017 we moved to an online form to aid efficient reporting of member interests.

## **2. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

The Monitoring Officer is the Director, Legal and Assurance, and is responsible for ensuring lawfulness in decision making. The Section 151 Officer is the Executive Director, Corporate and Customer Services, and is responsible for financial administration and financial probity and prudence in decision making. Both roles are defined within Part 2 of the [Constitution](#).

The Chief Audit Executive is responsible for providing assurance on internal controls and ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud. The Chief Audit Executive was the Head of Internal Audit and Counter Fraud until March 2018 and is now the Head of Assurance.

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Each Executive Director is required to complete and formally sign off an evidence-based Service Assurance Statement (SAS) based on individual assessments from each Director within their functional area, accompanied by a plan setting out actions to be taken to strengthen any areas of weakness identified. These Statements were completed in March/April 2018, collated and analysed. The organisation's 2017/18 Service Assurance Statements returned an adequate overall assessment. Where necessary improvements have been identified, the relevant directors are responsible for securing remedial action in these areas.

All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet or Cabinet Members must incorporate comments from both the Section 151 Officer and Monitoring Officer before they are submitted for consideration.

In 2017 a new process was introduced to improve the quality of reports to Cabinet. The Reports are now considered at a Cabinet Agenda Setting Meeting before the public meeting. This allows members of the Cabinet and the Corporate Management Board to make the decision before they are formally submitted for Cabinet.

The scheme of delegations to officers, to committees and to cabinet members ensures that decisions are not *ultra vires* whilst allowing ECC to exercise its powers in a convenient way.

The Council seeks to comply with both the specific requirements of legislation and the general responsibilities placed on us by the common law and public law, bringing the key principles of good administrative law into our processes and decision making.

### 3. Documenting a commitment to openness and acting in the public interest.

Our [Publication scheme](#) which details the different classes of information ECC routinely makes available and our '[Your right to know](#)' webpage which provides guidance for the public about what information is available to them and how they can access it, including via Freedom of Information (FOI), Environmental Information and Subject Access Requests. We also publish all [responses](#) to FOI requests.

Our website is accessible to a wide audience, with relevant and regularly updated news articles on our homepage.

Copies of the agendas, documents, minutes and decisions of all of our Committees, Cabinet and Council are available promptly through our website and we have an interactive online calendar of future meetings to enable public attendance where appropriate. Audio of our Council, Cabinet and most other committee meetings are broadcast live on our website and are [available to listen to after the meeting](#).

We also publish data under the [Government's Transparency Code](#) including [Council spending](#), [Council contracts](#) and our [Counter Fraud outcomes](#).



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Our Vision and Organisational Strategy (see sections 5 and 6) outline how we commit to work in the public interest. Our commitment to transparency, as detailed above, enables the public to assess this and they can then use our [complaints policy](#) and the consultation process to feedback their views (see section 4).

## **4. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**

ECC's interim [Communications and Marketing Strategy 2017/18](#) outlines how we communicate with partners and all sections of the community. It establishes the principles that guide how we communicate and engage, with openness and transparency, in language that people can understand, and through channels which are easy to access. A refreshed strategy is due to be published in May 2018.

All our communications are branded to ensure that they are easily recognised, and the information can be translated into different languages and alternative formats as required.

We continue to develop use of social media, including an active presence on Twitter, Facebook and LinkedIn. This shift of communications activities to digital channels enables citizens to self-serve, and engage with the Council in a style, time and place which suits them.

For 2017/18, **92.9%** of corporate complaints were responded to within 10 days.

Our [constitution](#) allows public speaking at our Cabinet and Scrutiny Committees and for public questions to be heard at Full Council.

ECC proactively engages with the community in order to seek out their views, actively listen to them and support them to respond. We have a range of ways in which people can be involved in shaping decisions. These are inclusive and meet individual needs. This includes statutory consultations, surveys which can be completed online or paper questionnaires plus telephone and accessible format options, focus groups, face to face interviews, ethnographic work, workshops and consultation/discussion events.

The Council has established a consultation group, which enables officers seeking to undertake consultation to discuss the requirements with experts across the Council. This seeks to ensure that the Consultation that is presented to the public engages with the target communities, and seeks a full set of responses which can be used to inform the Council's decision making.

Our consultation portal [Essex Insight](#) is used by ECC and by district, city and borough councils, to manage online consultations. The purpose of each consultation is described and contact details are given so that it is possible to take part.

We also support a range of adult service user/carers led forums - while young people are supported to provide views through a range of groups including the Young Essex Assembly and the Children in Care Council.

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ECC has a framework agreement which enables it to commission market research that can range from more traditional methods, such as surveys, through to more innovative engagement approaches such as ethnographic studies and appreciative enquiry. The framework can be used to bring additional skill and capacity to ECC and for situations that require independent research.

The process of how we engage with adults with an experience of disability is currently being reviewed. The new process of engagement will be implemented during 2018 once it has been agreed.

5. **Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.**
6. **Translating the vision into courses of action for the authority, its partnerships and collaborations.**

A [Vision](#) called 'the Future of Essex' is available on our website. The Essex vision was created alongside partners in 2017 and is intended to set out ambitions for the County until 2035.

Our [Organisational Strategy](#) 2017-21 was also refreshed in 2017 and can be found on our website. It articulates our strategic aims and priorities as well as the organisational building blocks needed to do this.

The 2017/18 budget was approved at Full Council on 14 February 2017 and the 2018/19 [budget](#) was approved on 13 February 2018. In 2018, for the first time, the Council combined the Organisation Plan and the Budget report so that our plans and how we will resource them were considered by Council at the same time.

Our employees are supported by a comprehensive individual performance management process. Our 'Perform' system allows each individual to align their goals to ECC's overarching priorities and their line manager's goals in a 'golden thread'.

The organisational redesign which started in 2016 is designed to enable ECC to meet our ambitions for the future and to take account of our financial constraints. Phase 2 of the redesign continues and it is anticipated that this will conclude by the end of the 2018.

Essex is committed to a shared vision called 'the Future of Essex' which comprises a set of ambitions which can only be delivered through effective, joined-up partnership. This sets out the Council's aims that 'whole system thinking' is the key to improving our public services, reducing costs to taxpayers and getting the best outcomes for our residents.

We have made substantial steps forward in developing partnership work in Essex. Recent examples include:

- Creating a movement of whole system leadership by our Greater Essex partnership leadership development programmes. The cohort was the Greater Essex Leadership

# Annual Governance Statement

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Collaborative which concluded in September 2017 and paved the way for the new 'Leading Greater Essex' programme which will commence in June 2018 and makes provision for a further 3 one year cohorts of circa 50 leaders from across public, community and voluntary sector organisations in Essex, Southend and Thurrock.

- Essex Partners are sponsoring a series of thematic projects which respond to the ambitions set out in the Future of Essex and seek to generate tangible outcomes within 12-18 months ([www.essexfuture.com](http://www.essexfuture.com)).
- The Greater Essex Growth and Infrastructure Framework (GIF), which was commissioned by the county and two unitary authorities to assess infrastructure requirements and funding implications;
- The Essex Economic Commission completed their final report 'Enterprising Essex: Meeting the Challenge'. This sets out key considerations and recommendations to support the Greater Essex economy in the future and was launched in March 2018.
- Launch of an emotional wellbeing and mental health service for children and young people by three local authorities (Southend, Essex and Thurrock) and seven clinical commissioning groups;
- Development of a mental health strategy for Southend, Essex and Thurrock and of pan-Essex dementia and suicide prevention strategies with the same partners.

Essex County Council works closely with NHS partners across Essex and is increasingly integrating the way we work and commission with NHS partners. This work is overseen by the Essex Health and Wellbeing Board.

As part of the Better Care Fund (BCF), ECC has established pooled funds with the five clinical commissioning groups in Essex. The BCF is "owned" by the Health and Wellbeing Board (HWB) on behalf of ECC and the five Clinical Commissioning Groups (CCGs), NHS England require that it is approved by the HWB before submission. BCF is also approved by Cabinet and the individual CCG Boards.

The Public Sector Equality Duty requires public bodies to publish one or more equality objectives every 4 years. ECC's new equality objectives for 2018-2021 were agreed by PLT and SBB in March 2018, these are closely aligned to the Organisation Strategy and Corporate Plan. A number of success measures and equality priorities have been agreed and are aligned to functional business plans.

The Essex Faith Covenant is a set of principles agreed by public services and faith based organisations. The principles aim to harness trust, build effective dialogue and break down barriers in the pursuit of delivering shared outcomes that help those most in need. Currently, the main focus for this partnership is to tackle isolation, loneliness and disadvantage in the pilot areas of Basildon, Braintree, Colchester and Chelmsford. Other partners have also expressed a desire to get involved.

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## **7. Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.**

Article 5 of the [Constitution](#) defines the responsibilities for decision making and the principles in accordance with which decisions must be made.

The Organisational Intelligence function provides ECC with the evidence it needs to inform decisions affecting commissioning and operational service delivery, such as population analysis, demand forecasting and needs assessments, as well as enabling the organisation to manage performance, engage with citizens and service users and maintain key business intelligence systems.

All agendas, minutes and decisions taken by Cabinet members are available to the public through [ECC's website](#). We have an online committee management system which ensures easily accessible and good quality information is always available about decisions and Member meetings, this also ensures that the committee process is efficiently managed.

In 2017 a new process was introduced to improve the quality of reports to Cabinet. The Reports are now considered at a Cabinet Agenda Setting Meeting before the formal Cabinet meeting. This allows members of the Cabinet and the Corporate Management Board to improve the quality of reports and make them easier for the public to understand before they are formally submitted to a Cabinet meeting.

The Overview and Scrutiny Committees play a key role to inform and challenge decisions carried out within each service. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#). All relevant papers can be found on ECC's [Committee Management Information System](#). There were three call-ins in 2017/18.

Our intranet pages provide officers and councillors with access to information about how we deal with decision making, including easy access to guidance, including an easy to use decision tree on how to make formal decisions. Our e-learning also covers decision making (see section 13).

In 2017/18, **95.5%** of published decisions had an Equality Impact Assessment completed.

ECC has a robust Data Quality Strategy in place which had an interim review in 2017 and is due for a full review in May 2018 due to GDPR implementation.

For further information on partnerships please see section 20.

## **8. Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.**

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To understand the performance of the organisation, there will be a basket of strategic measures focused on impact and delivery. These will be reviewed by Corporate Management Board (CMB) at Performance Board (which is now Strategic Business Board) at a quarterly meeting. These measures will work hand-in hand with information relating to finance, audit, project delivery and risk. Executive directors are responsible for developing strategic measures and associated targets within their business plans. These targets are subsequently signed off as part of business planning process by CMB to ensure consistency and challenge.

Strategic Business Board has been set up to oversee a consolidated view of performance. The board will actively consider strategic findings and issues in relation to finance, performance, project delivery, risk and audit. The board will be comprised of CMB members and meet monthly. A new organisation performance report has been established for this purpose and promotes better accessibility of performance information using dashboards and infographics so that readers are able to quickly and easily digest information.

Scrutiny plays a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of ECC's objectives and holding Cabinet to account for delivery.

Our Procurement Strategy and procedures provide a framework of best practice for all procurement activities which support ECC in achieving value for money and delivering on corporate objectives.

ECC Service Quality has been recognised nationally during 2017/18:

- The [last set of CIPFA annual benchmarking scores](#) that showed a year-on-year improvement on IT reliability and lower than average reported incidents per user compared to other organisations.
- ECC received 10 nominations in the Social Worker of the Year Awards – making up more than 10 per cent of the shortlisted entries nationwide
- Essex County Council won Transport Local Authority of the Year at this year's National Transport Awards.
- An innovative Essex scheme to repair, recycle and reuse small waste electrical items has been shortlisted for a prestigious national award.
- Essex Highways has been nationally recognised for its upkeep of roads and pavements in the county. The British Standards Institution (BSI) has rewarded the efforts of Essex County Council and its highways partner, Ringway Jacobs, with the prestigious ISO 55001 for effective maintenance of Essex roads.
- Essex County Council has achieved the prestigious Green Flag awards for Weald and Thorndon Country Parks and retained Green Flag status at Belhus, Cudmore Grove, Danbury and Great Notley.
- Essex County Council has achieved the highest level an employer can receive as part of the DWP's Disability Confident scheme, Level 3 Leader. The Disability Confident scheme, run by

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the national government promotes a disability-inclusive culture among employers across the UK.

- Superfast Essex has been recognised for its success and excellence nationally and internationally after being shortlisted for three prestigious awards. The three awards Superfast Essex has been shortlisted for are:
  - Next Gen Digital Challenge Awards – Connected Britain Award
  - UK IT Industry Awards – IT Project Team of the Year
  - World Communications Awards – Broadband Pioneer Award
- Our Quality Innovation team, supported by the Quality Improvement team, won ‘The best patient safety improvement team’ award for its work driving up standards of care for some of our county’s most vulnerable residents.
- The Intelligence and Insight team achieved a major award for their work in helping to understand the needs of parents of children with autism.
- The Virtual Dementia Tour training team won gold at the Social Worker of the Year Awards. Their entry won in the Creative and Innovative Social Work Practice category.
- Essex County Council maintained its Member Development Charter Plus Status following an assessment in March 2018.
- Employees within Essex County Council’s Adult Social Care services won the Campaign for Learning Impact Award for Inspiring Curiosity and Creativity, following Learning at Work Week which took place in May. The team has also been Highly Commended for Innovation in Learning and Development.
- Essex County Council has been shortlisted seven times in the LGC Awards, which recognises those who demonstrate excellence and best practice in their roles.

## **9. Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.**

The law and [Constitution](#) clearly defines the responsibilities of key member and officer roles.

Part 3 of the [Constitution](#) sets out how Councillors’ authority is delegated to Cabinet Members and Officers. Chief Officers are in turn responsible for authorising delegations to their officers. All of these delegations are updated when roles or structures change.

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.

The Council has [Financial Regulations](#) which provide a framework to identify our financial responsibilities and the financial limits assigned to individual Officers. These also outline the responsibilities in relation to partnerships and commissioning arrangements. The Financial

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Regulations are kept under regular review, with the last update approved at Full Council on 11 July 2017.

- 10. Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015), where they do not, explain why and how they deliver the same impact.**

Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (April 2016). Our Chief Financial Officer for 2017/18 was the Executive Director, Corporate and Customer Services.

- 11. Ensuring effective arrangements are in place for the discharge of the monitoring officer function.**

For 2017/18 the Monitoring Officer was the Director, Legal and Assurance and the Assistant County Solicitor and the Principal Lawyer, Commercial Projects were the deputy monitoring officers.

- 12. Ensuring effective arrangements are in place for the discharge of the head of paid service function.**

For the year 2017/18 our Head of Paid Service was the Chief Executive.

- 13. Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

The Member Development Steering Group takes ownership of members' development and is responsible for shaping the Member Development Programme. ECC achieved the Member Development Charter Plus in November 2014, following achievement of Charter status in March 2013. In November 2016 we passed our mid-point review of Charter Plus. The full assessment took place in March 2018 where evidence was submitted to an external assessment team who then visited the Council to interview key officers, Members and partners. Essex County Council maintained Charter Plus Status following this visit.

Following elections in May 2017 all members were asked to complete a personal development planning questionnaire and then supported in developing a Personal Development Plan. By March 2018, **87%** of Members had a Personal Development Plan in place. Members were offered a comprehensive Induction after the May 2017 Election and there are regular briefing and development sessions throughout their term of office.

Organisation Development and People are launching a management development framework, which will provide development to senior officers and managers in a variety of areas as part of the change support for organisational redesign. The programme will include a focus on finance and budget management, commercial and procurement, governance and good decision making. The programme is being rolled out from May 2018.



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All employees are required to complete our comprehensive corporate governance e learning programme.

Our employees' annual training and development needs are identified through our performance management process, called 'Supporting Success'. In addition to a comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues.

## **14. Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.**

ECC's [Risk Management Strategy 2017-21](#) was approved at Audit Committee in June 2017 and updated and approved by Audit, Governance and Standards Committee in March 2018. It is available to staff with accompanying guidance and these are reviewed at least annually to ensure they remain fit for purpose.

The Risk Assurance Statement for 2017/18 was included in the Head of Assurance Annual Report which was presented to the Audit, Governance and Standards Committee in June 2018.

ECC has a corporate risk management system that records both strategic and service risks and the assigned owners. The system provides automated prompts to risk owners for updates to recorded risks.

A Strategic Risk Report is formally considered on a bi-monthly basis by the Strategic Business Board and Political Leadership Team.

## **15. Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)**

ECC has a dedicated Counter Fraud Team within our Assurance Service. The Counter Fraud Team delivers services to both ECC staff and to external clients. They are responsible for conducting investigations and supporting our services in providing evidence for any criminal investigations.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process.

A total of **87** referrals have been received and investigated by the Counter Fraud Team during 2017/18. The Counter Fraud Team have undertaken proactive prevention and detection work, including the National Fraud Initiative (NFI), data matching exercises, and directed fraud awareness training.



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The Audit, Governance and Standards Committee received quarterly updates in respect of counter fraud activity and a summary is included in the Head of Assurance Annual Report. The ECC Counter Fraud and Anti-Bribery Strategy was approved by Audit, Governance and Standards Committee in December 2017 and the Anti Money Laundering Strategy was approved in December 2017.

The mandatory Corporate Governance e-learning pack includes an Anti-fraud and Corruption module.

## **16. Ensuring an effective scrutiny function is in place.**

Essex County Council has four policy and scrutiny committees in addition to the Joint Health Overview and Scrutiny Committees with Suffolk County Council and Southend and Thurrock unitary authorities.

The Corporate Policy and Scrutiny Committee is chaired by the Leader of the largest opposition group and each of the Committees has two vice-chairmen, one opposition member and one administration member.

Induction, training and support is provided to individual Members and whole committees to support them in their policy development and holding-to-account roles. Following the election in 2017 all committee members received significant levels of training and development and this continues.

The Chairmen of the four committees (and the chairman of the Audit, Governance and Standards Committee) meet as the Scrutiny Board on a bi-monthly basis, to oversee the coordination of scrutiny activity, consider its development strategically and share best practice.

There is close working between committee Chairmen, Vice-Chairman and their cabinet counterparts, regular meetings take place to discuss key areas of work and direction. In 2017/18 scrutiny in ECC was supported by a dedicated team of officers within Democratic Services (Senior Democratic Services Officers). In 2017 the Head of Democratic Services (now the Head of Democracy and Transparency) became the Statutory Scrutiny Officer.

A review of ECC's scrutiny arrangements concluded in 2017, informed primarily by interviews and workshops with key stakeholders including cabinet members, chairmen, scrutiny committees, leaders of political groups, senior officers and officers who support members. This was sponsored by the Scrutiny Board. A range of draft recommendations from the review were backed by the Scrutiny Board in March 2017 and some recommendations and changes of practice were implemented after the election.

## **17. Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact**

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The role of the Chief Audit Executive was transferred from the Head of Internal Audit and Counter Fraud to the Head of Assurance during 2017/2018 following the implementation of the outcomes of the organisational redesign. The Head of Assurance also has responsibilities for other operational services including Health & Safety, Risk Management, Insurance, Counter Fraud, Emergency Planning and Business Continuity. The arrangements for ensuring independence were outlined in the [Audit Charter](#) which was presented to the Audit, Governance and Standards Committee in December 2017.

Our assurance arrangements for 2017/18 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

In February 2018 the Internal Audit Function was subject to an External Quality Assessment (EQA) by CIPFA to assess its compliance with the Public Sector Internal Audit Standards. The assessor reported that she 'identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service'.

## **18. Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)**

Following the abolition of the Essex Fire Authority in September 2017, the Audit Committee was reconstituted as the [Audit, Governance and Standards Committee](#). References in this section to the Audit Committee refer to former Audit Committee and to the new Audit Governance and Standards Committee.

The Audit Committee has undertaken the key functions required of it by Chartered Institute of Public Finance's (CIPFA) guidance on the role of audit committees. The Audit Committee role and purpose is set out in Articles of the [constitution](#).

The Committee continues to have a close working relationship with our internal and external auditors. The Audit Committee played an active role in relation to risk management and counter-fraud, as stated above.

In September 2017, the Audit Committee approved ECC's 2016/17 [Statement of Accounts](#). The Audit, Governance and Standards Committee approved the 2018/19 Internal Audit Plan in March 2018.

The Audit Committee met four times during the 2017/18 financial year, in public. [Their work](#) has included receiving internal audit and counter fraud progress reports, including detail of all limited assurance reviews from the Head of Internal Audit and Counter Fraud and the extent to which remedial recommendations have been implemented.

Internal Audit have been directly involved in supporting a number of corporate projects during the year enabling organisational change, to help ensure that appropriate control systems are in place during design, transition and implementation and that these controls are proportionate to financial cost and risk. Internal Audit's early involvement in these projects has resulted in close

# Annual Governance Statement

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collaboration with the relevant teams with issues being addressed promptly as they have arisen. These activities have been reported to the Audit Committee throughout 2017/18.

All recommendations arising from Internal Audit and Counter Fraud activity are tracked with monthly automated emails sent to owners of recommendations to request status updates via a web-based system. Summary reports on outstanding recommendations are presented to Functional Leadership Team meetings quarterly, with progress reports on implementation of recommendations provided to Audit Committee. The Corporate Governance Steering Board also monitor implementation of recommendations as one of their indicators of effective organisational governance. The Corporate Impact Report, which highlights overdue Major recommendations, is reported to the Corporate Management Board quarterly. This provides good accountability and visibility of Internal Audit recommendations. All reviews with a 'No' or 'limited assurance' opinion are also subject to a follow-up audit review.

## **19. Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.**

The Chief Accountant and the Chief Audit Executive meet with the external auditors on a regular basis to discuss audit activity and ensure that appropriate support is being provided. Quarterly meetings are also held with the Executive Director, Corporate and Customer Services (the S151 Officer) to ensure the external auditors are aware of key organisational activity.

## **20. Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures**

The Essex Partnership is a working relationship between representatives of organisations who deliver services to the public across Essex. Governance of Essex Partnership activity is the responsibility of the Essex Partners Board, who meet three times per year to steer the work of partners together to deliver shared priorities for Essex communities.

Essex Partners Board directs and oversees progress on, strategic plans which influence the decisions made to shape the future direction of policy and the provision of services within the county.

Essex Partners host Essex Assembly twice per year, where all senior partners across Essex come together to take forward delivery of the ambitions set out in the Essex vision, Future of Essex and strengthen whole system working.

Essex Partners and the Essex Health & Wellbeing Board are supported by Essex Strategic Coordination Group, who meet every 6 weeks to coordinate action responding to priorities identified by partners and partnerships across the whole Essex system.

The County Council is the accountable body for the South Essex Local Enterprise Partnership (SELEP). The SELEP has undergone a full governance review following the Mary Ney Review in

# Annual Governance Statement

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2017, and the guidance issued in January 2018. This has resulted in the Assurance Framework for SELEP and all policies to be reviewed, and refreshed. Where necessary new policies have been introduced where there was a gap identified within the guidance, including the introduction of a Whistleblowing Policy. These were approved by the Strategic Board in February 2018. As Accountable Body, the Council's section 151 Officer was required to provide formal confirmation to central government no later than 28 February 2018 that there is a strong and robust Assurance Framework in place, and a clear implementation plan is being followed.

NHS England has established new Sustainability and Transformation Partnerships (STPs). Essex County Council's area is covered by 3 of the 44 STPs nationally:

- Mid and South Essex (covering Braintree, Chelmsford, Maldon, Brentwood, Basildon, Castle Point and Rochford districts, and the two unitary authority areas of Southend and Thurrock)
- West Essex and Hertfordshire (covering Epping Forest, Harlow and Uttlesford)
- North East Essex and Suffolk (covering Colchester and Tendring)

The governance arrangements for STPs were developed during 2016/17 and were finalised by April 2017. In general terms they all include a Programme Board with representation at director level, as well as reporting links to the Essex Health and Wellbeing Board. STP boards do not change the individual accountabilities and responsibilities of individual organisations as STPs are not statutory.

The Essex Health Policy Overview and Scrutiny Committee (HOSC) has established two Joint Health Overview and Scrutiny Committees with neighbouring authorities in the STPs. The Essex HOSC is working with Southend and Thurrock HOSCs to consider the implications of the current STP proposals in Mid and South Essex which are largely focussing on acute hospitals at present, and in another Joint Committee is working with the Suffolk HOSC in looking at STP proposals being developed for North East Essex and Suffolk which will include looking at the proposed merger of Colchester and Ipswich hospitals. Further joint working may be developed with Hertfordshire HOSC in due course.

North East Essex and Suffolk STP has submitted an expression of interest to NHS England to be considered in the next wave of accountable care systems. These would bring commissioners and providers together across the North East Essex and Suffolk footprint to operate under a shared financial control total and to bring together commissioning and provision. This is at an early stage and Essex County Council is involved in the discussions. Any formal sign-up to the accountable care system would be subject to Cabinet decision.

## Head of Assurance Opinion

The Head of Assurance's overall audit opinion on the internal control environment (framework of governance, risk management and internal control) is one of **adequate assurance**, which means that which means although there are some weaknesses which may put individual system/process/service objectives at risk of achievement, there is an overall satisfactory system of internal control,

# Annual Governance Statement

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appropriately designed to meet the Council's objectives, and controls are generally being applied consistently.

The Head of Assurance Annual Report provides a summary of the activity used to support this opinion and concludes that the 'adequate' opinion indicates that despite the pace of change during 2017/18 the level of assurance has remained reasonably stable. It is acknowledged that the Organisational Design has had impact on the internal control framework through the realignment of responsibilities and maintaining an overall adequate level of assurance should be viewed as a positive outcome.

## External Audit

The External Auditors (Ernst and Young) provided an [unqualified opinion](#) on the 2016/17 financial statements. This was reported to the Audit Committee in September 2017.

We have received notice from Public Sector Audit Appointments Limited that the external auditors will be BDO LLP with effect from the 2018/19 financial year.

## External inspections

The Council's Adult Community Learning service (ACL), which had been rated as 'Inadequate' in December 2016 was re-inspected by Ofsted in February 2018. As a result of that re-inspection Essex County Council's community learning and skills provision has been awarded an overall rating of Good.

Ofsted inspectors visited ACL (Adult Community Learning, Essex) and found that leaders, managers and staff have worked hard to improve its adult learning provision. The service was particularly praised for its welcoming, enabling, supportive and inclusive culture, highlighting that leaders, managers and staff are impressive role models.

ACL was judged to be good in all aspects of the service, including the effectiveness of leadership and management; apprenticeships; quality of teaching, learning and assessment; Adult Learning Programmes; personal development, behaviour and welfare and outcomes for learners.

Highlights of the report include:

- The quality of teaching, learning and assessment has improved markedly since the previous inspection. As a result, the large majority of learners and apprentices rapidly develop their skills and knowledge.
- Staff successfully promote safeguarding, teach learners about the 'Prevent' agenda and support the development of British values. As a result, learners are confident, knowledgeable, secure and respectful.
- Leaders and managers ensure that a greater proportion of apprentices achieve within planned timescales than previously.
- Learners studying creative courses and apprentices develop particularly high-quality practical skills.

# Annual Governance Statement

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- Very strong partnership working and engagement with employers bring real benefits to learners from all communities.

Ofsted pilot inspection:

- The impact of leaders on social work practice with children and families – OUTSTANDING
- The experiences and progress of children who need help and protection – GOOD
- The experiences and progress of children looked after and care leavers, and achieving permanence – GOOD

## Information Governance

The ICO have made the following comments in their Decision Notices received during 2017/18, none of which have resulted in further action or Monetary Penalties:

- Of the 6 decision notices received in 2017/18 from the ICO regarding complaints made to them about ECC compliance:
  - **2** were FOI related and **4** were Data Protection related
  - **4** were not upheld (i.e. ECC had been found not to have breached the law), 1 was withdrawn and **1** was confirmed as a breach but as ECC had taken appropriate mitigating actions the ICO took no further action.

Monthly performance in responding to statutory requests for information has been above the ECC corporate target during 2017/18. This is monitored by the Corporate Governance Board on a quarterly basis.

General compliance issues relating to processing of personal data are being managed under the GDPR implementation project which runs through to May 2018. Egress, a secure way of sending emails, was implemented in 2017 for all IT users within ECC. Measures around information security are monitored by the Corporate Governance Board on a quarterly basis.

## Local Government Ombudsman (LGO)

ECC received **117** contacts from the Local Government and Social Care Ombudsman (LGSCO) between 1 April 2017 to 31 March 2018, which is a significantly lower volume than **148** contacts received in 2016/17. A total of **38** escalated to formal investigation with **24** upheld finding either maladministration and/or injustice with all agreed recommendations carried out within timeframe set by the investigator. **40** cases were closed by the Ombudsman's office after initial enquiries with 14 cases not upheld. Customer team continues to work effectively with the service areas providing support and guidance on handling Ombudsman investigations, highlighting any anomalies or decisions that are not considered reasonable from the Ombudsman that may need to be challenged and ensuring deadlines are met with agreed remedies undertaken within set timescales.

# Annual Governance Statement

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## Health and Safety

There have been no prosecutions, or other enforcement notices served, under health and safety legislation, against of the Council during the financial year 2017/18.

However, the Health and Safety Executive investigated a potential breach of the Gas Safety (Installation and Use) Regulations 1998 on a Voluntary Controlled school site (i.e. where ECC is the employer but does not own the school buildings), in November 2017. At the time of writing the outcome of this investigation is not yet known. Although enforcement action is most likely to be against the contractor used by the school the HSE may still take enforcement action against other duty holders such as the school and/or ECC.

The ECC Corporate Health and Safety Team has had involvement in the review of ECC's fire safety standards, carried out by the Independent Property Review Commission, and the response to the recommendations in that report, which was published in February 2018.

Although the Corporate Health and Safety Board and activity works well, this year there have been gaps in provision of the Function health and safety forums, which are essential in ensuring the legal requirement that staff are consulted on health and safety matters, and the Function health and safety plans. These deficiencies should be addressed in the first quarter of the financial year 2018/19.

### Response to the Grenfell Tower disaster

Following the Grenfell Tower disaster on 14 June 2017, the Corporate Health and Safety Manager took a report to the Operations Board on 7 July which laid out what actions had been taken as a result of the letters from various government agencies and the implications for the Council.

This included:

- Completion of a desktop exercise to identify any ECC buildings over 18m tall which had cladding;
- Responding to an Education and Skills Funding Agency request for similar information;
- Providing information to our insurers on the fire safety measures in place in ECC buildings;

Shortly afterwards an internal article was published on the issue and ECC wrote to all Essex schools and care providers to reinforce the need to ensure that fire risk assessments were up to date and fire safety arrangements were both adequate and maintained.

When the matter was raised at Full Council in July and a decision was made to establish an 'Independent Property Review Commission' (IPRC) to review the fire safety of all premises which ECC owns and/or occupies or where it has responsibility for those who occupy them. This was made up of a politically representative selection of Members and chaired by an independent subject matter expert. Its report was published in February 2018. The **14** recommendations were agreed in principle, subject to further discussion on how they would be implemented.



# Annual Governance Statement

## Disability Confident

ECC has been accredited as a Disability Confident Leader. ECC is now working with Purple, a disability organisation in Essex to drive forward a range of activity aimed at maintaining its leader status during 2018-2109.

## Payroll incident

In August 2017, due to human error, an electronic payment file which was required to be submitted by ECC to the Bank Automated Clearing System (BACS) was not submitted by the deadline, which resulted in 308 schools and 20,812 staff (23,000 payroll payments) being paid late. It was determined through Internal Audit investigation that the internal controls for the Payroll BACS process were adequately designed; however, the failure occurred as they had not been correctly applied during operation. Recommendations were made to strengthen internal controls to mitigate the risk of reoccurrence. A further follow up Internal Audit review concluded in February 2018 that all of the original recommendations had been implemented.

## Previous Governance Matters Arising

All Governance remedial actions identified in the 2016/17 Annual Governance Statement have been adequately addressed, with implementation being reviewed by the Corporate Governance Steering Board.

## Action Plan

We do not consider that there have been any significant governance issues arising in 2017/18. However the actions detailed below are in place to maintain good governance arrangements throughout 2018/19.


| Subject                             | Action(s)  | Responsible Officer                | Target completion date |
|-------------------------------------|--|------------------------------------|------------------------|
| Maintain development of councillors | Ensure a comprehensive development offer is maintained   | Head of Democracy and Transparency | Ongoing                |
| Phase 2 of organisational redesign  | Ensure good governance arrangements are maintained<br>Delivery of a management development framework for senior managers | Chief Executive                    | 31 December 2018       |
| Information Governance              | Monthly performance in responding to statutory requests for information to be monitored and reviewed                     | Head of Democracy and Transparency | Ongoing                |



# Annual Governance Statement

| Subject                  | Action(s)   | Responsible Officer                           | Target completion date |
|--------------------------|---|---|------------------------|
| Information Governance   | GDPR and Data Protection Act 2018 implementation project<br>Implementing Digital Foundations Programme to ensure its GDPR compliant | Head of Democracy and Transparency            | 26 May 2018 (ongoing)  |
| Workforce Strategy       | Implement the Workforce Strategy 'Getting Ready for Change - Our People Plan' as a key building block of the Organisation Strategy  | Director, Organisation Development and People | 31 December 2018       |
| Corporate Peer Challenge | Enable and contribute to the Corporate Peer Challenge   | Chief Executive                               | During 2018/19         |
| Pay and Grading          | Implement the new Pay and Grading arrangements for 2018/19  | Chief Executive                               | December 2018          |

We have been advised on the outcome of the result of the review of the effectiveness of the governance framework and consider that the arrangements provide adequate assurance and continue to be regarded as fit for purpose in accordance with the governance framework. We are committed to monitoring the implementation of the action plan, via the Corporate Governance Steering Board, as part of the next annual review.



**Cllr David Finch**  
Leader of the Council



**Gavin Jones**  
Chief Executive

# Independent Auditor's Report



Essex County Council

# Independent Auditor's Report

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## Independent Auditor's Report to Members of Essex County Council

### Opinion on the Authority's financial statements

#### 1. Opinion on the Authority's financial statements

We have audited the financial statements of Essex County Council for the year ended 31st March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related notes 1 to 40 for the core statements, and Group Accounts notes 1 to 7.

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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Essex County Council and Group as at 31 March 2018 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 2017/18.

#### 2. Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 3. Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

# Independent Auditor's Report

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- the Executive Director for Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Corporate and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## 4. Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Executive Director for Corporate and Customer Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## 5. Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

### Arrangements to secure economy, efficiency and effectiveness in the use of resources

#### 5.1 Basis for Qualified Conclusion

##### Medium Term Financial Planning

The Authority have disclosed in the 'Organisational Plan 2018/19' (page 31) that the estimated total savings still to find over the medium term period is **£127m** (£35m in 2019/20, increasing to **£92m** by 2020/21). Since then, as in previous years, the Authority has been working to identify savings and income generating opportunities to bridge the gap.

# Independent Auditor's Report

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In our view, at 31 March 2018, the Authority had not made sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term. Unless the budget gap forecast in the Medium Term Financial Strategy is closed, the Authority will have to spend substantially all of its usable revenue reserves by the end of 2020/21.

The issues above are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

## 5.2 Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are 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 2018.

## 6. Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## 7. Responsibilities of the Executive Director, Corporate and Customer Services

As explained more fully in the Statement of the Executive Director, Corporate and Customer Services' Responsibilities set out on page 28, the Executive Director, Corporate and Customer Services 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

# Independent Auditor's Report

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Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director, Corporate and Customer Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

## **8. Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **9. Scope of the review of the arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Essex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Essex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

# Independent Auditor's Report

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

## 10. Certificate

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

## 11. Use of our report

This report is made solely to the members of Essex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Essex County Council and Essex County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Janet Dawson (Partner)**

Ernst & Young LLP (Local Auditor)

London

31 July 2018

The maintenance and integrity of the Essex County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

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## Opinion on the Pension Fund financial statements

### 12. Opinion on the Pension Fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20. 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 2017/18.

In our opinion the Pension Fund financial statements:

- Give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31st March 2018; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

### 13. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 14. Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Corporate and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Independent Auditor's Report

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## 15. Other information

The other information comprises the information included in the Essex County Council Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Executive Director for Corporate and Customer Services is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## 16. Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## 17. Responsibilities of the Executive Director, Corporate and Customer Services

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services Responsibilities set out on page 28, the Statement of the Director for Corporate and Customer Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set

# Independent Auditor's Report

out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director for Corporate and Customer Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

## 18. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## 19. Use of our report

This report is made solely to the members of Essex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Essex County Council and Essex County Council members as a body, for our audit work, for this report, or for the opinions we have formed.

**Kevin Suter (Key Audit Partner)**

Ernst & Young (Local Auditor)

Southampton

31 July 2018

The maintenance and integrity of the Essex County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.