

Essex County Council

**Statement of
Accounts
2016/17**



Essex County Council

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Narrative Report 2016/17



Essex County Council

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:

- **Adult Social Care** (including services for older people, people with physical or learning disabilities and the homeless);
- **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);
- **Economic Growth, Infrastructure and Partnerships** (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, skills and apprenticeships);
- **Education and Lifelong Learning** (including early years and pre-school, mainstream and special schools, special educational needs provision, school improvement, raising the participation age, youth services and careers advice and adult community learning);
- **Environment and Waste** (including waste minimisation, disposal and recycling, sustainable development, country parks, flood management, rural affairs and gypsies and travellers);
- **Health** (including public health, mental health services, child health related matters and drug and alcohol action);
- **Highways and Transport** (including highways, street lighting, traffic management and road safety and passenger transport); and
- **Other services** (including libraries, registration of births, deaths and marriages, coroners, trading standards, emergency planning and housing strategy).

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.

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Our leadership and workforce

Our **75** elected Councillors represent the people of Essex and set the overall policy of the Council. The political management structure is centred upon our:

- **Leader**, Cllr David Finch, who has been elected by our local councillors into this role. He is responsible for setting the vision and direction of the Council; and
- **Cabinet Members**, appointed by our Leader, with responsibilities for particular portfolios.

Together, these members form our Cabinet. 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 and our Executive Directors, are responsible for:

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

Together, these officers form our Corporate Management Board.

Our workforce is structured in line with the structure of our Corporate Management Board.

Overall, our workforce comprises **14,596** 'full time equivalent' employees. Of this total, **8,661** are employed within our locally maintained schools. Our non schools' workforce therefore comprises **5,935** 'full time equivalent' employees.

2015/16	Workforce numbers (full time equivalents)	2016/17
1,973	Corporate and Customer Services	1,975
1,272	Family Operations	1,149
856	Adult Operations	891
688	People Commissioning	683
554	Place Operations	478
231	Place Commissioning	280
332	Traded Services	344
136	HR, Strategy and Communications	135
6,042	Sub total - non schools	5,935
10,297	Schools	8,661
16,339	Total	14,596

Our Ambition

Our overarching ambition is for Essex to be a county where individuals, families and communities can thrive and prosper. This ambition translates into seven strategic outcomes that we want to achieve:

- Children in Essex get the best start in life;
- People in Essex enjoy good health and wellbeing;
- People have aspirations and achieve their ambitions through education, training and lifelong-learning;

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- People in Essex live in safe communities and are protected from harm;
- Sustainable economic growth for Essex communities and businesses;
- People in Essex experience a high quality and sustainable environment; and
- People in Essex can live independently and exercise control over their lives.

We set these strategic outcomes in 2013. Since then, a lot has changed:

- Our finances are now under huge pressure. We need to save more than £1 million each week, for the next four years, to compensate for reducing levels of central government funding and to mitigate inflationary and demand led pressures, and we need to find new sources of income in order to become completely self-financing by 2020;
- Older people in Essex are living longer than ever before, which is great news. But, at the same time, more people will need support in later life. The numbers of people with significant disabilities will have grown too. Without seeing big changes in the way people are helped to live in the community, we will be increasingly unable to support the most vulnerable adults in society;
- The Essex economy is growing and it is vitally important that we continue to improve the skills levels required and make sure wages are kept at a competitive level; and
- Technological advances in all walks of life have developed fast and the Council, residents and partners need to embrace this change in the way public services operate.

We therefore began some detailed work in 2016/17 to set an overarching organisational strategy which would set out how we are going to meet the huge challenges going forward. We expected to publish this in the summer of 2017. As a precursor to this, our Corporate Plan for 2016/17 set out our priorities for action for the year. Our core operating principles were to:

- Focus on the whole system, rather than just our own role in the system, and to work together seamlessly with other public agencies and partners to secure the best outcomes for our residents;
- Collaborate with our partners, communities and residents, jointly designing the best solutions with them, rather than imposing them;
- Create and enable the conditions for success, by enabling and empowering people to support themselves where they can, and look to proactively influence and shape demand;
- Be leaders in 'Digital First' so all interactions are optimised for a fast, accessible, resident-friendly and reliable digital experience; and
- Focus on becoming financially self-sustaining, as we move to a Council that is self-funding with little reliance on central government funding, and to drive efficiency and create profitable income to enable investment in services for Essex residents.

We have many challenges facing us and with limited resources we cannot deliver everything – we need to work collaboratively with our partners and, most importantly, the many communities of Essex, to continue to ensure we all contribute to the great quality of life in Essex.

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Our Performance

Our seven strategic outcomes explain how we seek to deliver the best result for residents. The following paragraphs highlight some of our achievements against these outcomes in 2016/17.

Children in Essex get the best start in life

Our ambition is for every child to get a good start in life, irrespective of his or her circumstances. We know that a good start in life transforms future life outcomes for children and can help to reduce inequalities. By supporting children and their families from conception through birth and the early years of their life, we want to give all children and young people the best possible opportunity to succeed, thrive and reach their full potential.

Our strategic priorities are therefore that:

- Children and young people in Essex are ready for starting school;
- Children and young people are well looked after and safe with their basic needs being met within resilient families;
- Children and young people are emotionally healthy and make good decisions; and
- Children, young people and families support each other within their communities with access to local facilities.

Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Percentage of children reaching the expected levels of development in Early Years Foundation Stage profile (ready for school)	78%	81%
Percentage of children reaching the expected levels of development in Early Years Foundation Stage profile, as well as literacy and numeracy (Good level of development)	68%	72%
Percentage of Private, Voluntary and Independent settings rated as Good or Outstanding by Ofsted	71%	75%
Percentage of registered Childminders rated as Good or Outstanding by Ofsted	70%	74%

People in Essex enjoy good health and wellbeing

Quality of life matters; good health and well-being is essential for people to achieve their potential and to live long lives. Essex is relatively healthy but there are big disparities across the county. Working with a range of partners we want to influence, impact and address the key drivers for health.

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Our strategic priorities are therefore to:

- Improve the healthy life expectancy of the people of Essex;
- Reduce the differential in life expectancy across Essex;
- Improve healthy lifestyle choices;
- Improve physical activity and reduce levels of inactivity;
- Ensure public health is sustainable in Essex; and
- Ensure mental health services are fit for purpose.

Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Reduced differential in life expectancy across different areas of Essex (Men)	7.0 years	7.2 years
Reduced differential in life expectancy across different areas of Essex (Women)	5.5 years	5.5 years
Percentage of persons aged 18 and over that smoke	18%	18%
Percentage of adults classified as overweight or obese	66%	66%
Percentage of children (aged 4-5 years) classified as overweight or obese	21%	21%
Percentage of children (aged 11 years) classified as overweight or obese	31%	32%
Rate of alcohol related hospital admissions (per 100,000)	471	470
Percentage of successful drug treatments in adults (opiate)	7%	6%
Percentage of successful drug treatments in adults (non-opiate)	48%	46%
Percentage of residents (aged 16+) exercising at least 150 minutes per week (Sport England Survey)	58%	58%

People have aspirations and achieve their ambitions through education, training and lifelong learning

A good, rounded education and the ability to learn throughout life can help ensure an individual has the tools to achieve his or her potential. We want Essex residents to be able to access a range of opportunities to enable them to achieve their ambitions.

Our strategic priorities are therefore to:

- Give all children and young people in Essex the opportunity to access the highest quality education by ensuring every school is judged Good or Outstanding by 2018;
- Establish a school-led improvement system across the County;

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- Increase attainment for disadvantaged children and young people so they are at least in line with their non-disadvantaged peers;
- Ensure sufficient high-quality education and training provision to meet need and demand;
- Implement Special Educational Needs and Disability (SEND) reforms; and
- Establish a charter for schools which would deliver high standards of physical activity for all.

Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Percentage of children achieving at least age-related expectations in Reading, Writing and Maths (Key Stage 2)	New	56%
Percentage of pupils achieving threshold A* - C at GCSE in English and Maths (Key Stage 4)	61%	64%
Percentage of pupils attending a school with overall judgement of Good or better (Primary)	85%	91%
Percentage of pupils attending a school with overall judgement of Good or better (Secondary)	88%	97%
Percentage of young people aged 16-19 not in education, employment and training or whose status is unknown	3%	3%

People in Essex live in safe communities and are protected from harm

Protecting the most vulnerable in society is one of the most important duties we have as a Council. Working with statutory partners and local communities, we want to ensure Essex is a place where residents enjoy protection and those with the greatest need are safeguarded.

Our strategic priorities are therefore to:

- Safeguard vulnerable adults and children;
- Reduce levels of crime in Essex;
- Reduce the number of people killed or seriously injured on Essex roads;
- Improve feelings of safety across Essex communities; and
- Promote community resilience to enable communities to help themselves.

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Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Rate of Children with a Child Protection Plan (per 10,000)	16.9	17.9
Rate of Children in Care (per 10,000)	33.3	33.6
Percentage of children subject to a second (or more) Child Protection Plan	5%	8%
Percentage of re-referrals to Child Social Care in last 12 months	26%	27%
Percentage of Child Protection Plans lasting 2 years or more	2%	2%

Sustainable economic growth for Essex communities and businesses

Economic growth creates jobs, generates wealth and improves lives. Our role as a local authority is to create the right environment that is needed for new jobs to be created.

Our strategic priorities are therefore to:

- Enable major infrastructure developments and improvements to our road network to create growth and jobs;
- Attract new businesses into Essex through inward investment;
- Support growth and development in high-value sectors;
- Develop the skills base within Essex that matches the future needs of our economy;
- Enable the right kind of housing development in new and existing communities; and
- Ensure superfast broadband coverage across Essex.

Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Percentage coverage of superfast broadband across Essex	84%	87%
Percentage of Local Plan consultation deadlines met	100%	100%
Planning consultation responses to District Councils within 21 days	86%	86%

People in Essex experience a high quality and sustainable environment

A high quality environment is key to economic growth and improving public health. We want to ensure a better quality of life for all Essex residents by conserving, developing and promoting a healthy, safe, diverse, clean and attractive environment.

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Our strategic priorities are therefore to:

- Maintain and develop Essex’s highways and transportation infrastructure;
- Transform the waste management system in Essex to minimise waste, eliminate household waste going to landfill, and exploit commercial opportunities for waste disposal;
- Reduce the incidence and impact of flooding;
- Improve passenger transport and deliver a local bus network capable of supporting more than five million passenger journeys a year; and
- Ensure the environment in Essex cities, towns, villages and green spaces is of a good quality.

Key indicators of our performance against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Percentage of PR1 road network (all ‘A’ roads and some ‘B’ roads) in need of repair	2%	2%
Percentage of PR2 road network (remaining ‘B’ roads and all ‘C’ roads) in need of repair	3%	2%
Percentage of local road network in need of repair	13%	12%
Percentage of high footfall footways in need of repair	Not available	23%
Percentage of low footfall footways in need of repair	Not available	23%
Securing external funding for flooding projects	New	13%

People in Essex can live independently and exercise control over their lives

Essex has a growing and ageing population. The number of disabled people needing complex support is growing. Over the next decade the population of over 75 year olds is set to grow by 40%. Without change there is a real risk that our health, social care, housing and social support systems will not be financially sustainable.

We want to prevent, reduce and delay social care need and to help more people to achieve and retain independence and exercise choice and control for as long as possible.

Our strategic priorities are therefore to:

- Better manage demand for Adult Social Care, shift investment towards prevention, early intervention and use of technology;
- Safeguard people and protect vulnerable people from harm in resilient communities;
- Agree and implement plans for health and social care integration that includes joint commissioning and commissioning joined-up care;

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- Develop partnerships with the NHS and other community partners that deliver integrated community based solutions that reduce the need for health and social care services;
- Radically improve access to information and technology which gives people control and helps reduce costs; and
- Develop a care market where the Council reduces its direct purchasing role and individuals are supported to organise and purchase their own care.

Key indicators of our performance in 2016/17 against these strategic priorities are as follows:

Performance indicators	2015/16	2016/17
Percentage of adult safeguarding enquiries that are a repeat where the previous outcome was 'substantiated'	New	10%
Number of supported admissions of Older People to residential or nursing care homes	324	196
Percentage of service users who completed reablement and left as self-caring	70%	68%
Percentage of people with direct payments (of those that are eligible)	30%	34%
Number of separate carer assessments completed	834	778
Percentage of community assessments completed within 28 days	84%	64%
Percentage of people with a long term service reviewed annually	62%	63%

Revenue spending

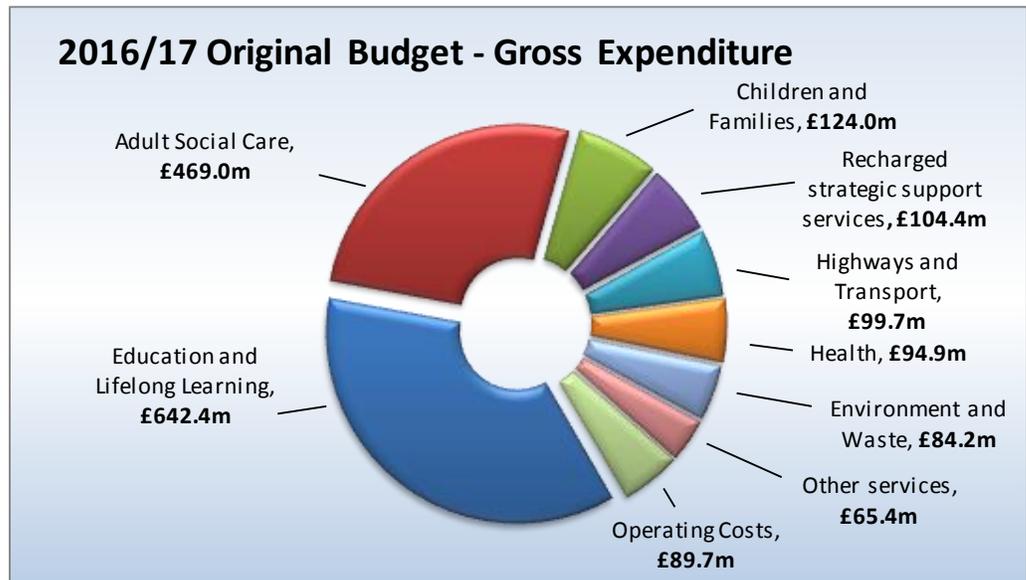
Revenue spending plans for 2016/17

Our budget for the provision of services in 2016/17 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.

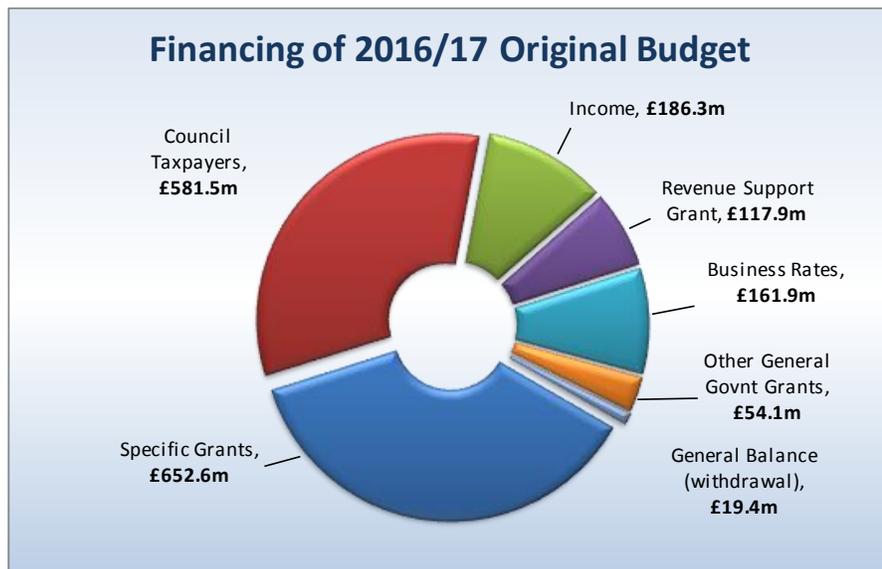
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In total, we planned to spend some **£1,773.7m** on delivering services this year.

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



We intended to finance **£892.9m** of our spending plan from income, specific and general government grants and by a withdrawal of **£19.4m** from the Council’s General Balance. Budgeted net expenditure therefore originally amounted to **£861.4m**.



The net budget was financed from:

- Revenue Support Grant (**£117.9m**);
- Business rates (*including business rates ‘top up’ grant*) (**£161.9m**); and
- Local taxpayers (**£581.6m**).

The Council had been able to freeze core council tax for the last five years, by achieving savings and efficiencies in the back office and transforming the way services are delivered.

Whilst we were able to keep our council tax low in 2016/17, setting it at **£1,130.13** (band D equivalent), this represented an increase to our core council tax of **1.99%** compared to the 2015/16 band D equivalent, and allowed for the levy of the Government’s social care precept of **2%**. The Social Care Precept allowed the Council to increase council tax by an additional **2%** (**£11m**) to mitigate some of the pressure arising from demand for social care; this only partly met the social Care pressures facing the Council though, which were estimated to be in excess of **£40m**.

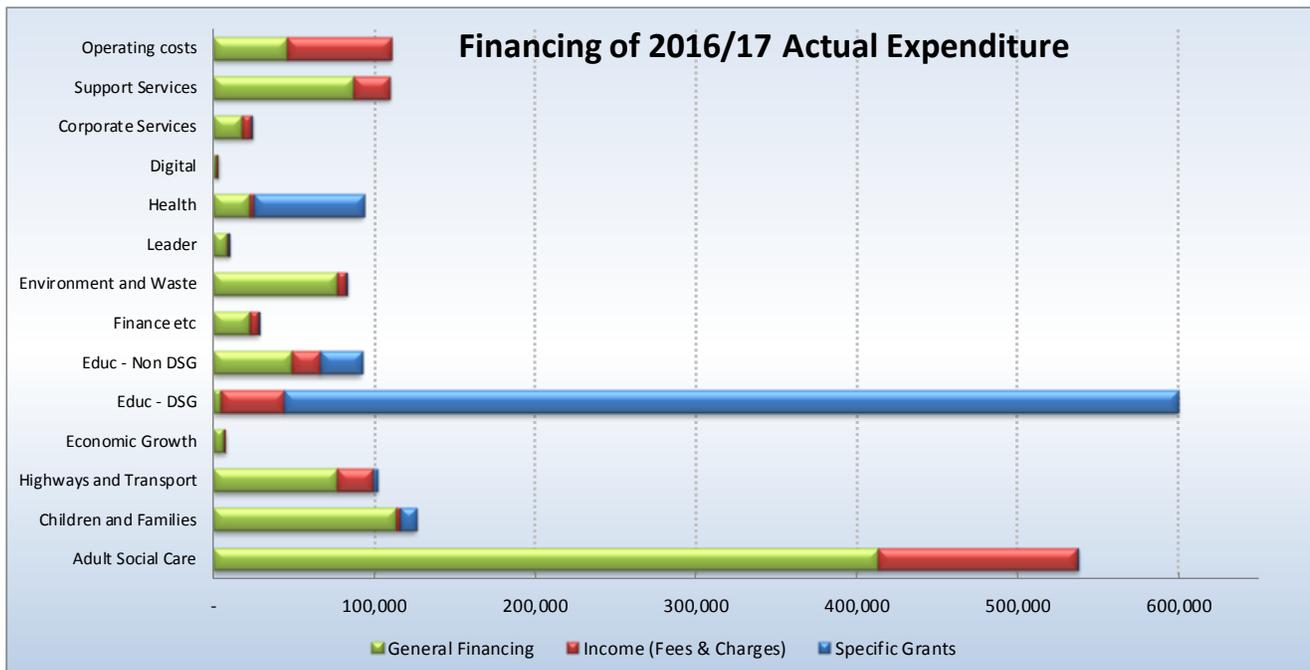
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Year end position

Cabinet Members monitored actual spending against their approved budgets throughout the year, and Cabinet reviewed the overall position on a quarterly basis.

Actual expenditure in 2016/17, and the financing of that expenditure, is shown for Cabinet Members' portfolios in the graph below.

Although Education and Lifelong Learning was the highest spending area, this was largely funded by specific grants and service specific income. Adult Social Care was by far the largest spending area funded from the Council's general financing resources.



At the year end, net expenditure on our services was **£6.146m** in excess of the budget (after adjusting for movements in earmarked revenue reserves), partly offset by additional grant funding and business rates income of **£2.361m**, giving rise to a net over spend for the Council of **£3.785m**. This over spend represents less than **0.5%** of the net expenditure.

The over spend was financed by a withdrawal from the General Balance. As a consequence of this withdrawal, the General Balance stands at **£55.299m** as at 31st March 2017.

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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:

	Budget		Actual net expenditure £000	Over / (under) spend against final estimate	
	Original	Final Estimate		£000	%
	£000	£000			
Adult Social Care	392,403	404,973	413,032	8,059	1.99%
Children and Families	115,723	114,485	113,358	(1,127)	0.98%
Corporate and Communities	13,415	17,582	17,580	(2)	0.01%
Digital Innovation, IT and Customer Services	2,491	2,064	1,761	(303)	14.68%
Economic Growth, Infrastructure and Partnerships	5,610	6,700	5,837	(863)	12.88%
Education and Lifelong Learning					
Dedicated Schools Budget	(3,063)	189	4,824	4,635	2452.38%
Non Dedicated Schools Budget	48,958	47,856	48,628	772	1.61%
Environment and Waste	78,067	78,208	76,965	(1,243)	1.59%
Finance, Traded Services, Housing and Planning	25,084	22,722	22,180	(542)	2.39%
Health	23,549	22,521	21,761	(760)	3.37%
Highways and Transport	76,633	76,428	76,172	(256)	0.33%
Leader	6,826	9,060	8,179	(881)	9.72%
Recharged strategic support services	85,488	90,122	86,761	(3,361)	3.73%
Net expenditure by Portfolios	871,184	892,910	897,038	4,128	0.46%
Other operating costs					
Emergency Contingency	4,000	3,388	-	(3,388)	100.00%
Interest, capital financing and dividends	42,008	41,405	41,877	472	1.14%
Appropriations to / (from) earmarked reserves and restricted funds	17,634	(1,589)	3,345	4,934	310.51%
Total net expenditure	934,826	936,114	942,260	6,146	0.66%
General government grants (excl. RSG)	(54,050)	(54,050)	(55,496)	(1,446)	2.68%
General Balance - contribution / (withdrawal)	(19,359)	(20,647)	(24,432)	(3,785)	18.33%
Net Total	861,417	861,417	862,332	915	0.11%
Financed by					
Revenue Support Grant (RSG)	(117,938)	(117,938)	(117,938)	-	-
Business rates (incl. business rates top up grant)	(161,938)	(161,938)	(162,853)	(915)	0.57%
Council taxpayers	(581,541)	(581,541)	(581,541)	-	-
Total Financing	(861,417)	(861,417)	(862,332)	(915)	0.11%

The Adult Social Care portfolio was over spent by **£8.059m**, which is primarily due to higher than predicted activity in both Older People care and support and the Transitions service due to projected savings in the Transitions service not being delivered; and to supporting a greater number of young people than expected. The ongoing implications of this over spend are being addressed through an Adult Social Care Sustainability Programme, which has been put in place to address pressures within Adult Social Care.

The Dedicated Schools Budget was also over spent, by **£4.635m**, due to free early years' education entitlement and increased demand for early years' placements. Schools utilised funds they had previously set aside in the Schools Reserve, which is ring fenced for their use, to offset this over spend.

The appropriation of an additional **£4.934m** (net) into various earmarked revenue reserves comprised:

- **£6.635m** into the Carry Forwards reserve, representing unspent budget that will be used to support service expenditure in 2017/18, some of which was planned and the re-profiling endorsed in advance of the year end;
- **£1.226m** into capital financing reserves;

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- **£2.896m** from restricted funds (earmarked reserves held for known contractual liabilities and potential risks beyond the control of the Council and held on behalf of others, including schools);
- **£31,000** from other reserves.

Revenue spending plans for 2017/18

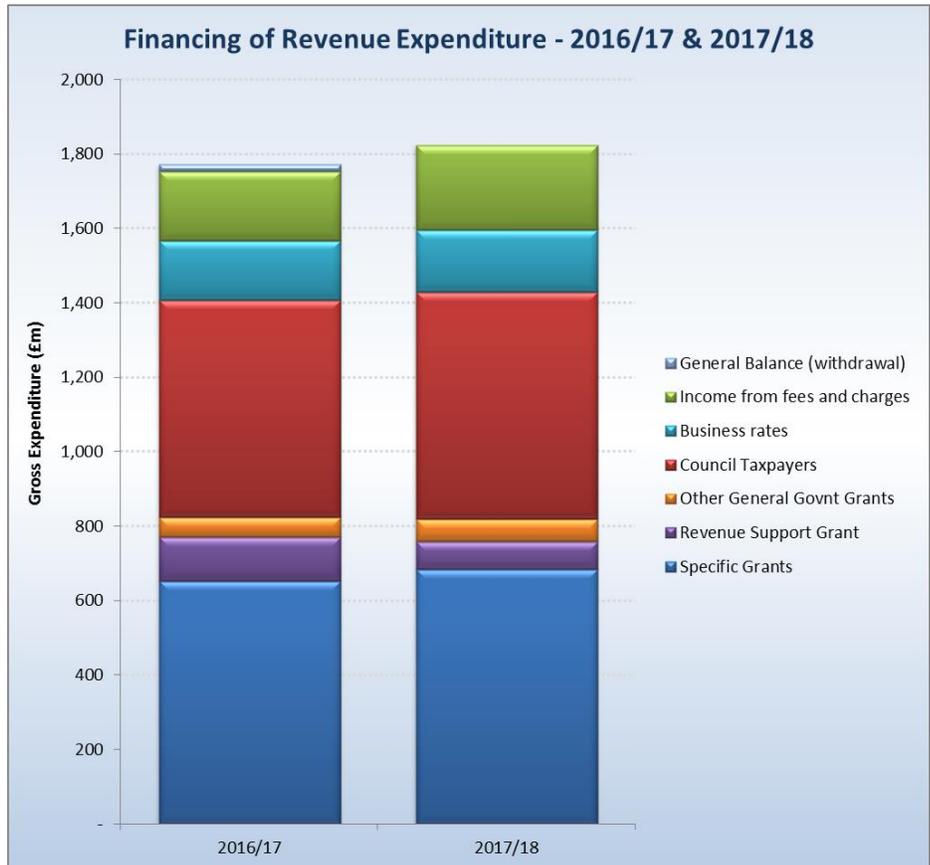
At **£1,823.6m**, budgeted expenditure in 2017/18 is **£49.909m** higher than that originally planned for 2016/17.

This is significant when considering that the Council saw a substantial reduction in Revenue Support Grant funding this year of **£44.062m (37.4% reduction)**, and is likely to experience pressures of **£38m** for inflation (including the National Living Wage) and **£6m** for increased demand.

This was partly mitigated by additional council tax and business rates income of **£34.608m**. In part, this was possible due to a reduction in the cost of providing council tax support, a reduction in the value of discounts granted and an increase in the number of households paying council tax.

However, it also reflects the Council's decision to utilise the **3% Social Care precept** facility offered by the Government this year. As a consequence of utilising the Social Care precept facility, the 2017/18 council tax for a band D property is **£1,163.70** (compared with **£1,130.13** in 2016/17).

Budgeted net expenditure for 2017/18 amounts to **£851.963m**, and incorporates **£106m** of savings and efficiencies which are to be delivered as part of our transformation and efficiency programme. These savings relate to process and back office efficiencies, improved targeting of resources and preventative measures, including a more targeted approach to support for families and increased focus on supporting vulnerable people to live independently. There are also efficiencies from organisation redesign, including **£1m** from senior leadership.



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Whilst a balanced budget has been set for 2017/18, there are high levels of risk in terms of delivery of the programme of savings. The challenge does not end in 2017/18 either.

In 2016/17, the Council accepted the offer from Central Government for a multi-year funding settlement, in return for an efficiency plan. The settlement provides the Council with certainty over government funding to 2019/20. Government funding reduces significantly over this period – with Revenue Support Grant falling to zero by 2020/21.

The funding position beyond 2019/20 is unknown, due to the expected implementation of a new approach to business rates from 2020/21, which will allow the Council to retain more of the business rates raised locally, in exchange for additional responsibilities which are yet to be determined. This will be a significant change to the way the Council is funded, and will increase risk, but will provide greater financial independence and incentives to push for local growth and pioneer new models of public service delivery.

As well as reductions in Central Government funding, the Council faces significant cost pressures over this period due to inflation (including the national living wage), demographics and new legislation such as the Apprenticeships Levy.

The Council is fully cognisant of the challenges it faces, but is determined to transform how it operates to tackle this enormous financial shift. The Council's Transformation and Efficiency programme is central to delivering the savings and generating the income required to reach a balanced budget position, but also to deliver fundamental change in the way it works both internally and with partners. The estimated total savings still to find over the medium term period is **£159m**.

Further details of the Council's revenue investment plans are included in the [Revenue Budget 2017/18](#), which is available on the Council's website.

Capital investment

Background to the 2016/17 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 2016/17 was compiled to maximise and make the best use of the available funding to deliver projects that represented the key priorities of the Council. The Capital Programme is a significant priority for the Council and is fundamental to the Council achieving its aspiration to re-shape how we deliver our services, as well as helping to unlock revenue savings and efficiencies to secure our ongoing financial sustainability.

Overall, the Capital Programme for 2016/17 was originally set at **£251.907m**. The vision for the Capital Programme was to have a diverse portfolio of activity that delivered the greatest value for the money within the affordable financial envelope, with elements that generate income and growth, drive savings

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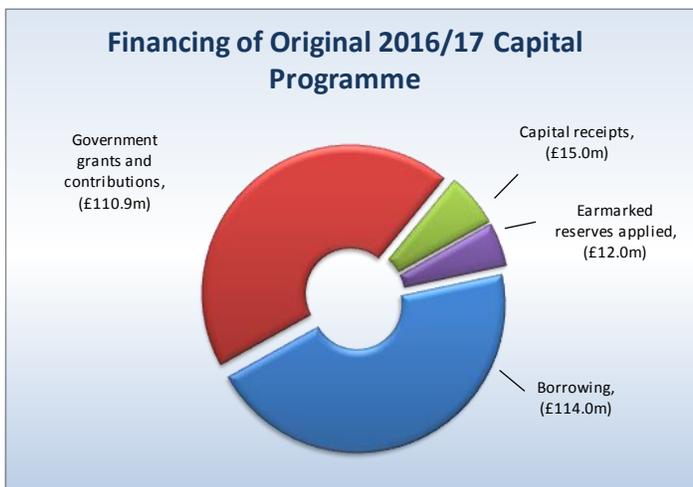
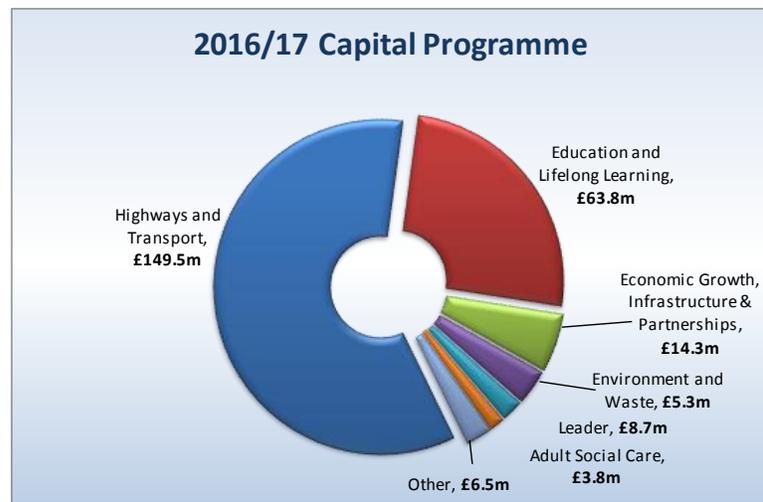
and ensure the quality of infrastructure, for the benefit of Essex residents. This was all underpinned by the needs of the people and businesses of Essex and the Council's corporate outcomes.

The capital strategy to deliver this vision was to:

- Build and maintain a diverse rolling three year capital programme which is agile and responds to residents' needs, such as providing new accommodation for vulnerable people and improving the County's flood defences.
- Ensure activity is prioritised accordingly, with robust delivery plans in place, enabling delivery on time and at value, for example ensuring every child has a place at school and maintaining the road network.
- Ensure external funding is leveraged to maximise the financial envelope available for projects such as road improvements which reduce congestion and unlock housing and jobs growth.

The capital programme for 2016/17 allowed for:

- Starting work on building new primary and secondary schools at Beaulieu Park in Chelmsford and New Hall in Harlow and delivering new specialist teaching provision in Benfleet.
- A package of highways maintenance and road congestion busting schemes countywide.
- Support to colleges in Harlow and Colchester for new training facilities.
- A range of schemes to enhance, maintain and deliver superfast broadband.



It was intended to finance the Capital Programme from a combination of borrowing (£113.998m) and from grants, contributions, capital receipts and reserves (£137.909m).

The grants for 2016/17 included funding for major transport schemes allocated through 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.

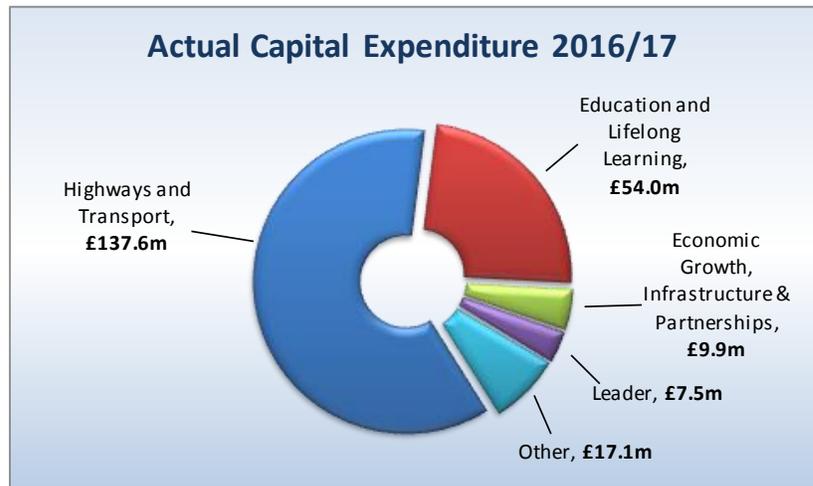
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2016/17 Outturn position

The final approved capital payments budget amounted to **£224.614m**.

In comparison, actual expenditure amounted to **£226.050m**.

This was **£1.436m** higher than budgeted due to programme delivery being accelerated.



During 2016/17, over **600** schemes were undertaken, including:

- Creation of **2,900** new pupil places, through **11** school expansions and the opening of one new school (*the Camulos Academy, in Colchester*);
- Relocation of the Glenwood Special School in Benfleet;
- **70** new units of accommodation to enable vulnerable individuals to enjoy greater independent living;
- Carrying out adaptations to carers' properties which will provide permanent care for **12** children;
- **159** BT Cabinets, which allowed **20,000** Essex properties to connect to Superfast Broadband for the first time;
- Rectification of carriageway and structural defects, and improving road drainage, across the County;
- Improving road access in the Harlow Enterprise Zone, further enabling housing and business development, and improving transport access and connectivity in Colchester;
- Design of preferred route to increase capacity on the A120 road; and
- Implementation of a new Corporate System for Finance and Human Resource management.

Narrative Report

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 approved expenditure	Final approved expenditure	Actual Capital Payments	Variance from approved expenditure over / (under)
	£000	£000	£000	£000
Capital payments				
Adult Social Care	3,778	4,900	3,303	(1,597)
Children's and Families	365	241	125	(116)
Corporate and Communities	456	240	298	58
Digital Innovation, IT & Customer Services	3,858	3,703	3,279	(424)
Economic Growth, Infrastructure & Partnerships	14,339	10,844	9,891	(953)
Education and Lifelong Learning	63,836	51,427	53,960	2,533
Environment and Waste	5,303	6,728	6,146	(582)
Finance, Traded Services, Housing and Planning	1,768	3,511	3,867	356
Highways and Transport	149,466	135,486	137,640	2,154
Leader	8,738	7,534	7,541	7
Total of capital payments financed	251,907	224,614	226,050	1,436
Financed by				
Borrowing	(113,998)	(74,583)	(61,611)	12,972
Government grants and contributions	(110,920)	(116,570)	(121,841)	(5,271)
Capital receipts	(15,000)	(24,189)	(27,755)	(3,566)
Earmarked reserves applied	(11,989)	(9,272)	(14,843)	(5,571)
Total financing	(251,907)	(224,614)	(226,050)	(1,436)

During 2016/17, we disposed of some of our land and buildings – the proceeds from which were used to partly fund our capital investment programme. The most significant asset disposals during 2016/17 were as follows:

Significant disposals	Capital receipts (£000)
▪ Land at St. Johns Road (Epping)	6,750
▪ Former Beis Shammai Grammar School (Chigwell)	5,700
▪ Land at the former Roding Valley High School Tennis Courts (Loughton)	5,500
▪ Part of former Castleview School (Canvey Island)	1,750
▪ 1-2 Seven Arches Road, Brentwood Register Office (Brentwood)	705

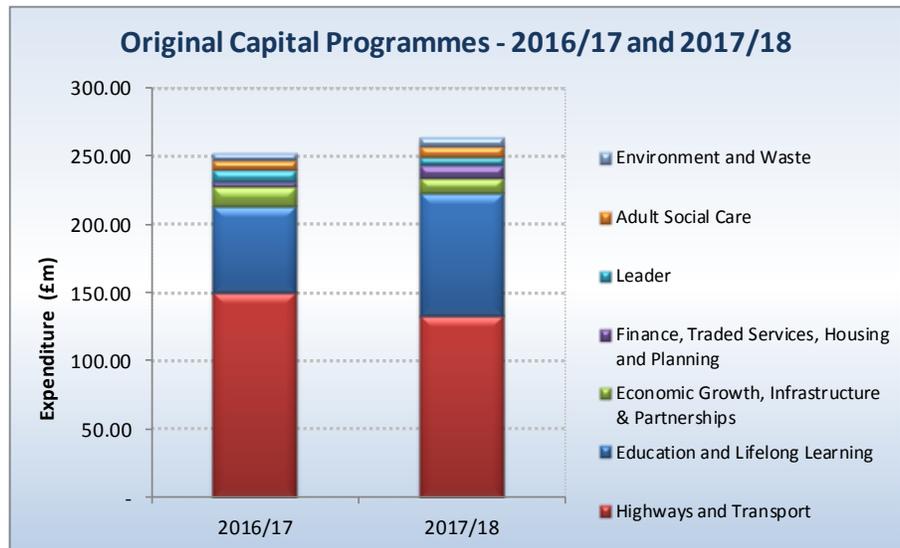
At 31st March 2017, we have **£9.870m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£34.299m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

Narrative Report

Capital investment plans for 2017/18

Overall, the Capital Programme for 2017/18 has been set at **£263.356m**.

This Capital Programme will deliver a range of schemes to enhance, maintain and deliver new infrastructure that generates income and growth, drives savings and is focused on creating better places to live and work.

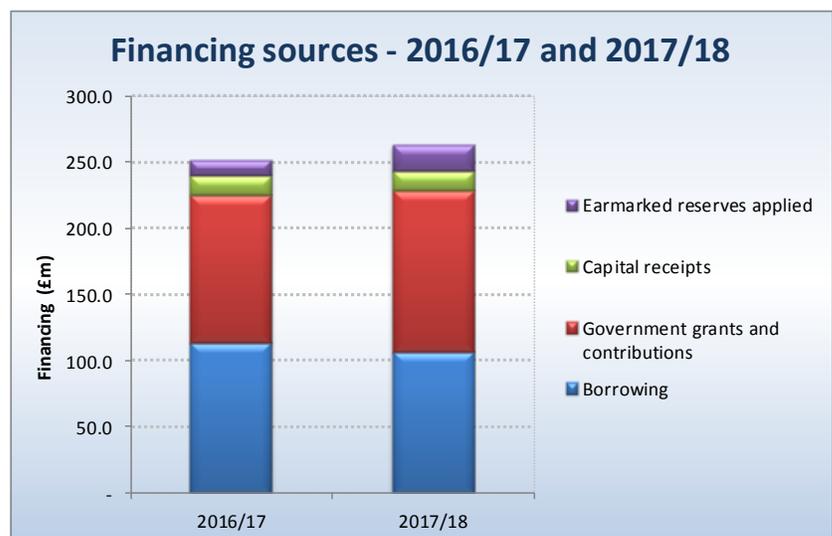


The Council has invested approximately **£222m** over the last three years on improving the quality of roads and non carriageways, which has resulted in significant improvements in the condition of the principal road network. Over the next three years, the focus will be on the condition of the local road network, together with a package of improvement works in Chelmsford and on the A127 and a broad range of other highways improvements.

The Council will also develop the case for a new junction on the M11 to serve Harlow, and on making the A120 between Braintree and the A12 into a dual carriageway.

The Council's collaboration with Essex schools will enable up to **£46m** of investment in expanding special school places over the next 3 years. This represents a step change in provision, and will help to reduce distances children need to travel, keeping them closer to their family and reducing associated costs.

This is on top of the **£230m** the Council is planning to invest over the same time frame in mainstream education to create over **8,000** new places, ensuring all children in Essex receive the best possible education and pupils' individual needs are met.



Narrative Report

It is intended to finance the 2017/18 Capital Programme from a combination of borrowing (**£107.087m**) and from grants, contributions, capital receipts and reserves (**£156.269m**).

Our longer term Capital Programme aspirations are significant too, recognising that this investment is essential if we are to deliver revenue savings and transform our capacity to meet future needs. The Council continues to develop the future programmes of investment though, to ensure that they are affordable.

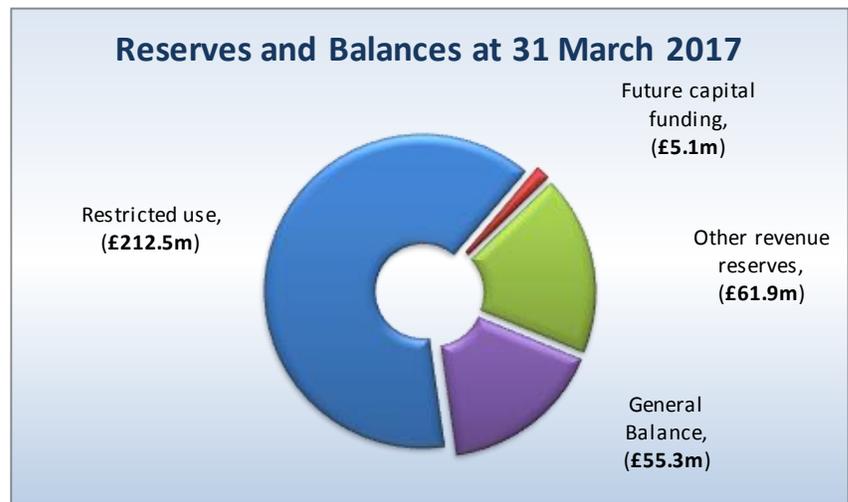
Further details of the Council's capital investment plans are included in the [Capital Programme 2017/18](#), which is available on the Council's web site.

Revenue Reserves and Balances

Much has been written in the media about the reserves and balances held by local councils. However, our revenue reserves are playing an increasingly important part in the Council's financial strategy, 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 (**£212.531m**). 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).

The Council has limited ability to influence how these reserves are utilised.



A further **£61.933m** of our reserves have been earmarked to enable the Council to change the way it provides services and achieves future savings and **£5.060m** has been earmarked for future capital funding.

The remainder (**£55.299m**) 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, the General Balance will remain under close review. The current balance is sufficient to fund **22** days of operational expenditure.

Narrative Report

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 64).

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 backed 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.

External loans totalling **£163m** were secured in 2016/17 (primarily from the Public Works Loans Board). The need to undertake external borrowing this year had been anticipated and budgeted for, and was undertaken in compliance with the parameters and limits we set for 2016/17.

Any cash balances the Council held during 2016/17 were invested until they were required to meet our outgoings. This primarily meant that funds were invested on a short term basis (up to a maximum period of 364 days), but some funds were invested for periods beyond 364 days. Funds were invested with other local authorities, money market funds and bodies with high credit ratings.

The Council also lent funds to Essex Cares Ltd, which is a wholly owned subsidiary of the Council, 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 2016/17 is presented within this publication, commencing on page 26.

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 2017 and of its income and expenditure for the 2016/17 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.

Narrative Report

The Statement of Accounts is centred around the Financial Statements (pages 32 to 36) – 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 2016/17.

The 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 2017 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 2016/17.

Whilst the presentation of these financial statements is largely defined by the 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. This differs from the approach in previous years, when the 'Cost of Services' was presented in the Comprehensive Income and Expenditure Statement according to the service groupings specified by the CIPFA Service Reporting Code of Practice. This change of presentation is allowed under the Code of Practice.

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, a new note has been included in the Statement of Accounts this year, the **Expenditure and Funding Analysis**. The Expenditure and Funding Analysis (see Note 4, on page 57) 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 4.

Accounting policies (see pages 39 to 52) explain how the financial effects of transactions and other events are reflected in the financial statements and other notes to the accounts (see pages 53 to 122) provide further information on the Council's financial performance.

Annual Governance Statement

Our Annual Governance Statement (which commences on page 193 of this publication) summarises the outcome of our review of the Governance Framework that has been in place during 2016/17. The 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.

Narrative Report

Conclusion

Through careful planning and management, Essex County Council has been able to close its 2016/17 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2017/18 and beyond. Whilst a balanced budget has been set for 2017/18, the projections for future years 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 for Corporate and Customer Services

22 September 2017

Statement of Accounts 2016/17



Essex County Council

Statement of Accounts

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Statement of Accounts - Introduction

Financial Statements

The Council's financial statements for 2016/17 are set out on pages 32 to 36, 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 the 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 37 to 122) to provide further detail on the financial performance of the Council during 2016/17.

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 2016/17 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 39.

The notes to the accounts also include a new **Expenditure and Funding Analysis**. 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

These statements, together with explanatory notes and accounting policies, are set out on page 123 to 135.

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 136 to 187.

Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 188 to 192.

Statement of Accounts - Statement of Responsibilities

Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. At Essex County Council, that officer is the Executive Director for 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 Committee.

Executive Director for Corporate and Customer Services' responsibilities

The Executive Director for 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 for 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 for 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 for 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 31 March 2017 and its expenditure and income for the year then ended.



Margaret Lee

Executive Director for Corporate and Customer Services

22 September 2017

Statement of Accounts - Statement of Responsibilities

Chairman of the Audit Committee's certificate

I confirm that this Statement of Accounts was considered and approved by the Audit Committee at its meeting on **18 September 2017**.

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

Cllr Terry Cutmore
Chairman of the Audit Committee
22 September 2017

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 4 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 2017

2015/16				Note	2016/17				
Gross expenditure	Government grants	Other income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure	
£000	£000	£000	£000		£000	£000	£000	£000	
503,639	(2,895)	(115,905)	384,839	Adult Social Care	541,837	(659)	(124,073)	417,105	
130,005	(6,913)	(3,231)	119,861	Children and Families	127,686	(9,904)	(2,598)	115,184	
22,489	(73)	(5,969)	16,447	Corporate and Communities	26,573	(29)	(5,903)	20,641	
2,273	-	(233)	2,040	Digital Innovation, IT and Customer Services	2,039	-	(244)	1,795	
11,446	(588)	(1,075)	9,783	Economic Growth, Infrastructure and Partnerships	12,411	-	(1,032)	11,379	
623,965	(574,839)	(52,162)	(3,036)	Education and Lifelong Learning	604,700	(556,446)	(44,944)	3,310	
159,616	(34,515)	(18,092)	107,009	Dedicated Schools Budget	121,792	(41,169)	(17,838)	62,785	
87,238	(470)	(4,492)	82,276	Non Dedicated Schools Budget	86,828	(315)	(5,460)	81,053	
27,835	(447)	(4,469)	22,919	Environment and Waste	27,553	(450)	(5,220)	21,883	
90,149	(58,021)	(2,697)	29,431	Finance, Traded Services, Housing and Planning	93,354	(69,068)	(2,909)	21,377	
127,124	(2,203)	(18,990)	105,931	Health	124,730	(3,068)	(22,521)	99,141	
4,351	(3,357)	21	1,015	Highways and Transport	(6,323)	(42)	(295)	(6,660)	
14,925	-	-	14,925	Leader	Recharged Strategic Support Services	12,122	-	-	12,122
34,048	-	-	34,048	Corporate and Communities	28,057	-	-	28,057	
25,998	-	-	25,998	Digital Innovation, IT and Customer Services	25,602	-	-	25,602	
1	-	-	1	Finance, Traded Services, Housing and Planning	-	-	-	-	
42,662	-	-	42,662	Highways and Transport	34,739	-	-	34,739	
1,907,764	(684,321)	(227,294)	996,149	Leader	Cost of services - continuing operations	1,863,700	(681,150)	(233,037)	949,513
100,046	-	-	100,046	8	Other Operating Expenditure	169,971	-	-	169,971
122,214	-	(61,730)	60,484	9	Financing and Investment Income and Expenditure	124,039	-	(68,097)	55,942
-	(485,826)	(592,686)	(1,078,512)	11	Taxation and Non-Specific Grant Income	-	(417,535)	(626,037)	(1,043,572)
2,130,024	(1,170,147)	(881,710)	78,167		Deficit on Provision of Services	2,157,710	(1,098,685)	(927,171)	131,854
			(55,059)	25.2	Surplus arising on revaluation of non-current assets				(138,875)
			-	25.2	Impairment losses on non-current assets charged to Revaluation Reserve				341
			(186)	25.5	(Surplus) / deficit arising on revaluation of available for sale financial assets				408
			(120,728)	25.6	Re-measurements of the net defined benefits pension liability				314,852
			(175,973)		Other Comprehensive Income and Expenditure				176,726
			(97,806)		Total Comprehensive Income and Expenditure				308,580

Note:

The Cost of Services is presented in accordance with the service groupings used by the Council for taking financial decisions and monitoring financial performance. This differs from the approach in previous years, when the 'Cost of Services' was presented according to the service groupings specified by the CIPFA Service Reporting Code of Practice.

Movement in Reserves Statement

For the years ended 31 March 2016 and 31 March 2017

	Notes	Usable Reserves				Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			
		£000	£000	£000	£000	£000	£000	
Balance at 31 March 2015		(311,449)	(59,100)	-	(2,728)	(373,277)	(822,398)	(1,195,675)
Movement in Reserves during 2015/16								
Total Comprehensive Income and Expenditure		-	78,167	-	-	78,167	(175,973)	(97,806)
Adjustments between accounting basis & funding under regulations	6	-	(72,791)	-	(63)	(72,854)	72,854	-
Net (increase)/decrease before transfers to earmarked reserves		-	5,376	-	(63)	5,313	(103,119)	(97,806)
Transfers from Earmarked Reserves	7	26,007	(26,007)	-	-	-	-	-
(Increase) / decrease in 2015/16		26,007	(20,631)	-	(63)	5,313	(103,119)	(97,806)
Balance at 31 March 2016		(285,442)	(79,731)	-	(2,791)	(367,964)	(925,517)	(1,293,481)
Movement in Reserves during 2016/17								
Total Comprehensive Income and Expenditure		-	131,854	-	-	131,854	176,726	308,580
Adjustments between accounting basis & funding under regulations	6	-	(101,504)	-	56	(101,448)	101,448	-
Net (increase)/decrease before transfers to earmarked reserves		-	30,350	-	56	30,406	278,174	308,580
Transfers from Earmarked Reserves	7	5,918	(5,918)	-	-	-	-	-
(Increase) / decrease in 2016/17		5,918	24,432	-	56	30,406	278,174	308,580
Balance at 31 March 2017		(279,524)	(55,299)	-	(2,735)	(337,558)	(647,343)	(984,901)

Statement of Accounts - Financial Statements

Balance Sheet as at 31 March 2017

31 March 2016 £000	Note		31 March 2017 £000	£000
		Property, Plant and Equipment		
		Operational assets		
1,632,682		Land and buildings	1,600,880	
18,370		Vehicles, plant and equipment	24,293	
900,850		Infrastructure	991,596	
2,607		Community assets	2,347	
		Non operational assets		
94,169		Assets under construction	114,905	
35,587		Surplus assets held pending disposal	34,299	
2,684,265	14	Total Property, Plant and Equipment	2,768,320	
14,363	14	Heritage assets	14,505	
6,723	14	Investment property	12,511	
8	14	Intangible assets	11,746	
4,960	18	Long term investments	12,128	
16,957	19	Long term debtors	17,830	
2,727,276		Long term assets		2,837,040
155,352	18	Short term investments	231,912	
16,835	14	Assets held for sale	9,497	
373	14	Investment properties held for sale	373	
50		Inventory	50	
130,225	19	Short term debtors	152,650	
58,895	20	Cash and cash equivalents	71,254	
361,730		Current Assets		465,736
(10,632)	18	Short-term borrowing	(8,227)	
(221,721)	21	Creditors	(253,320)	
(17,273)	23	Provisions (current)	(14,008)	
(12,571)	22	Revenue grant receipts in advance	(9,315)	
(53,868)	22	Capital grant receipts in advance	(57,268)	
(5,779)	16	Finance Lease obligations (short term)	(6,285)	
(321,844)		Current liabilities		(348,423)
(54)	21	Long term creditors	(112)	
(24,297)	23	Provisions (non-current)	(24,278)	
(351,620)	18	Long term borrowing	(511,758)	
		Other long term liabilities		
(149,139)	16	Finance lease obligations	(147,424)	
(14,373)		Deferred credits	(13,541)	
(934,198)	29	Net Pensions Liability	(1,272,339)	
(1,473,681)		Long term liabilities		(1,969,452)
1,293,481		Net Assets		984,901
		Usable reserves		
(285,442)	7	Earmarked reserves	(279,524)	
(79,731)		General Fund Balance	(55,299)	
-		Usable capital receipts reserve	-	
(2,791)		Capital grants unapplied	(2,735)	
(367,964)				(337,558)
	25	Unusable reserves		
(514,628)		Revaluation reserve	(578,469)	
(1,343,174)		Capital Adjustments Account	(1,340,533)	
3,141		Financial Instruments Adjustment Account	3,101	
(777)		Available for Sale Financial Instruments Reserve	(369)	
934,198		Pension reserve	1,272,339	
-		Deferred capital receipts	(2,492)	
(14,944)		Collection Fund Adjustment Account	(17,426)	
10,667		Accumulated Absences Account	16,506	
(925,517)				(647,343)
(1,293,481)		Total Reserves		(984,901)

These statements replace the unaudited financial statements I certified on 26th June 2017.

Margaret Lee

Margaret Lee - Executive Director for Corporate and Customer Services - 22 September 2017

Statement of Accounts - Financial Statements

Cash Flow Statement

For year ended 31 March 2017

2015/16 £000	Notes		2016/17 £000
(33,266)	26	Operating activities	(23,246)
102,137	↓	Investing activities	162,054
9,427	↓	Financing activities	(151,167)
78,298		Net (increase) / decrease in cash and cash equivalents	(12,359)
137,193		Cash and cash equivalents at 1st April	58,895
58,895		Cash and cash equivalents at 31st March	71,254

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 32 to 36) and provide further information on the financial performance and position of the Council during 2016/17. The notes set out within this section are as follows:

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Statement of Accounts - Notes to the Financial Statements

1. Accounting policies

1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year, and its financial position as at 31 March 2017. 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 2016/17 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 / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, 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

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

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

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

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 the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable

Statement of Accounts - Notes to the Financial Statements

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 of more uncertain events.

Neither contingent liabilities nor contingent assets are 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 established by appropriating 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 relevant Reserve to mitigate the expenditure, so that there is no net charge against the General Fund 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 attached to them and that the grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until the Council has satisfied any conditions attached to the grant or contribution that would require repayment if not met.

Once the conditions are satisfied, the grants or contributions are credited to the Comprehensive Income and Expenditure Statement in the relevant service line (specific revenue grants and contributions) or to Taxation and Non Specific Grant Income and Expenditure (capital grants and contributions and Non Ring-Fenced Grants).

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 set aside in an Earmarked Revenue Reserve (i.e. in accordance with Accounting Policy 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.

Statement of Accounts - Notes to the Financial Statements

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, regulations determine the amount of Council Tax and NDR that must be included in Council's General Fund. Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required 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.

In addition, the Council's Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating 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 holiday 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 appropriate service 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.

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 arrangements for these schemes mean that liabilities for these benefits cannot be identified

Statement of Accounts - Notes to the Financial Statements

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.
- 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

Statement of Accounts - Notes to the Financial Statements

and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.9 Value added tax

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

1.10 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 2016/17 (SeRCOP).

The costs of 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.

1.11 Property, plant and equipment

1.11.1 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.

1.11.2 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.

Statement of Accounts - Notes to the Financial Statements

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 <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 (<i>as a proxy for current value</i>).
Infrastructure	Depreciated historical cost.
Community assets	Depreciated historical cost.
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.

Statement of Accounts - Notes to the Financial Statements

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

1.11.3 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the 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). Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately: <ul style="list-style-type: none"> ▪ Structure 80 years ▪ Roof 25 to 80 years ▪ Plant and machinery 30 to 40 years ▪ External works 30 years
Community assets	Depreciated over 60 years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between 3 and 25 years.
Roads and other infrastructure	Depreciation is provided on a straight-line basis over the following periods: <ul style="list-style-type: none"> ▪ Road signage 30 years ▪ Roads and highway lighting 40 years ▪ Structures (eg: bridges) 120 years ▪ Off-highways drainage 100 years ▪ Other infrastructure 15 and 20 years ▪ Additions prior to 2008/09 30 – 35 years
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.

Statement of Accounts - Notes to the Financial Statements

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.

1.11.4 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.

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.

1.12 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.

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

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

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

Statement of Accounts - Notes to the Financial Statements

posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

1.13 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">• Held at depreciated historical cost.• Depreciated over 60 years on a straight line basis.
Archives	<ul style="list-style-type: none">• The value of these items is derived from the estimated costs of conservation and repair.• These assets are not subject to depreciation.
Fine Art	<ul style="list-style-type: none">• Where art work has been subject to formal valuation, it is reported in the Balance Sheet at market value. These pieces of art work are not subject to depreciation.

Where there is evidence of impairment, this is recognised and measured in accordance with the Council's general policy on impairment (see note 1.11.2 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 1.11.4).

1.14 Investment properties

Investment properties are measured initially at cost and subsequently at fair value (i.e. at a price reflecting their best and highest use). Investment 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.

Statement of Accounts - Notes to the Financial Statements

1.15 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 or occupied;
- Revaluation 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.

1.16 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, other than where the expenditure takes the form of a loan to a third party.

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.

1.17 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 Accounting Policy 1.11. 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
Services received <i>Services that the operator must provide with the property, plant and equipment.</i>	Charged to relevant service in the Comprehensive Income and Expenditure Statement.
Deferred income <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.
Finance cost <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.
Contingent rent <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.
Payment towards liability <i>Obligation to pay the operator the value of the current value of property, plant and equipment.</i>	Applied to write down the Balance Sheet liability towards the PFI operator.
Lifecycle replacement <i>Comprise 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.

1.18 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.

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 current value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised

Statement of Accounts - Notes to the Financial Statements

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.

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 gain/loss attributable to the difference between the carrying amount of the asset and the Council's net investment in the lease being credited/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 Comprehensive Income and Expenditure Statement).

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

1.19 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:

- 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.

Statement of Accounts - Notes to the Financial Statements

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 from 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.

Statement of Accounts - Notes to the Financial Statements

This means that:

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

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

- **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 to sell 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 authority 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.

Statement of Accounts - Notes to the Financial Statements

2. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 1, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the 2016/17 Statement of Accounts are as follows:

- **Future funding for local government**

The Council accepted a multi-year financial settlement from Central Government this year, in return for an efficiency plan. The settlement provides certainty over the amount of government funding the Council will receive to 2019/20. Government funding reduces significantly over this period – with Revenue Support Grant falling to zero by 2020/21.

The funding position beyond 2020/21 is unknown due to the expected implementation of a new approach to business rates from 2020/21, which will allow the Council to retain more of the business rates raised locally, in exchange for additional responsibilities which are yet to be determined. This will be a significant change to the way the Council is funded, but will provide greater financial independence, and incentives to push for local growth and pioneer new models of public service delivery.

As well as reductions in government funding, the Council faces significant cost pressures due to inflation, demographics and new legislation.

The Council is fully cognisant of the challenges it faces, but is determined to transform how it operates to tackle this enormous financial shift. The Council has a good track record of delivering savings to mitigate the impact of reducing levels of government funding, delivering savings of **£597m** over the last seven years, and budgeting to deliver a further **£106m** of new savings by the end of 2017/18.

The total savings still to find over the medium term is **£159m**. The Council's Transformation and Efficiency programme is central to delivering these savings, and generating the income, and to delivering fundamental change in the way it works both internally and with partners.

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.

The Council has therefore determined that it is appropriate to account for assets and liabilities on the basis that it is a 'going concern'.

- **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.

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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 years into the future. At 31 March 2017, land and buildings for **59** voluntary controlled (2015/16: 60), **58** voluntary aided (2015/16: 60) and **4** foundation schools (2015/16: 5) 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 Facility, the Council cannot yet demonstrate that the economic benefits and service potential of the Plant Facility flow to it, as the Facility remains subject to testing (*see page 81 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 2016/17.

- **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 and legal claims that may result in the

Statement of Accounts - Notes to the Financial Statements

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

- **Collaborative arrangements**

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 to provide a full picture of the Council’s economic activities and financial position.

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

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

The items in the Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are set out in the following paragraphs.

- **Property, plant and equipment**

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
<p>Assets are depreciated over their assessed useful lives, taking into account assumptions about the level of repairs and maintenance that will be undertaken.</p> <p>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.</p>	<p>If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease.</p> <p>Had the Council assumed a UEL of one year less in 2016/17 for all assets with a UEL of 20 years or more, depreciation charges would have been £2.713m higher.</p>	<p>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.</p> <p>Details of the carrying values and depreciation are detailed in Note 14 (page 73).</p>

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▪ Fair value measurements

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
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. Information about the techniques used to determine the fair value is disclosed in notes 14.3, 18.2 and 18.4.

▪ Pension liabilities

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Estimation of the net pension liability to pay pensions depends on a number of complex judgements. 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 £1.272bn at 31 st March 2017. The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 29.4 which commences on page 108.	The pensions liability increased by £338.141m in 2016/17 as a consequence of changes in demographic, financial and other assumptions. Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.

▪ Provisions

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
The estimate of the provision made for insurance claims depends on a number of complex actuarial judgements. In addition, it is not certain that all valid claims have been received by the Council.	At 31 March 2017, the insurance provision amounted to £20.300m . Further details are provided in Note 23 which commences on page 93.	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

- Debtors

Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
At 31 st March 2017, the Council had a balance of sundry debtors of £92.309m and made an allowance for doubtful debts of £11.340m .	Deterioration in debt collection rates of 1% would necessitate an additional allowance for doubtful debts of £918,000 .	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.

4. Expenditure and Funding Analysis

4.1 Introduction

The Expenditure and Funding Analysis (see note 4.2) 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 4.3 (see page 59).

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.

4.2 Expenditure and Funding Analysis

2015/16			2016/17			
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
382,048	2,791	384,839	Adult Social Care	413,032	4,073	417,105
117,394	2,467	119,861	Children and Families	113,358	1,826	115,184
13,877	2,570	16,447	Corporate and Communities	17,580	3,061	20,641
1,969	71	2,040	Digital Innovation, IT and Customer Services	1,761	34	1,795
6,454	3,329	9,783	Economic Growth, Infrastructure and Partnerships	5,837	5,542	11,379
			Education and Lifelong Learning			
2,357	(5,393)	(3,036)	Dedicated Schools Budget	4,824	(1,514)	3,310
49,311	57,698	107,009	Non Dedicated Schools Budget	48,628	14,157	62,785
75,666	6,610	82,276	Environment and Waste	76,965	4,088	81,053
22,304	615	22,919	Finance, Traded Services, Housing and Planning	22,180	(297)	21,883
29,239	192	29,431	Health	21,761	(384)	21,377
86,308	19,623	105,931	Highways and Transport	76,172	22,969	99,141
4,328	(3,313)	1,015	Leader	8,179	(14,839)	(6,660)
			Recharged Strategic Support Services			
14,503	422	14,925	Corporate and Communities	11,865	257	12,122
23,865	10,183	34,048	Digital Innovation, IT and Customer Services	20,851	7,206	28,057
24,268	1,730	25,998	Finance, Traded Services, Housing and Planning	25,009	593	25,602
1	-	1	Highways and Transport	-	-	-
37,231	5,431	42,662	Leader	29,036	5,703	34,739
891,123	105,026	996,149	Cost of services - continuing operations	897,038	52,475	949,513
(885,747)	(32,235)	(917,982)	Other income and expenditure not charged to services	(866,688)	49,029	(817,659)
5,376	72,791	78,167	Deficit on Provision of Services	30,350	101,504	131,854
			General Fund Balance			
(59,100)			Balance as at 1 April	(79,731)		
5,376			Deficit on Provision of Services	30,350		
(26,007)			Transfers to Earmarked Revenue Reserves	(5,918)		
(79,731)			Balance as at 31st March	(55,299)		

Statement of Accounts - Notes to the Financial Statements

4.3 Note to the Expenditure and Funding Analysis

4.3.1 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.

2015/16	Adjustments for capital purposes Note 4.3.2 £000	Net change for Pension Adjustments Note 4.3.3 £000	Other adjustments between funding and accounting Note 4.3.4 £000	Other differences Note 4.3.5 £000	Adjustments between the Funding and Accounting basis £000
Adult Social Care	2,262	546	(17)	-	2,791
Children and Families	705	1,770	(8)	-	2,467
Corporate and Communities	2,018	582	13	(43)	2,570
Digital Innovation, IT and Customer Services	-	67	4	-	71
Economic Growth, Infrastructure and Partnerships	3,212	115	2	-	3,329
Education and Lifelong Learning					
Dedicated Schools Budget	(2,412)	-	(1,537)	(1,444)	(5,393)
Non Dedicated Schools Budget	63,377	3,977	(21)	(9,635)	57,698
Environment and Waste	6,511	127	(17)	(11)	6,610
Finance, Traded Services, Housing and Planning	2,269	183	(8)	(1,829)	615
Health	81	140	(29)	-	192
Highways and Transport	29,626	407	92	(10,502)	19,623
Leader	2,168	(4,702)	(18)	(761)	(3,313)
Recharged Strategic Support Services					
Corporate and Communities	-	452	(30)	-	422
Digital Innovation, IT and Customer Services	9,877	333	(27)	-	10,183
Finance, Traded Services, Housing and Planning	1,204	822	(8)	(288)	1,730
Highways and Transport	-	-	-	-	-
Leader	4,963	386	82	-	5,431
Cost of services - continuing operations	125,861	5,205	(1,527)	(24,513)	105,026
Other income and expenditure not charged to services	(91,158)	33,697	713	24,513	(32,235)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	34,703	38,902	(814)	-	72,791

2016/17	Adjustments for capital purposes Note 4.3.2 £000	Net change for Pension Adjustments Note 4.3.3 £000	Other adjustments between funding and accounting Note 4.3.4 £000	Other differences Note 4.3.5 £000	Adjustments between the Funding and Accounting basis £000
Adult Social Care	3,308	764	1	-	4,073
Children and Families	576	1,221	29	-	1,826
Corporate and Communities	2,927	252	(8)	(110)	3,061
Digital Innovation, IT and Customer Services	-	38	(4)	-	34
Economic Growth, Infrastructure and Partnerships	5,468	70	4	-	5,542
Education and Lifelong Learning					
Dedicated Schools Budget	(6,283)	-	6,022	(1,253)	(1,514)
Non Dedicated Schools Budget	21,823	1,893	(32)	(9,527)	14,157
Environment and Waste	4,011	80	5	(8)	4,088
Finance, Traded Services, Housing and Planning	1,459	145	(13)	(1,888)	(297)
Health	(441)	62	(5)	-	(384)
Highways and Transport	32,370	281	(30)	(9,652)	22,969
Leader	(4,064)	(15,777)	(7)	5,009	(14,839)
Recharged Strategic Support Services					
Corporate and Communities	-	295	(38)	-	257
Digital Innovation, IT and Customer Services	6,928	259	19	-	7,206
Finance, Traded Services, Housing and Planning	330	560	(26)	(271)	593
Highways and Transport	-	-	-	-	-
Leader	5,602	182	(81)	-	5,703
Cost of services - continuing operations	74,014	(9,675)	5,836	(17,700)	52,475
Other income and expenditure not charged to services	884	32,964	(2,519)	17,700	49,029
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	74,898	23,289	3,317	-	101,504

Statement of Accounts - Notes to the Financial Statements

4.3.2 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.

4.3.3 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.

4.3.4 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.

4.3.5 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. The amounts reclassified include precepts and levies, interest payments and income and expenditure in relation to investment properties and changes in their value.

Statement of Accounts - Notes to the Financial Statements

5. Expenditure and income analysed by nature

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

2015/16		2016/17	
£000		£000	£000
Expenditure			
576,818	Employee expenses	555,809	
1,225,517	Other service expenditure	1,236,288	
105,429	Depreciation, amortisation and impairment	71,603	
34,529	Interest payable and similar charges	36,492	
3,317	Precepts and levies	3,330	
96,729	Gain or loss on disposal of fixed assets	166,641	
87,685	Corporate amounts	87,547	
<u>2,130,024</u>			<u>2,157,710</u>
Income			
(227,382)	Fees, charges and other service income	(233,175)	
(2,395)	Interest and investment income	(2,862)	
(59,247)	Corporate amounts	(65,097)	
(592,686)	Income from council tax and non domestic rates	(626,037)	
(1,170,147)	Government grants and contributions	(1,098,685)	
<u>(2,051,857)</u>			<u>(2,025,856)</u>
<u>78,167</u>	Deficit on the Provision of Services		<u>131,854</u>

6. 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

2015/16	Notes	Usable Reserves				Total Usable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	
		£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	25.3					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(105,186)	-	-	(105,186)
Amortisation of intangible assets		-	(243)	-	-	(243)
Revaluation losses on property, plant and equipment		-	-	-	-	-
Movement in market value of investment properties		-	641	-	-	641
Capital grants and contributions applied		-	140,174	-	-	140,174
Donated assets		-	16,509	-	-	16,509
Exchange of assets (recognition of new assets)		-	-	-	-	-
Revenue expenditure funded from capital under statute		-	(40,832)	-	-	(40,832)
Value of assets disposed of during the year		-	(109,082)	-	-	(109,082)
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>						
Statutory provision for the financing of capital investment		-	34,152	-	-	34,152
Capital expenditure charged against the General Fund		-	14,806	-	-	14,806
Adjustments involving the Capital Adjustment Account		-	(49,061)	-	-	(49,061)
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	1,655	1,655
Grants and contributions unapplied		-	1,718	-	(1,718)	-
Adjustments involving the Capital Grants Unapplied A/C		-	1,718	-	(63)	1,655
Adjustments involving the Capital Receipts Reserve						
Sale proceeds (part of gain/loss on disposal)		-	12,640	(12,640)	-	-
Use of reserve to finance new capital expenditure		-	-	12,640	-	12,640
Adjustments involving the Capital Receipts Reserve		-	12,640	-	-	12,640
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	25.4					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40
Adjustments involving the FIAA		-	40	-	-	40
Adjustments involving the Pensions Reserve	25.6					
Reversal of items debited/credited to the CIES		-	(94,727)	-	-	(94,727)
Employers' pension contributions payable in the year		-	55,825	-	-	55,825
Adjustments involving the Pensions Reserve		-	(38,902)	-	-	(38,902)
Adjustments involving the Collection Fund Adjustment Account	25.8					
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		-	(727)	-	-	(727)
Adjustments involving the Collection Fund Adj Account		-	(727)	-	-	(727)
Adjustments involving the Accumulated Absences Account	25.9					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	1,501	-	-	1,501
Adjustments involving the Accumulated Absences Account		-	1,501	-	-	1,501
Total adjustments		-	(72,791)	-	(63)	(72,854)

Statement of Accounts - Notes to the Financial Statements

2016/17	Notes	Usable Reserves				Total Usable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	
		£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account (CAA)	25.3					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(71,623)	-	-	(71,623)
Amortisation of intangible assets		-	20	-	-	20
Revaluation losses on property, plant and equipment		-	-	-	-	-
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
Exchange of assets (recognition of new assets)		-	-	-	-	-
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
Adjustments involving the Capital Adjustment Account		-	(106,855)	-	-	(106,855)
Adjustments involving the Capital Grants Unapplied Account						
Grants applied to financing (transferred to the CAA)		-	-	-	1,766	1,766
Grants and contributions unapplied		-	1,710	-	(1,710)	-
Adjustments involving the Capital Grants Unapplied A/C		-	1,710	-	56	1,766
Adjustments involving the Capital Receipts Reserve						
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
Adjustments involving the Capital Receipts Reserve		-	30,247	-	-	30,247
Adjustments involving the Financial Instruments Adjustment Account (FIAA)	25.4					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40
Adjustments involving the FIAA		-	40	-	-	40
Adjustments involving the Pensions Reserve	25.6					
Reversal of items debited/credited to the CIES		-	(79,851)	-	-	(79,851)
Employers' pension contributions payable in the year		-	56,562	-	-	56,562
Adjustments involving the Pensions Reserve		-	(23,289)	-	-	(23,289)
Adjustments involving the Collection Fund Adjustment Account	25.8					
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
Adjustments involving the Collection Fund Adj Account		-	2,482	-	-	2,482
Adjustments involving the Accumulated Absences Account	25.9					
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)
Adjustments involving the Accumulated Absences Account		-	(5,839)	-	-	(5,839)
Total adjustments		-	(101,504)	-	56	(101,448)

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7. 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
RESTRICTED USE		
▪ Grant equalisation reserve	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Accounting Policy 1.6) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
▪ PFI equalisation reserves	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
▪ Waste reserve	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.
▪ Partnerships	To retain unspent contributions from partners and apply them in subsequent years.	Usage of these reserves is determined by the individual partnerships.
▪ Schools	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.
▪ Trading activities	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
OTHER RESERVES		
▪ Capital receipts pump priming	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.

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Reserves	Purpose and usage	Timescale for usage
<ul style="list-style-type: none"> Carbon reduction 	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
<ul style="list-style-type: none"> Carry Forwards 	Used to carry under spends in the current financial year forward to support expenditure plans in the forthcoming financial year.	It is anticipated that this reserve will be fully utilised in 2017/18.
<ul style="list-style-type: none"> Collection Fund investment risk 	Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.	The remainder of this reserve should be fully utilised in 2017/18.
<ul style="list-style-type: none"> Community Initiatives Fund 	Established to fund revenue and capital community initiatives.	No time constraints have been placed upon the usage of this reserve.
<ul style="list-style-type: none"> Innovation 	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.
<ul style="list-style-type: none"> Insurance 	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.
<ul style="list-style-type: none"> Pension deficit 	Established to mitigate the impact of increases in employers' pension contributions.	There are no time constraints placed upon the usage of this reserve.
<ul style="list-style-type: none"> Transformation 	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.	There are no time constraints placed upon the usage of this reserve.

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

	Balance	2015/16 movements		Balance	2016/17 movements		Balance
	1 April 2015	Contributions	Withdrawals	31 March 2016	Contributions	Withdrawals	31 March 2017
	£000	£000	£000	£000	£000	£000	£000
Restricted use							
Grant equalisation reserve	(18,587)	(3,068)	11,616	(10,039)	(4,052)	2,964	(11,127)
PFI equalisation reserves	(66,534)	(464)	5,067	(61,931)	(1,815)	5,449	(58,297)
Waste reserve	(57,611)	(34,977)	12,968	(79,620)	(11,270)	-	(90,890)
Partnership reserves	(2,012)	(221)	738	(1,495)	(418)	373	(1,540)
Schools	(53,821)	(9,350)	11,233	(51,938)	(5,854)	10,488	(47,304)
Trading activities	(5,151)	(580)	1,169	(4,562)	(359)	1,548	(3,373)
	(203,716)	(48,660)	42,791	(209,585)	(23,768)	20,822	(212,531)
Future capital funding	(21,176)	(5,378)	14,806	(11,748)	(8,155)	14,843	(5,060)
Other							
Capital receipts pump priming	(2,221)	(1,000)	550	(2,671)	(1,143)	1,057	(2,757)
Carbon reduction	(3,075)	(529)	432	(3,172)	(529)	717	(2,984)
Carry forwards reserve	(12,677)	(9,057)	12,677	(9,057)	(6,635)	9,057	(6,635)
Collection Fund investment risk	(9,772)	(1,412)	9,772	(1,412)	-	-	(1,412)
Community Initiatives Fund	-	(3,750)	1,238	(2,512)	(1,500)	1,915	(2,097)
Innovation	-	(1,000)	34	(966)	(1,000)	105	(1,861)
Insurance	(8,747)	-	391	(8,356)	-	-	(8,356)
Pension deficit	(3,988)	-	1,574	(2,414)	-	1,574	(840)
Transformation	(28,740)	(23,010)	20,051	(31,699)	(22,603)	21,561	(32,741)
Other reserves	(17,337)	(729)	16,216	(1,850)	(575)	175	(2,250)
	(86,557)	(40,487)	62,935	(64,109)	(33,985)	36,161	(61,933)
Total	(311,449)	(94,525)	120,532	(285,442)	(65,908)	71,826	(279,524)

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8. Other operating expenditure

Other operating expenditure comprises of the following:

2015/16		2016/17
£000		£000
3,317	Precepts and levies	3,330
96,729	Losses on disposal of non-current assets	166,641
100,046	Total Other Operating Expenditure	169,971

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.

9. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

2015/16		2016/17
£000		£000
	Net interest on the net defined benefit liability	
88,326	Interest cost	93,860
(55,382)	Interest on assets	(61,275)
32,944		32,585
34,529	Interest payable and similar charges	36,492
(2,395)	Interest receivable and similar income	(2,862)
(729)	Income and expenditure in relation to investment properties and changes in their value	(6,451)
(3,865)	Net surplus on trading activities	(3,822)
60,484	Financing and Investment income & expenditure	55,942

Statement of Accounts - Notes to the Financial Statements

10. 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
<ul style="list-style-type: none"> EES for Schools 	Delivers advisory and inspection, governor, library services and financial management support to schools.
<ul style="list-style-type: none"> School staffing insurance scheme 	A self-insurance scheme for schools, supporting sickness and relocation expenses.
<ul style="list-style-type: none"> Music Services 	Delivers music services to schools.
<ul style="list-style-type: none"> Smarte East 	A procured framework arrangement for construction projects; the framework arrangement has now expired and the trading account is in the process of being closed.
<ul style="list-style-type: none"> Information Services infrastructure 	Monitors the decommissioning and refresh of IT equipment within the Council.
<ul style="list-style-type: none"> Essex Legal Services 	Provides legal services to a wide range of public sector organisations.
<ul style="list-style-type: none"> Library Services 	<p>The County Council established a company (Library Services (Slough) Ltd), through which a library service was delivered to Slough Borough Council until June 2016; all costs incurred by Library Services (Slough) Ltd were reimbursed by the County Council.</p> <p>All direct, service management and support service costs incurred by the County Council in relation to the delivery of a library service to Slough Borough Council were included within the Library Services trading account, together with the income received under contract from the Borough Council.</p>
<ul style="list-style-type: none"> 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 at 1 April	Movements			Appropriations	Balance at 31 March
		Income	Expend- iture	Net (Surplus) / deficit		
	£000	£000	£000	£000	£000	£000
2015/16						
EES for Schools	(2,647)	(13,537)	10,663	(2,874)	3,601	(1,920)
School staffing insurance scheme	(1,175)	(4,725)	4,927	202	-	(973)
Music Services	(109)	(4,268)	4,248	(20)	(4)	(133)
Smarte East	(245)	(68)	56	(12)	-	(257)
Information Services infrastructure	(208)	(7,596)	7,404	(192)	-	(400)
Essex Legal Services	(300)	(9,350)	9,101	(249)	488	(61)
Library Services	(277)	(1,915)	1,432	(483)	277	(483)
Place Services	(190)	(1,850)	1,613	(237)	92	(335)
	(5,151)	(43,309)	39,444	(3,865)	4,454	(4,562)
2016/17						
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)

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11. Taxation and non-specific grant income

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

2015/16 £000		2016/17 £000
	Taxation	
(550,420)	Council tax	(580,297)
(42,266)	Non domestic rates	(45,740)
<u>(592,686)</u>		<u>(626,037)</u>
(485,826)	Non specific grant income	(417,535)
<u>(1,078,512)</u>	Taxation and non specific grant income	<u>(1,043,572)</u>

12. Grant income

12.1 Amounts credited to Taxation and Non-Specific Grant income

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

2015/16 £000		2016/17 £000
	Non ring-fenced grants	
160,774	Revenue Support Grant	117,938
118,167	Non Domestic Rates (<i>Top up grant and Safety net / levy</i>)	120,838
30,349	Private Finance Initiative Grants	30,349
8,251	Care Act Grant	-
5,980	Council Tax Freeze Grant	-
6,422	New Homes Bonus / New Homes Bonus Adjustment Grant	7,844
-	Transitional Grant	6,960
4,426	Independent Living Fund Grant	5,605
4,025	Business Rates (Section 31 Grants)	3,942
1,210	Other non ring-fenced grants	797
<u>339,604</u>		<u>294,273</u>
	Capital grants and contributions	
	Department for Education	
53,290	Standards Fund	42,318
2,909	Other	2,350
	Department for Transport grants	
23,778	Direct funding	23,906
6,275	Integrated Transport Grant	6,274
2,087	Other	1,500
28,800	South East Local Enterprise Partnership - Local Growth Fund	6,826
12,574	Other grants and contributions	16,319
<u>129,713</u>		<u>99,493</u>
<u>16,509</u>	Donated assets - recognition of new assets	<u>23,769</u>
<u>485,826</u>	Total non-specific grant income	<u>417,535</u>

Statement of Accounts - Notes to the Financial Statements

12.2 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:

2015/16			2016/17		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
Department for Education (incl. Education Funding Agency)					
4,080	1,450	5,530	12,017	2,452	14,469
-	530,639	530,639	-	515,248	515,248
-	27,765	27,765	-	24,403	24,403
-	11,683	11,683	-	10,302	10,302
-	13,228	13,228	-	12,745	12,745
-	8,095	8,095	-	8,112	8,112
4,080	592,860	596,940	12,017	573,262	585,279
Department of Health					
-	55,769	55,769	-	66,247	66,247
-	4,614	4,614	71	2,511	2,582
-	60,383	60,383	71	68,758	68,829
Grants awarded by other bodies					
-	7,652	7,652	-	7,893	7,893
-	5,370	5,370	-	2,900	2,900
3,306	-	3,306	3,519	-	3,519
797	1,406	2,203	2	3,066	3,068
-	8,467	8,467	400	9,262	9,662
4,103	22,895	26,998	3,921	23,121	27,042
8,183	676,138	684,321	16,009	665,141	681,150

Prior year comparative figures are consistent with the figures presented in the 2015/16 Statement of Accounts, but some grants have been grouped together where the amounts are minor and there were no similar amounts received in 2016/17.

Statement of Accounts - Notes to the Financial Statements

13. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Department for Education, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Department 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 2016/17 are provided in the following table.

2015/16		2016/17 Total	Deployment in 2016/17	
			Central Expenditure	Individual Schools Budget
£000		£000	£000	£000
(978,224)	Final DSG for the year (before Academy recoupment)	(988,816)		
448,226	Academy figure recouped	475,441		
(529,998)	Total DSG after Academy recoupment	(513,375)		
(7,108)	Brought forward from previous year	(6,290)		
(537,106)	Agreed initial budgeted distribution	(519,665)	(80,747)	(438,918)
-	In year adjustments	-		
(537,106)	Final budgeted distribution	(519,665)	(80,747)	(438,918)
530,816	Actual central expenditure / ISB deployed	516,324	74,009	442,315
(6,290)	Carry forward to next year	(3,341)	(6,738)	3,397

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

14.1 Movement in balances – 2015/16

	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
Gross Book Value											
As at 1 April 2015	1,689,759	45,783	1,091,125	2,366	92,621	33,786	4,469	6,674	14,393	9,188	-
Additions	20,768	836	158	-	183,784	-	-	-	-	-	-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	27,429	-	-	18	-	12,471	-	-	-	-	-
Surplus/Deficit on the provision of services	(40,993)	(46)	-	-	-	935	-	641	-	-	-
Disposals	(100,501)	(1,839)	-	(18)	-	(2,944)	(4)	-	(13)	(6,319)	-
Reclassification of assets to / (from) other categories	(5,729)	45	651	(72)	-	(8,888)	-	(650)	-	14,270	373
Transfers from assets under construction	73,083	266	108,320	453	(182,236)	345	4	58	11	(304)	-
As at 31 March 2016	1,663,816	45,045	1,200,254	2,747	94,169	35,705	4,469	6,723	14,391	16,835	373
Depreciation / Amortisation											
As at 1 April 2015	(19,493)	(21,954)	(268,162)	(94)	-	(386)	(4,218)	-	(25)	-	-
Revaluations and restatements	14,923	-	-	-	-	218	-	-	-	-	-
Depreciation / amortisation on impairments	4,522	14	-	-	-	21	-	-	-	-	-
Depreciation / amortisation for the year	(31,845)	(6,359)	(31,242)	(46)	-	(140)	(247)	-	(3)	-	-
Depreciation / amortisation on assets sold	755	1,671	-	-	-	126	4	-	-	-	-
Other movements in depreciation / impairment	4	(47)	-	-	-	43	-	-	-	-	-
As at 31 March 2016	(31,134)	(26,675)	(299,404)	(140)	-	(118)	(4,461)	-	(28)	-	-
Net book value at 31 March 2015	1,670,266	23,829	822,963	2,272	92,621	33,400	251	6,674	14,368	9,188	-
Net book value at 31 March 2016	1,632,682	18,370	900,850	2,607	94,169	35,587	8	6,723	14,363	16,835	373

14.2 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					
Gross Book Value											
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	-	-	-	-
As at 31 March 2017	1,629,351	56,749	1,325,076	2,545	114,905	34,770	16,187	12,511	14,536	9,497	373
Depreciation / Amortisation											
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)	-	-	-	-	-
As at 31 March 2017	(28,471)	(32,456)	(333,480)	(198)	-	(471)	(4,441)	-	(31)	-	-
Net book value at 31 March 2016	1,632,682	18,370	900,850	2,607	94,169	35,587	8	6,723	14,363	16,835	373
Net book value at 31 March 2017	1,600,880	24,293	991,596	2,347	114,905	34,299	11,746	12,511	14,505	9,497	373

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14.3 Fair value measurement

In accordance with Accounting Policy note 1.22 (page 52), the Council measures its surplus assets and investment properties 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 31 March 2017 is as follows:

31st March 2016				31st March 2017		
Level 1	Level 2	Fair value		Level 1	Level 2	Fair value
<i>Quoted price in active market for identical assets</i>	<i>Other significant observable inputs</i>			<i>Quoted price in active market for identical assets</i>	<i>Other significant observable inputs</i>	
£000	£000	£000		£000	£000	£000
			Surplus properties			
14,453	6,035	20,488	Former school sites	6,826	11,387	18,213
2,283	8,507	10,790	Land	2,283	7,066	9,349
4,231	196	4,427	Other	5,879	1,329	7,208
20,967	14,738	35,705		14,988	19,782	34,770
			Investment properties			
190	5,968	6,158	Agricultural tenancies	6,629	5,331	11,960
565	-	565	Other	551	-	551
755	5,968	6,723		7,180	5,331	12,511

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.

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14.4 Capital commitments

At 31st March 2017, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2017/18. The commitments as at 31st March are summarised as follows:

2016 £000		2017 £000
	- Highways and Transportation	479
12,795	Education (schools)	16,876
16,256	Information Services	8,715
415	Other	510
29,466		26,580

14.5 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 Institute of Chartered Surveyors (RICS). The timing and amounts of the valuations are summarised in the following table:

	Held at historical value £000	Valued as at					Total cost or valuation £000
		31 March 2013 £000	31 March 2014 £000	31 March 2015 £000	31 March 2016 £000	31 March 2017 £000	
Operational Assets							
Land and buildings	-	150,060	146,024	292,253	265,750	775,264	1,629,351
Vehicles, plant & equipment	56,749	-	-	-	-	-	56,749
Infrastructure	1,325,076	-	-	-	-	-	1,325,076
Community Assets	2,545	-	-	-	-	-	2,545
Non-Operational Assets							
Surplus Assets	-	1,204	3,118	256	20,919	9,273	34,770
Assets under construction	114,905	-	-	-	-	-	114,905
Gross book value	1,499,275	151,264	149,142	292,509	286,669	784,537	3,163,396

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15. 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.

2015/16 £000		2016/17 £000	
840,959	Opening Capital Financing Requirement		868,310
	Capital investment		
189,036	Property, plant and equipment	193,990	
40,832	Revenue expenditure funded from capital under statute	38,175	
910	Loans awarded for capital purposes	-	
230,778	Total capital investment	232,165	
	Sources of finance		
(12,640)	Capital receipts	(28,235)	
(141,829)	Government grants and contributions	(121,841)	
(14,806)	Earmarked revenue reserves applied	(14,843)	
(34,152)	Revenue provision for the repayment of debt	(34,540)	
(203,427)	Total sources of finance	(199,459)	
27,351	Increase in the Capital Financing Requirement		32,706
868,310	Closing Capital Financing Requirement		901,016
	Explanation of movements in year		
26,875	Increase in underlying need to borrow		27,121
476	Increase for assets acquired under finance lease		5,585
27,351	Increase in the Capital Financing Requirement		32,706

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16. Leases

16.1 Council as Lessee – Finance leases

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

31st March 2016			31st March 2017	
Short Term	Long Term		Short Term	Long Term
£000	£000		£000	£000
8	821	Property	8	813
1,181	4,245	Vehicles, plant and equipment	2,323	6,492
4,590	144,073	Private Finance Initiatives	3,954	140,119
5,779	149,139		6,285	147,424

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 17, which commences on page 79.

16.2 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 2016				31 March 2017		
Property	Other	Total		Property	Other	Total
£000	£000	£000		£000	£000	£000
3,387	3,075	6,462	One year	3,319	2,449	5,768
10,349	2,529	12,878	Two to five years	10,171	1,523	11,694
56,619	231	56,850	Over five years	54,469	221	54,690
70,355	5,835	76,190	Total lease rentals	67,959	4,193	72,152

16.3 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.

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The gross investment is made up of the following amounts:

31 March 2016 £000		31 March 2017 £000
	Finance lease debtor	
-	Current	41
-	Non-current	2,451
-		2,492

17. Private Finance Initiative and similar contracts

17.1 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
A130 Bypass	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until construction of the road was complete. Construction costs were estimated at £80m (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed or 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>
Debden Park School	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of £15m.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available and according to the achievement of performance goals.</p>

Statement of Accounts - Notes to the Financial Statements

Scheme	Nature and significant terms
<p>Clacton Secondary Schools</p>	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of £34m.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, 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>
<p>Tendring Primary Schools</p>	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of £15m.</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>
<p>Castleview, Cornelius Vermuyden and Columbus Schools</p>	<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 £22.3m.</p>
<p>Woodlands School</p>	<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 period). Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p>

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Scheme	Nature and significant terms
	<p>Construction costs for this school amounted to £27m. 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 £4m per annum.</p>
Waste Treatment Plant - Basildon	<p>This contract was entered into on 31 May 2012 with UBB Waste (Essex) Ltd and provides for the design, construction, finance and operation of a waste treatment plant in Basildon.</p> <p>Work on the physical construction commenced in March 2013; the Facility required capital expenditure in the region of £107m (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 mechanisms to seek resolution to the commissioning issues that have arisen.</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>

17.2 Details of payments to be made under PFI contracts

The Council makes agreed payments under the schemes detailed in note 17.1 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	6,942	29,646	41,341	39,877	28,204	146,010
Interest and similar charges	18,628	79,712	81,529	34,362	14,303	228,534
Repayment of liability	3,954	32,054	52,177	26,400	29,487	144,072
Lifecycle replacement	4,381	10,693	15,981	17,922	5,994	54,971
Total	33,905	152,105	191,028	118,561	77,988	573,587

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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.

17.3 Property, plant and equipment

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 2016 £000		31st March 2017 £000
	Gross Book Value	
139,746	As at 1 April	117,091
-	Additions	23,471
	Revaluation increases / (decreases) recognised in:	
970	Revaluation Reserve	2,498
(4)	Surplus/Deficit on the provision of services	-
(23,625)	Disposals	-
4	Transfers to / (from) assets under construction	23
117,091	As at 31 March	143,083
	Depreciation / Amortisation	
(26,396)	As at 1 April	(28,893)
45	Revaluations and restatements	699
(2,567)	Depreciation / amortisation for the year	(2,794)
25	Depreciation / amortisation on assets sold	-
(28,893)	As at 31 March	(30,988)
113,350	Net book value at 1 April	88,198
88,198	Net book value at 31 March	112,095

Note: The Tendring Enterprise College site (part of the Clacton Secondary Schools PFI) was brought back on the Council's Balance Sheet in 2016/17, as the site is not currently being used as an Academy / Free school.

17.4 Value of PFI liabilities for capital expenditure

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

2015/16 £000		2016/17 £000
(154,512)	Balance as at 1 April	(148,662)
5,850	Liabilities repaid	4,590
(148,662)	Balance as at 31 March	(144,072)

Statement of Accounts - Notes to the Financial Statements

18. Financial instruments

18.1 Categories of Financial Instruments

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

31 March 2016			31 March 2017	
Long term £000	Short term £000		Long term £000	Short term £000
		Financial assets		
		Investments		
1,683	153,349	Loans and receivables	1,759	231,912
3,277	2,003	Available for sale financial assets	10,369	-
16,957	92,530	Debtors (contractual)	17,830	110,584
-	58,895	Cash and cash equivalents	-	71,254
<u>21,917</u>	<u>306,777</u>	Total	<u>29,958</u>	<u>413,750</u>
		Financial liabilities		
(351,620)	(10,632)	Borrowing	(511,758)	(8,227)
(149,139)	(5,779)	PFI / Finance lease liabilities	(147,424)	(6,285)
(54)	(208,374)	Creditors (contractual)	(112)	(230,399)
<u>(500,813)</u>	<u>(224,785)</u>	Total	<u>(659,294)</u>	<u>(244,911)</u>

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) 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 20 on page 91.
- (iii) 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.

18.2 Fair values of financial assets carried at fair value

The financial assets classified as 'available for sale' in note 18.1 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.

There has been no change in the valuation technique used to determine the fair value of the 'available for sale' financial asset during 2016/17 and there have been no transfers between the input levels in the fair value hierarchy.

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

Except for the 'available for sale' financial assets described in paragraph 18.2, all other financial assets and all financial liabilities are carried in the Balance Sheet at amortised cost.

The following table compares the carrying and fair values of these financial instruments:

31 March 2016			31 March 2017	
Carrying amount	Fair Value		Carrying amount	Fair Value
£000	£000		£000	£000
Financial liabilities				
Borrowing				
(277,905)	(349,074)	Public Works Loans Board	(437,427)	(549,441)
(77,928)	(100,141)	Money Market loans	(77,928)	(124,266)
(6,419)	(6,419)	Other	(4,630)	(4,630)
<u>(362,252)</u>	<u>(455,634)</u>		<u>(519,985)</u>	<u>(678,337)</u>
(154,918)	(154,918)	PFI / finance lease liabilities	(153,709)	(153,709)
(208,428)	(208,428)	Creditors (contractual)	(230,511)	(230,511)
<u>(725,598)</u>	<u>(818,980)</u>		<u>(904,205)</u>	<u>(1,062,557)</u>
Financial Assets				
155,032	155,000	Loans and receivables	233,671	233,670
58,895	58,895	Cash and cash equivalents	71,254	71,254
109,487	109,487	Debtors (contractual)	128,414	128,414
<u>323,414</u>	<u>323,382</u>		<u>433,339</u>	<u>433,338</u>

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 (**£549.441m**) and the carrying amount (**£437.427m**) 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 PWLB would raise a penalty charge for early redemption of **£205.457m** for the additional interest that would now not be paid. The exit price for the PWLB loans, including this penalty charge, would therefore be **£642.884m**.
- Whilst the 'fair value' measurements provide an indication of the cost of prematurely repaying existing PWLB and Money Market loans at 31st March 2017, the Council has a Capital Financing Requirement (see note 15 on page 77) well in excess of these loans, and so does not foresee the need to prematurely repay these loans.

Statement of Accounts - Notes to the Financial Statements

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.

18.4 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 31 March 2017 of **0.15%** to **0.82%** 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 31 March 2017 of **1.04%** to **2.60%** for loans payable based on new lending rates for equivalent loans at that date.

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18.5 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:

2015/16					2016/17			
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
-	-	34,493	34,493	Interest expense	-	-	36,418	36,418
-	-	36	36	Fee expense	-	-	74	74
-	-	34,529	34,529	Expenses in surplus / deficit on the provision of services	-	-	36,492	36,492
(2,235)	(160)	-	(2,395)	Interest income	(2,506)	(356)	-	(2,862)
(2,235)	(160)	-	(2,395)	Income in surplus / deficit on the provision of services	(2,506)	(356)	-	(2,862)
-	(186)	-	(186)	Gains on revaluation	-	-	-	-
-	-	-	-	Losses on revaluation	-	408	-	408
-	(186)	-	(186)	Other Comprehensive Income and Expenditure	-	408	-	408
(2,235)	(346)	34,529	31,948	Net (gain) / loss for the year	(2,506)	52	36,492	34,038

18.6 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

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 2016/17 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 2016/17 by the Council with any financial institution, at any point in time, ranged between **£35m** 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 2016/17, this limit was **£50m** (2015/16: £100m).

No credit limits were exceeded during 2016/17 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 31 March 2017	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£000	%	£000
Deposits with banks and other financial institutions			
AAA rated	33,700	0.043%	14
AA rated	136,000	0.007%	10
A rated	132,200	0.067%	89
	301,900		113
Debtors (contractual)	128,414	8.831%	11,340
Potential maximum exposure to credit risk	430,314		11,453

Of the total amount of debtors at 31 March 2017, the following amounts (analysed by age) are past their due date for payment:

2015/16			2016/17	
Debtors past due date £000	Allowance for doubtful debts £000		Debtors past due date £000	Allowance for doubtful debts £000
10,414	1,050	Less than three months	14,630	624
1,837	132	Three to six months	6,573	602
4,277	1,083	Six months to one year	6,726	1,584
11,997	7,872	More than one year	14,081	8,530
28,525	10,137	Total	42,010	11,340

The above 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.

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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 financial liabilities is as follows:

31 March 2016				Repayment period	31 March 2017			
PWLB	Money Market	Other	Total		PWLB	Money Market	Other	Total
£000	£000	£000	£000		£000	£000	£000	£000
4,485	928	5,219	10,632	Less than one year	5,394	928	1,905	8,227
4,485	928	5,219	10,632	Short term borrowing	5,394	928	1,905	8,227
1,366	-	1,200	2,566	Between 1 and 2 years	1,421	-	630	2,051
19,439	-	-	19,439	Between 2 - 5 years	27,120	-	1,855	28,975
23,260	-	-	23,260	Between 5 - 10 years	50,229	-	240	50,469
47,763	-	-	47,763	Between 10 - 25 years	171,692	-	-	171,692
121,592	-	-	121,592	Between 25 - 40 years	141,571	-	-	141,571
60,000	-	-	60,000	Between 40 - 50 years	40,000	-	-	40,000
-	77,000	-	77,000	Over 50 years	-	77,000	-	77,000
273,420	77,000	1,200	351,620	Long term borrowing	432,033	77,000	2,725	511,758
277,905	77,928	6,419	362,252	Total borrowing	437,427	77,928	4,630	519,985

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

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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 (2015/16: 30%). During periods of falling interest rates, and where economic circumstances are favourable, the Council may seek to repay fixed rate loans early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. 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 2016/17 (with all other variables held constant) the Council's net interest burden would have been lower than that shown in Note 18.5, as follows:

2015/16 £000		2016/17 £000
	Impact on the Comprehensive Income and Expenditure Statement	
519	Interest payable on variable rate borrowing	360
(1,579)	Interest receivable on variable rate investments	(1,561)
(1,060)	Net (gain) / loss	(1,201)

▪ Price risk

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund. It has however made a modest investment in a pooled property fund which is classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. In 2016/17, a loss was recognised in 'Other Comprehensive Income and Expenditure' (see note 18.5, on page 86).

▪ 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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19. Debtors

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

31 March 2016				31 March 2017		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
			Public sector bodies			
14,544	-	14,544	Central government bodies	18,335	-	18,335
21,025	13,345	34,370	Other local authorities	27,104	12,696	39,800
5,277	-	5,277	NHS bodies	13,768	-	13,768
1	-	1	Public corporations	1	-	1
40,847	13,345	54,192		59,208	12,696	71,904
89,378	3,612	92,990	Other entities	93,442	5,134	98,576
130,225	16,957	147,182	Total	152,650	17,830	170,480

20. Cash and cash equivalents

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

31st March 2016 £000		31st March 2017 £000
	Amounts that form an integral part of the Council's cash management	
34,189	Cash repayable on demand	33,749
24,803	Cash equivalents	37,014
(43,696)	Bank overdraft	(41,045)
110	Petty cash balances	95
15,406		29,813
43,489	Cash held by schools	41,441
58,895	Total of cash and cash equivalents	71,254

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.

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21. Creditors

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

31st March 2016				31st March 2017		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
			Public sector bodies			
8,485	-	8,485	Central government bodies	7,943	-	7,943
24,958	12	24,970	Other local authorities	27,984	59	28,043
4,200	-	4,200	NHS bodies	6,766	-	6,766
125	-	125	Public corporations	113	-	113
37,768	12	37,780		42,806	59	42,865
183,953	42	183,995	Other entities	210,514	53	210,567
221,721	54	221,775	Total	253,320	112	253,432

22. 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 2016			31st March 2017	
Revenue £000	Capital £000		Revenue £000	Capital £000
		Department for Education (incl. Education Funding Agency)		
		Education Funding Agency		
6,290	-	Dedicated Schools Grant	3,341	-
217	-	Other Education Funding Agency grants	942	-
737	1,170	Department for Education grants	383	10,722
7,244	1,170		4,666	10,722
		Other grants		
142	-	Department of Health grants	74	-
122	-	Department for Transport grants	935	-
739	2,133	Other grants	766	1,135
1,003	2,133		1,775	1,135
8,247	3,303	Total of grant receipts in advance	6,441	11,857
4,324	50,565	Developer contributions (S106)	2,874	45,411
12,571	53,868	Total	9,315	57,268

Statement of Accounts - Notes to the Financial Statements

23. Provisions and contingencies

23.1 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.

	Insurance Provision	Landfill aftercare	Non-domestic rating appeals	Restructuring	Carbon Reduction Commitment	Other provisions	Total
	£000	£000	£000	£000	£000	£000	£000
Current provisions							
Balance at 31st March 2016	(7,000)	(362)	(6,677)	(222)	(750)	(2,262)	(17,273)
Amounts arising	-	-	(441)	(269)	(153)	(2,197)	(3,060)
Provisions reversed	-	-	-	51	75	1,512	1,638
Provisions utilised	7,783	339	3,057	184	675	616	12,654
Unwinding of discount	-	(8)	-	-	-	-	(8)
Amounts reclassified as current	(7,663)	(296)	-	-	-	-	(7,959)
Balance at 31st March 2017	(6,880)	(327)	(4,061)	(256)	(153)	(2,331)	(14,008)
Non-current provisions							
Balance at 31st March 2016	(13,673)	(10,624)	-	-	-	-	(24,297)
Amounts arising	(7,410)	(530)	-	-	-	-	(7,940)
Amounts reclassified as current	7,663	296	-	-	-	-	7,959
Balance at 31st March 2017	(13,420)	(10,858)	-	-	-	-	(24,278)
Total current and non-current provisions							
31st March 2016	(20,673)	(10,986)	(6,677)	(222)	(750)	(2,262)	(41,570)
31st March 2017	(20,300)	(11,185)	(4,061)	(256)	(153)	(2,331)	(38,286)

An explanation of each provision is as follows:

Provision	Purpose
Insurance	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self-insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 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 £1.149m to the Scheme Administrator in 2014/15, equivalent to 15% of all claims it had</p>

Statement of Accounts - Notes to the Financial Statements

Provision	Purpose
	<p>received settlement for since 1993. The Council has been required to meet 15% of any subsequent claims made since the initial levy payment was made.</p> <p>With effect from 1 April 2016, the levy increased to 25%. As a consequence, a second levy payment of £767,000 was made in 2016/17, equivalent to a further 10% of all claims for which it has received settlement since 1993 to date. The Council will be required to meet 25% 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 anticipated that a request for payment of a further levy on historic claims will be made in the next 18 to 36 months. The Provision therefore allows for a further 10% increase in the levy above that already required, with added allowance being made for additional increases in the Insurance Reserve (see Note 7, which commences on page 64).</p>
Landfill aftercare	<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>
Non-domestic rating appeals	<p>Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks that the amount of non-domestic rates collectible 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.</p>
Restructuring	<p>This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of certain services, where these plans are likely to result in the termination of a number of employees' employment before their normal retirement date.</p>
Carbon reduction commitment	<p>This provision represents the Council's liability to purchase and surrender Carbon Reduction Commitment (CRC) carbon allowances, in accordance with the requirements of the CRC Energy Efficiency Scheme, in respect of CO² emissions.</p>
Other	<p>Provisions have been established for various matters.</p>

Statement of Accounts - Notes to the Financial Statements

23.2 Contingent Liabilities

As detailed in Note 17, on page 81, 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 Facility remains in the commissioning phase.

The Council has been involved in ongoing discussions with the operator UBB Waste (Essex) Ltd 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 adjudication to determine an outcome.

As at 31 March 2017, both parties have made detailed submissions on some issues to an adjudicator who is considering these issues and therefore the outcome remains uncertain. It is not possible to provide an indication if any additional liability will be incurred as a result of the range of possible outcomes. The Council has taken expert advice and as a result no liability has been recorded in these financial statements.

24. Usable reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement, on page 34, with further analysis provided in Note 6, which commences on page 61.

25. Unusable reserves

25.1 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 25.2 to 25.9 explain the purpose of each unusable reserve and the movements in these reserves during the year.

25.2 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:

Statement of Accounts - Notes to the Financial Statements

2015/16		2016/17	
£000		£000	£000
(492,334)	Balance as at 1 April		(514,628)
(86,510)	Revaluation of non current assets (increases)	(161,196)	
31,451	Revaluation of non current assets (subsequent decreases)	22,321	
-	Impairment of non-current assets	341	
<u>(55,059)</u>	Surplus on revaluations		(138,534)
13,160	Depreciation on revaluation gains	13,687	
19,605	Accumulated gains on assets sold or scrapped	61,006	
<u>32,765</u>	Amounts written off to the Capital Adjustment Account		74,693
<u>(514,628)</u>	Balance as at 31 March		<u>(578,469)</u>

25.3 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.

2015/16		2016/17	
£000		£000	£000
(1,345,175)	Balance as at 1 April		(1,343,174)
	Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
69,882	Depreciation	72,331	
35,547	Impairment of non-current assets	(728)	
(16,509)	Donated assets	(23,769)	
40,832	Revenue expenditure financed from capital under statute	38,175	
109,082	Cost / value of assets disposed of during the year	196,617	
<u>238,834</u>			282,626
	Adjusting amounts written out of the Revaluation Reserve		
(13,160)	Difference between fair value and historical cost depreciation	(13,687)	
(19,605)	Revaluation gains outstanding for assets upon disposal	(61,006)	
<u>(32,765)</u>			(74,693)
<u>206,069</u>	Net written out amount of the cost of non current assets consumed in the year		<u>207,933</u>
	Capital financing applied in the year		
(14,806)	Revenue reserves applied	(14,843)	
(34,152)	Statutory provision for the financing of capital investment	(34,540)	
(12,640)	Capital receipts applied	(28,235)	
	Capital grants and contributions applied to finance:		
(127,995)	Capital Expenditure	(98,185)	
(12,179)	Revenue expenditure funded from capital	(21,890)	
(1,655)	Application of grants from the Capital Grants Unapplied Account	(1,766)	
<u>(203,427)</u>			(199,459)
-	Repayment of loans awarded for capital purposes		480
(641)	Movement in market value of investment properties		(6,313)
<u>(1,343,174)</u>	Balance as at 31 March		<u>(1,340,533)</u>

Statement of Accounts - Notes to the Financial Statements

25.4 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.

2015/16				2016/17		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
7,235	(4,054)	3,181	Balance as at 1 April	7,012	(3,871)	3,141
(128)	19	(109)	Amortisation of premiums / discounts to the General Fund	(128)	19	(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
7,012	(3,871)	3,141	Balance as at 31 March	6,789	(3,688)	3,101

25.5 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.

2015/16 £000		2016/17 £000
(591)	Balance as at 1 April	(777)
(186)	Upward revaluation of investments	-
-	Downward revaluation of investments not charged to the Surplus / Deficit on the Provision of Services	408
(777)	Balance as at 31 March	(369)

Statement of Accounts - Notes to the Financial Statements

25.6 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.

2015/16				2016/17		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
971,756	44,268	1,016,024	Balance as at 1 April	893,088	41,110	934,198
			Pension Reserve appropriation to / (from) the General Fund for:			
93,701	1,026	94,727	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	78,859	992	79,851
(52,785)	(3,040)	(55,825)	Council contributions to the schemes	(53,654)	(2,908)	(56,562)
40,916	(2,014)	38,902	Total appropriation from Pension Reserve	25,205	(1,916)	23,289
(119,584)	(1,144)	(120,728)	Remeasurements of the net pension liability	318,718	(3,866)	314,852
893,088	41,110	934,198	Balance as at 31 March	1,237,011	35,328	1,272,339

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.

25.7 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.

2015/16 £000	2016/17 £000
-	-
-	-
-	(2,504)
-	12
-	(2,492)
-	(2,492)

Statement of Accounts - Notes to the Financial Statements

25.8 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.

2015/16				2016/17		
Council Tax £000	Non-domestic rates £000	Total £000		Council Tax £000	Non-domestic rates £000	Total £000
(18,863)	3,192	(15,671)	Balance at 1 April	(17,923)	2,979	(14,944)
			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			
940	(213)	727		1,244	(3,726)	(2,482)
(17,923)	2,979	(14,944)	Balance as at 31 March	(16,679)	(747)	(17,426)

25.9 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.

2015/16 £000			2016/17 £000	
12,168	Balance as at 1 April			10,667
(12,168)	Settlement or cancellation of accrual made at the end of the preceding year		(10,667)	
10,667	Amounts accrued for at the end of the current year		16,506	
(1,501)	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			5,839
10,667	Balance as at 31 March			16,506

26. 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:

2015/16		2016/17	
£000		£000	£000
Cash flows from operating activities			
Cash inflows			
(593,413)	Taxation	(623,555)	
(1,014,316)	Grants	(951,746)	
(266,342)	Sales of goods and rendering of services	(249,486)	
(2,783)	Interest received	(3,032)	
<u>(1,876,854)</u>			<u>(1,827,819)</u>
Cash outflows			
529,949	Cash paid to and on behalf of employees	509,084	
35,385	Interest paid	36,463	
1,158,038	Cash paid to suppliers of goods and services	1,135,343	
120,216	Other payments for operating activities	123,683	
<u>1,843,588</u>			<u>1,804,573</u>
<u>(33,266)</u>	Net inflow of cash from operating activities		<u>(23,246)</u>
Cash flows from investing activities			
Cash inflows			
(12,640)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(28,235)	
(140,846)	Other receipts from investing activities	(128,925)	
<u>(153,486)</u>			<u>(157,160)</u>
Cash outflows			
180,506	Purchase of property, plant and equipment, investment property and intangible assets	196,786	
33,000	Purchase of short and long term investments	83,914	
42,117	Other payments for investing activities	38,514	
<u>255,623</u>			<u>319,214</u>
<u>102,137</u>	Net outflow of cash from investing activities		<u>162,054</u>
Cash flows generated from financing activities			
Cash inflows			
-	Cash receipts of short and long term borrowing	(163,000)	
(114)	Other receipts from financing activities	(228)	
<u>(114)</u>			<u>(163,228)</u>
Cash outflows			
7,122	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	6,794	
2,419	Repayment of short and long term borrowing	5,267	
<u>9,541</u>			<u>12,061</u>
<u>9,427</u>	Net (inflow) / outflow of cash from financing activities		<u>(151,167)</u>
<u>78,298</u>	Net (increase) / decrease in cash and cash equivalents		<u>(12,359)</u>

Statement of Accounts - Notes to the Financial Statements

27. 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:

2015/16 £000		2016/17 £000
1,119	Adult Social Care	68
248	Childrens and Families	20
1,214	Corporate and Communities	18
-	Digital Innovation, IT and Customer Services	50
24	Economic Growth, Infrastructure and Partnerships	181
1,259	Education and Lifelong Learning	878
15	Environment and Waste	-
311	Finance, Traded Services, Housing and Planning	451
77	Leader	-
	Recharged Strategic Support Services	
20	Corporate and Communities	1
75	Digital Innovation, IT and Customer Services	137
103	Finance, Traded Services, Housing and Planning	23
58	Leader	158
4,523	Total	1,985

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:

2015/16				Value of exit packages	2016/17			
No. packages agreed in the year			Total cost of packages £000		No. packages agreed in the year			Total cost of packages £000
Compulsory	Other	Total		Compulsory	Other	Total		
48	56	104	811	Less than £20,000	26	31	57	400
7	23	30	854	£20,000 to £39,999	5	10	15	407
1	5	6	277	£40,000 to £59,999	2	-	2	108
3	5	8	529	£60,000 to £79,999	2	1	3	214
-	2	2	174	£80,000 to £99,999	2	1	3	267
3	4	7	1,076	£100,000 to £199,999	1	2	3	372
-	2	2	536	£200,000 to £349,999	-	-	-	-
62	97	159	4,257	Total no. of agreed packages	38	45	83	1,768
			266	Other termination benefits				217
			4,523					1,985

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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.

28. 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 **7,700** 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 **9,000** 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.

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

2015/16				2016/17		
Teachers £000	NHS £000	Total £000		Teachers £000	NHS £000	Total £000
27,777	116	27,893	Employer contributions	28,202	117	28,319
16,372	104	16,476	Employee contributions	15,666	106	15,772
44,149	220	44,369	Total	43,868	223	44,091

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	
	2015/16	2016/17	2015/16	2016/17
Employer's contribution rate	<i>Apr-Aug 2015: 14.1%</i> <i>From Sept 2015: 16.48%</i>	16.48%	14.3%	14.3%
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 31 March 2017 (31 March 2016: 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 29 below.

29. Defined Benefit Pension Schemes

29.1 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.

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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 March 2019 and will set contributions for the period from 1 April 2020 to 31 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 accounting policy note 1.8.3.

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- **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.

29.2 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:

2015/16			2016/17		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Comprehensive Income and Expenditure Statement					
Cost of Services					
66,530	-	66,530	63,072	-	63,072
1,453	-	1,453	498	-	498
(6,200)	-	(6,200)	(16,304)	-	(16,304)
61,783	-	61,783	47,266	-	47,266
Financing and Investment Income and Expenditure					
31,918	1,026	32,944	31,593	992	32,585
93,701	1,026	94,727	78,859	992	79,851
Re-measurements of the net pensions liability					
18,162	-	18,162	(270,838)	-	(270,838)
(137,999)	(1,144)	(139,143)	648,705	3,574	652,279
-	-	-	(51,230)	(1,951)	(53,181)
253	-	253	956	(5,489)	(4,533)
-	-	-	(8,875)	-	(8,875)
(119,584)	(1,144)	(120,728)	318,718	(3,866)	314,852
(25,883)	(118)	(26,001)	397,577	(2,874)	394,703
Movement in Reserves Statement					
(93,701)	(1,026)	(94,727)	(78,859)	(992)	(79,851)
52,785	3,040	55,825	53,654	2,908	56,562
(40,916)	2,014	(38,902)	(25,205)	1,916	(23,289)

Statement of Accounts - Notes to the Financial Statements

29.3 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:

2015/16				2016/17		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,627,336	41,110	2,668,446	Present value of the defined benefit obligation	3,288,495	35,328	3,323,823
(1,734,248)	-	(1,734,248)	Fair value of plan assets	(2,051,484)	-	(2,051,484)
893,088	41,110	934,198	Net liability arising from defined benefit obligations	1,237,011	35,328	1,272,339

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 **£1.272bn** (2015/16: £934.198m) 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:

2015/16				2016/17		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,679,567	44,268	2,723,835	Balance as at 1 April	2,627,336	41,110	2,668,446
66,530	-	66,530	Current service cost	63,072	-	63,072
87,300	1,026	88,326	Interest cost	92,868	992	93,860
16,836	-	16,836	Contributions by scheme participants	16,622	-	16,622
			Remeasurement (gains)/losses:			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(51,230)	(1,951)	(53,181)
(137,999)	(1,144)	(139,143)	Actuarial (gains) / losses arising from changes in financial assumptions	648,705	3,574	652,279
253	-	253	Other	956	(5,489)	(4,533)
1,453	-	1,453	Past service costs	498	-	498
(78,957)	(3,040)	(81,997)	Benefits paid	(85,494)	(2,908)	(88,402)
(7,647)	-	(7,647)	Liabilities extinguished on settlements	(24,838)	-	(24,838)
2,627,336	41,110	2,668,446	Balance as at 31 March	3,288,495	35,328	3,323,823

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Scheme Assets

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

2015/16				2016/17		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,707,811	-	1,707,811	Balance as at 1 April	1,734,248	-	1,734,248
55,382	-	55,382	Interest income	61,275	-	61,275
(18,162)	-	(18,162)	Remeasurement gain/(loss)			
			Return on plan assets (excl. amount incl in net interest expense)	270,838	-	270,838
-	-	-	Other	8,875	-	8,875
52,785	3,040	55,825	Contributions by the Council	53,654	2,908	56,562
16,836	-	16,836	Contributions from employees into the scheme	16,622	-	16,622
(78,957)	(3,040)	(81,997)	Benefits paid	(85,494)	(2,908)	(88,402)
(1,447)	-	(1,447)	Amounts made for settlements	(8,534)	-	(8,534)
1,734,248	-	1,734,248	Balance as at 31 March	2,051,484	-	2,051,484

Local Government Pension Scheme assets comprised:

31 March 2016				31 March 2017	
£000	%			£000	%
1,173,759	67.7%	Equities		1,401,208	68.3%
51,130	2.9%	Gilts		77,616	3.8%
83,241	4.8%	Other bonds		83,377	4.1%
206,528	12.0%	Property		199,582	9.7%
56,337	3.2%	Cash and cash equivalents		61,750	3.0%
77,107	4.4%	Alternative assets		136,818	6.7%
86,146	5.0%	Other managed funds		91,133	4.4%
1,734,248	100.0%	Total assets		2,051,484	100.0%

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

31 March 2016						31 March 2017				
UK		Overseas		Total		UK		Overseas		Total
Quoted	Unquoted	Quoted	Unquoted			Quoted	Unquoted	Quoted	Unquoted	
8.1%	-	54.4%	5.2%	67.7%	Equities	7.7%	-	55.7%	4.9%	68.3%
2.9%	-	-	-	2.9%	Gilts	3.8%	-	-	-	3.8%
4.8%	-	-	-	4.8%	Other bonds	4.1%	-	-	-	4.1%
4.5%	7.5%	-	-	12.0%	Property	6.1%	3.6%	-	-	9.7%
-	3.2%	-	-	3.2%	Cash and cash equivalents	-	3.0%	-	-	3.0%
(1.9%)	1.8%	-	4.5%	4.4%	Alternative assets	(0.2%)	1.7%	-	5.2%	6.7%
-	5.0%	-	-	5.0%	Other managed funds	-	4.4%	-	-	4.4%
18.4%	17.5%	54.4%	9.7%	100.0%	Total assets	21.5%	12.7%	55.7%	10.1%	100.0%

Statement of Accounts - Notes to the Financial Statements

29.4 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	2015/16	2016/17
▪ Rate of inflation		
- RPI	3.2%	3.6%
- CPI	2.3%	2.7%
▪ Rate of increase in salaries	4.1%	4.2%
▪ Rate of increase in pensions	2.3%	2.7%
▪ Discount rate	3.6%	2.7%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	25.1 years	24.3 years
▪ Female	27.7 years	26.9 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.9 years	22.1 years
▪ Female	25.3 years	24.6 years
▪ Expected rate of return on assets in the scheme	2%	19%

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

Assumptions	2015/16	2016/17
▪ Rate of inflation		
- RPI	2.5%	3.0%
- CPI	1.6%	2.1%
▪ Rate of increase in pensions	1.6%	2.1%
▪ Discount rate	2.5%	1.7%

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
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,229,646	3,288,495	3,348,475
Projected Service Cost	97,147	99,549	102,012
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,295,533	3,288,495	3,281,514
Projected Service Cost	99,549	99,549	99,549
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,341,377	3,288,495	3,236,570
Projected Service Cost	102,010	99,549	97,145
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	3,413,410	3,288,495	3,168,294
Projected Service Cost	102,724	99,549	96,472

Unfunded Teachers' Pensions	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	35,038	35,328	35,620
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	35,619	35,328	35,039
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	36,954	35,328	33,774

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

29.5 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 March 2018 is **£47.816m**. 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 **£2.969m** for the year to 31 March 2018.

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.

30. 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:

2015/16 £000		2016/17 £000
	Audit fees payable to the appointed auditor	
164	External audit services carried out by appointed auditor	203
15	Other services carried out by appointed auditor	14
179	Net total	217

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

31. Members' allowances and expenses

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

2015/16 £000		2016/17 £000
	Members allowances	
870	Basic allowances	887
622	Special responsibility allowances	611
1,492		1,498
60	Members expenses	57
1,552		1,555

32. Pooled budgets

32.1 Better Care Fund

The Better Care Fund was established by the Government with the primary aim to 'drive closer integration and improve outcomes for patients and service users and carers'. It is comprised of a number of funding streams:

- Disabilities Facilities Grant – capital grant made available to award grants for changes to a person's home.
- Carers' Break Funding – funding to support long term carers.
- Clinical Commissioning Group (CCG) reablement funding – funding to reduce avoidable hospital admissions and to facilitate more timely hospital discharges.
- Funding to support social care.

Whilst the Government required Better Care Funds to be set up as pooled budgets, the operation of these pooled budgets could either 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 five pooled funds (i.e. one for each of the five clinical commissioning groups (CCG's) within Essex), each governed by a Section 75 Agreement, with an overarching collaboration agreement signed by the Council and each of the CCG's. These Section 75 agreements establish a series of lead commissioning arrangements through which the partners secure the future position of health and social care services across Essex.

These lead commissioning arrangements mean that, for each service included within the Section 75 agreements, either the Council or a CCG is solely responsible for the delivery of the service. Where the Council is the lead commissioner, it includes all of the transactions with service providers in its own accounts, with contributions from the Pooled Budget being brought in as income.

The contributions and expenses of the Pool for 2016/17 were as follows:

2015/16							2016/17						
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
Contributions							Contributions						
Clinical Commissioning Groups							Clinical Commissioning Groups						
(22,207)	-	-	-	-	-	(22,207)	(16,267)	-	-	-	-	-	(16,267)
-	(11,068)	-	-	-	-	(11,068)	-	(11,264)	-	-	-	-	(11,264)
-	-	(21,732)	-	-	-	(21,732)	-	-	(22,296)	-	-	-	(22,296)
-	-	-	(20,987)	-	-	(20,987)	-	-	-	(21,305)	-	-	(21,305)
-	-	-	-	(18,714)	-	(18,714)	-	-	-	-	(19,308)	-	(19,308)
(22,207)	(11,068)	(21,732)	(20,987)	(18,714)	-	(94,708)	(16,267)	(11,264)	(22,296)	(21,305)	(19,308)	-	(90,440)
-	-	-	-	-	(5,913)	(5,913)	-	-	-	-	-	(8,217)	(8,217)
(22,207)	(11,068)	(21,732)	(20,987)	(18,714)	(5,913)	(100,621)	(16,267)	(11,264)	(22,296)	(21,305)	(19,308)	(8,217)	(98,657)
Total Contributions							Total Contributions						
Expenditure							Expenditure						
Clinical Commissioning Groups							Clinical Commissioning Groups						
15,836	-	-	-	-	-	15,836	9,917	-	-	-	-	-	9,917
-	6,685	-	-	-	-	6,685	-	6,788	-	-	-	-	6,788
-	-	12,785	-	-	-	12,785	-	-	13,158	-	-	-	13,158
-	-	-	13,376	-	-	13,376	-	-	-	13,305	-	-	13,305
-	-	-	-	11,976	-	11,976	-	-	-	-	12,143	-	12,143
15,836	6,685	12,785	13,376	11,976	-	60,658	9,917	6,788	13,158	13,305	12,143	-	55,311
6,371	4,383	8,947	7,611	6,738	5,913	39,963	6,350	4,476	9,138	8,000	7,165	8,217	43,346
22,207	11,068	21,732	20,987	18,714	5,913	100,621	16,267	11,264	22,296	21,305	19,308	8,217	98,657
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (surplus) / deficit							Net (surplus) / deficit						

Statement of Accounts - Notes to the Financial Statements

32.2 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 pooled budget agreement is for a three year period, with the option to extend the arrangement for up to two more years. 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 2016/17 were as follows:

2015/16				2016/17		
Contributions	Expenditure	Net (surplus) / deficit		Contributions	Expenditure	Net (surplus) / deficit
£000	£000	£000		£000	£000	£000
			Local authorities			
(7,907)	7,907	-	Essex County Council	(7,312)	7,312	-
(443)	441	(2)	Thurrock Council	(558)	558	-
			Clinical Commissioning Groups			
(1,753)	1,753	-	North East Essex			-
(2,299)	2,299	-	Mid Essex	(2,368)	2,368	-
			NHS Trusts			
(737)	737	-	Colchester University Hospital Foundation Trust	(2,519)	2,519	-
(43)	43	-	Mid Essex Hospital Service NHS Trust	(60)	60	-
(209)	209	-	South Essex Partnership University NHS Foundation Trust	(248)	248	-
(1,603)	1,603	-	North East London Foundation Trust	(1,705)	1,705	-
(14,994)	14,992	(2)	Total	(14,770)	14,770	-

33. 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.

2015/16			Remuneration band	2016/17				
Non-schools	Schools	Total		Non-schools	Schools	Total		
167	137	304	£50,000	to	£54,999	165	146	311
82	111	193	£55,000	to	£59,999	87	92	179
71	84	155	£60,000	to	£64,999	71	89	160
31	57	88	£65,000	to	£69,999	40	48	88
40	22	62	£70,000	to	£74,999	27	25	52
21	11	32	£75,000	to	£79,999	27	11	38
22	3	25	£80,000	to	£84,999	22	7	29
14	5	19	£85,000	to	£89,999	12	2	14
15	2	17	£90,000	to	£94,999	11	1	12
7	1	8	£95,000	to	£99,999	9	2	11
4	2	6	£100,000	to	£104,999	5	1	6
5	-	5	£105,000	to	£109,999	3	-	3
4	-	4	£110,000	to	£114,999	3	-	3
5	1	6	£115,000	to	£119,999	2	-	2
1	-	1	£120,000	to	£124,999	3	1	4
4	-	4	£125,000	to	£129,999	1	-	1
2	-	2	£130,000	to	£134,999	-	-	-
2	-	2	£145,000	to	£149,999	-	-	-
1	-	1	£150,000	to	£154,999	1	-	1
-	-	-	£160,000	to	£164,999	1	-	1
498	436	934	Total			490	425	915

Notes: Senior officers whose individual remuneration is disclosed in note 34 (page 115) are excluded from the remuneration bandings shown in the above analysis.

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34. Senior officers' remuneration

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

	Notes	Remuneration						
		Salaries, fees and allowances	Bonus payments	Expense allowances / benefits	Compensation for loss of employment	Total remuneration Excl pension contributions	Employer's contribution to pension	Total remuneration Incl. pension contributions
		£	£	£	£	£	£	£
2015/16								
Chief Executive - Ms Joanna Killian	(iv)	26,385	-	139	-	26,524	3,720	30,244
Chief Executive - Mr Gavin Jones	(iv)	38,500	-	1,709	-	40,209	5,429	45,638
Executive Director for People Commissioning Mr David Hill	(v) / (vi)	185,500	2,625	1,386	-	189,511	25,374	214,885
Executive Director for People Operations Ms Helen Lincoln		158,980	2,235	1,385	-	162,600	21,744	184,344
Executive Director for Corporate and Customer Services - Mrs Margaret Lee	(v) / (vii)	160,000	3,750	1,385	-	165,135	21,961	187,096
Executive Director for Strategy, Transformation and Commissioning Support - Mr Keir Lynch	(viii)	122,462	2,250	1,014	-	125,726	16,829	142,555
Executive Director for Place Commissioning Mrs Sonia Davidson-Grant	(ix)	175,300	2,475	1,297	-	179,072	24,079	203,151
Executive Director for Place Operations	(x)	135,902	4,246	-	-	140,148	-	140,148
Director of Commissioning: Healthy Lifestyles Dr Michael Gogarty	(xi)	168,477	-	1,699	-	170,176	21,494	191,670
Director for Corporate Law and Assurance		121,300	2,426	1,850	-	125,576	17,445	143,021

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

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Notes:

- (i) 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.
- (ii) The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual.
- (iii) Bonus payments have been disclosed in the year of payment, but relate to performance in the preceding financial year.
- (iv) The **Chief Executive**, Gavin Jones, joined the Council on 20th January 2016, taking over from Joanna Killian who left the Council on 17th May 2015.
- (v) The Chief Executive fulfils the role of **Head of Paid Service**, which is a statutory role that needs to be covered. In the period between Joanna Killian's departure and Gavin Jones's arrival, the statutory role of Head of Paid Service was rotated between members of the Corporate Management Board, as follows:
- The **Executive Director for Corporate and Customer Services** (Mrs Margaret Lee) fulfilled the role over the period 1st June 2015 until 31st August 2015; and
 - The **Executive Director for People Commissioning** (Mr Dave Hill) fulfilled the role over the period 1st September 2015 until 19th January 2016.
- Neither officer received any additional remuneration whilst acting in the capacity of Head of Paid Service.
- (vi) The **Executive Director for People Commissioning** fulfils the statutory role of Director of Children's Services, appointed under Section 18 of the Children Act 2004. During 2015/16, he also fulfilled the statutory role of Director for Adult Social Care.
- (vii) The **Executive Director for Corporate and Customer Services** fulfils the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972.
- (viii) The **Executive Director for Strategy, Transformation and Commissioning Support, and Traded Services** left the Council on 6th January 2016 to take up the role of Chief Executive of Essex Cares Ltd, which is a wholly owned subsidiary of the Council.
- (ix) The **Executive Director for Place Commissioning** left the Council on 31st December 2016.
- (x) The role of **Executive Director for Place Operations** has been filled on an interim basis by the Council's Chief Information Officer since 15th June 2015.
- (xi) The Council's **Director of Commissioning: Healthy Lifestyles** fulfils the statutory role of Director of Public Health.
- (xii) The Council's **Director of Adult Operations** fulfilled the statutory role of Director for Adult Social Care with effect from 1 April 2016; this Director left the Council on 31st December 2016. Another officer was appointed into the role on an interim basis with effect from 1 January 2017, and has been confirmed substantively in this post with effect from 1 April 2017.

Statement of Accounts - Notes to the Financial Statements

- (xiii) The Council's **Director of Corporate Law and Assurance**, who fulfilled the statutory role of Monitoring Officer, left the Council on 30 April 2016. Thereafter, the Council's **Principal Lawyer (Governance)** fulfilled the statutory Monitoring Officer role, pending a permanent appointment to the role.
- (xiv) The Council also secured services from various other individuals on an interim basis during 2015/16 and/or 2016/17. The fee charged to the Council in respect of some of these individuals amounted to £150,000 or more, in 2015/16 and/or 2016/17, as follows:
- Mr Jon Babb, who held the position of **Interim Head of Delivery** at a cost to the Council in 2016/17 of **£172,815**;
 - Mr Marc Cohen, who held the position of **Senior Project Manager** at a cost to the Council in 2016/17 of **£156,860** (2015/16: £173,452);
 - 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 has subsequently been appointed to the role of Director, Organisational Development and People on a substantive basis, with effect from 1 April 2017.
 - Mr Chris Hannan, who held the position of **Interim Programme Director – Adults** at a cost to the Council in 2015/16 of **£175,501**.
 - Mr Christopher Kiernan, who held the position of **Interim Director for Education and Lifelong Learning** over the period June 2014 to July 2015. The cost to the Council was **£74,623** in 2015/16.
 - Mr Peter Tempest, who held the position of **Commissioning and Delivery Director** at a cost to the Council in 2015/16 of **£188,539**;
 - Ms Jo Twine, who held the position of **People Commissioning Capital Programme Manager** until August 2015. The cost to the Council was **£106,958** in 2015/16.
 - Mr Christopher Vaughan, who held the position of **Business Incubator Contractor** over the period March 2014 to August 2015. The cost to the Council was **£80,412** in 2015/16.

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

Statement of Accounts - Notes to the Financial Statements

35. 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 11 and 12.
Elected members	<p>Members of the Council have direct control over the Council's financial and operating policies. The Council's Constitution 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 Register of Interests 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"> <p>ClIr Michael Page is 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 £726,000 to the charity during 2016/17 (2015/16: £807,000).</p> <p>ClIr Michael Page is also a member of the Executive Committee of the Essex Association of Local Councils. The Council provided £41,000 to this organisation in 2016/17 (2015/16: £45,000).</p> <p>ClIr David Kendall 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 £169,000 to this charity in 2016/17 (2015/16: £116,000). ClIr Kendall is a member of the Council's Place Services and Economic Growth Scrutiny Committee.</p> <p>ClIr Roger Walters, who was a County Councillor until the recent elections in May 2017, was a non-executive director of Essex Cares Ltd; he received an allowance of £18,000 from Essex Cares in respect of this role in 2016/17 (2015/16: £18,000). Further details of the Council's relationship and transactions with Essex Cares Ltd are provided on page 120.</p>

Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
Elected members (continued)	<ul style="list-style-type: none"> <li data-bbox="380 260 1481 499">▪ Cllr Derrick Louis is a non-executive director and vice chair of Provide (formally known as Central Essex Community Services). The Council made payments totalling £28.998m to this organisation during 2016/17 (2015/16: £19.245m). Cllr Louis was Cabinet Member for Corporate Services until 4th January 2016. He is now Chairman of the Council's Place Services and Economic Growth Scrutiny Committee and a member of its Corporate Scrutiny Committee. <li data-bbox="380 512 1481 751">▪ Cllr Roger Hirst 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 £1.182m to Essex Police and received £1.245m in 2016/17. The income from Essex Police included £287,000 for coroner services, £51,000 for Legal services and £176,000 for Pensions; of these amounts £368,000 remained outstanding at year end. <p data-bbox="380 764 1481 814">The total of members' allowances paid is shown in note 31 (page 111).</p>
Officers	<p data-bbox="380 827 1481 1016">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 Code of Conduct 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> <p data-bbox="380 1029 1481 1100">Only the following matter was declared which requires disclosure as a related party transaction:</p> <ul style="list-style-type: none"> <li data-bbox="380 1113 1481 1310">▪ Mr Keir Lynch, the Executive Director for Strategy, Transformation and Commissioning Support and Traded Services was a non-executive director of Essex Cares Ltd until <i>6th January 2016</i>. He was not remunerated for this role. Mr Lynch left the Council's employ on <i>6th January 2016</i> to take up the role of Chief Executive of Essex Cares Ltd.
Essex Pension Fund	<p data-bbox="380 1323 1481 1394">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 data-bbox="380 1407 1481 1562">The Council charged £2.517m for administering the Fund during 2016/17, of which £2.228m was outstanding at 31st March 2017 (2015/16: £2.495m, of which £190,000 was outstanding at 31st March 2016).</p>
Essex Fire Authority	<p data-bbox="380 1575 1481 1688">The Council's Assistant County Solicitor is employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provides a pensions' service to the Authority.</p> <p data-bbox="380 1701 1481 1814">The total value of these services in 2016/17 was £477,000, of which £49,000 was outstanding at 31st March 2017 (2015/16: £252,000, none of which was outstanding at 31 March 2016).</p>
Rochford District Council	<p data-bbox="380 1827 1481 1940">The Council provided Section 151 Officer and Internal Audit support to Rochford District Council during 2016/17, at a cost of £91,000, of which £30,000 was outstanding at 31st March 2017 (2015/16: £30,000, none of which was outstanding at 31st March 2016).</p>

Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
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 123 to 135.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of £29.8m in 2016/17 (2015/16: £31.6m).</p> <p>The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2016/17; the value of these services in 2016/17 was £279,000 (2015/16: £302,000).</p> <p>The Council also provided cash management support to Essex Cares Ltd. The Council charged interest of £21,000 (net) on the amounts it lent to Essex Cares Ltd; £7,000 of this total was outstanding at 31st March 2017 (2015/16: paid interest of £5,000 (net) on amounts it borrowed, £710 of which was outstanding at 31st March 2016).</p> <p>As noted on page 118, a County Councillor held a position on Essex Cares' Board of Directors during 2016/17.</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>) 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.</p> <p>Because the South East LEP is an informal partnership, one of its local authority partners must act as the Accountable Body. Essex County Council is currently the Accountable Body for the partnership. All funding allocated to the South East LEP by the Government is transferred to the Council (as the Accountable body). However, the South East LEP has a governance structure in place for determining how the funding it receives is allocated – the Council is responsible for the proper administration and financial probity of these public funds, but cannot direct the use of this funding for its own purposes.</p> <p>Because the Council is merely acting as a distribution point for the grant monies awarded by the Government to the South East LEP, and does not bear significant risk in relation to the transactions, the transactions of the South East LEP are not reflected in the Council's Statement of Accounts. The Council does however recognise a creditor in its Balance Sheet for the cash it holds on behalf of the Partnership. At 31st March 2017, this creditor amounted to £25.489m (31st March 2016: £20.082m).</p> <p>The South East LEP secured £82.270m from the Government's Local Growth Fund in 2016/17 to support economic growth in the area, of which £6.826m was allocated to the Council to fund major transport schemes (2015/16: £28.8m). This funding was allocated to the Council by the South East LEP following a competitive bidding process.</p>

Statement of Accounts - Notes to the Financial Statements

36. 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:

2015/16					2016/17					
Nursery schools	Primary Schools	Secondary schools	Special schools	Total		Nursery schools	Primary Schools	Secondary schools	Special schools	Total
1	183	1	13	198	Community schools	1	162	1	11	175
-	36	2	2	40	Foundation schools	-	34	1	2	37
-	5	-	-	5	Foundation schools (C of E)	-	4	-	-	4
-	59	1	-	60	Voluntary controlled schools	-	58	1	-	59
-	57	3	-	60	Voluntary aided schools	-	55	3	-	58
1	340	7	15	363	Total	1	313	6	13	333

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

Note **13** on the Dedicated Schools Grant (see page 72) 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 2015/16 and 2016/17 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').

37. Events after the Balance Sheet Date

Since 31st March 2017, there have been further developments in relation to the waste treatment plant in Basildon. Following the outcome of the adjudications, no satisfactory resolution has been reached and the Council has referred the matter to court for final determination.

The Statement of Accounts was certified by the Executive Director for Corporate and Customer Services on **22 September 2017**. 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 32*), 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.

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Group Movement in Reserves Statement	125
Group Balance Sheet	126
Group Cash Flow Statement	127
Notes to the Group Accounts	128

Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2017

124

2015/16					2016/17			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
511,688	(120,451)	(2,895)	388,342	Adult Social Care	543,593	(127,441)	(659)	415,493
130,005	(3,231)	(6,913)	119,861	Children and Families	127,686	(2,598)	(9,904)	115,184
22,489	(5,969)	(73)	16,447	Corporate and Communities	26,573	(5,903)	(29)	20,641
2,273	(233)	-	2,040	Digital Innovation, IT and Customer Services	2,039	(244)	-	1,795
11,446	(1,075)	(588)	9,783	Economic Growth, Infrastructure and Partnerships	12,411	(1,032)	-	11,379
				Education and Lifelong Learning				
623,965	(52,162)	(574,839)	(3,036)	Dedicated Schools Budget	604,700	(44,944)	(556,446)	3,310
159,616	(18,092)	(34,515)	107,009	Non Dedicated Schools Budget	121,792	(17,838)	(41,169)	62,785
87,238	(4,492)	(470)	82,276	Environment and Waste	86,828	(5,460)	(315)	81,053
27,835	(4,469)	(447)	22,919	Finance, Traded Services, Housing and Planning	27,553	(5,220)	(450)	21,883
90,149	(2,697)	(58,021)	29,431	Health	93,354	(2,909)	(69,068)	21,377
127,124	(18,990)	(2,203)	105,931	Highways and Transport	124,730	(22,521)	(3,068)	99,141
4,351	21	(3,357)	1,015	Leader	(6,323)	(295)	(42)	(6,660)
				Recharged Strategic Support Services				
14,925	-	-	14,925	Corporate and Communities	12,122	-	-	12,122
34,048	-	-	34,048	Digital Innovation, IT and Customer Services	28,057	-	-	28,057
25,998	-	-	25,998	Finance, Traded Services, Housing and Planning	25,602	-	-	25,602
1	-	-	1	Highways and Transport	-	-	-	-
42,662	-	-	42,662	Leader	34,739	-	-	34,739
1,915,813	(231,840)	(684,321)	999,652	Cost of services - continuing operations	1,865,456	(236,405)	(681,150)	947,901
100,046	-	-	100,046	Other Operating Expenditure	169,971	-	-	169,971
122,168	(61,738)	-	60,430	Financing and Investment Income and Expenditure	123,910	(68,097)	-	55,813
-	(592,686)	(485,826)	(1,078,512)	Taxation and non specific grant income	-	(626,037)	(417,535)	(1,043,572)
2,138,027	(886,264)	(1,170,147)	81,616	Deficit on Provision of Services	2,159,337	(930,539)	(1,098,685)	130,113
			(38)	Tax expenses of subsidiary				-
			81,578	Group deficit				130,113
			(55,059)	Surplus arising on revaluation of non-current assets				(138,875)
			-	Impairment losses on non-current assets charged to Revaluation Reserve				341
			(186)	(Surplus) / deficit arising on revaluation of available for sale financial assets				408
			(120,318)	Re-measurements of the net defined benefits pension liability				315,670
			(175,563)	Other Comprehensive Income and Expenditure				177,544
			(93,985)	Total Comprehensive Income and Expenditure				307,657

Note: The Cost of Services is presented in accordance with the service groupings used by the Council for taking financial decisions and monitoring financial performance. This differs from the approach in previous years, when the 'Cost of Services' was presented according to the service groupings specified by the CIPFA Service Reporting Code of Practice.

Group Movement in Reserves Statement

For the years ended 31 March 2016 and 31 March 2017

	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
Balance at 31 March 2015	(311,449)	(59,100)	(3,818)	(1,758)	-	(2,728)	(378,853)	(822,398)	(1,201,251)	(1,195,675)	(5,576)
Movement in Reserves during 2015/16											
Total Comprehensive Expenditure and Income	-	78,167	3,411	410	-	-	81,988	(175,973)	(93,985)	(97,806)	3,821
Adjustments between accounting basis & funding under regulations	-	(72,791)	(688)	688	-	(63)	(72,854)	72,854	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	5,376	2,723	1,098	-	(63)	9,134	(103,119)	(93,985)	(97,806)	3,821
Transfers from Earmarked Reserves	26,007	(26,007)	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2015/16	26,007	(20,631)	2,723	1,098	-	(63)	9,134	(103,119)	(93,985)	(97,806)	3,821
Balance at 31 March 2016	(285,442)	(79,731)	(1,095)	(660)	-	(2,791)	(369,719)	(925,517)	(1,295,236)	(1,293,481)	(1,755)
Movement in Reserves during 2016/17											
Total Comprehensive Expenditure and Income	-	131,854	(1,741)	818	-	-	130,931	176,726	307,657	308,580	(923)
Adjustments between accounting basis & funding under regulations	-	(101,504)	1,791	(1,791)	-	56	(101,448)	101,448	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	-	30,350	50	(973)	-	56	29,483	278,174	307,657	308,580	(923)
Transfers from Earmarked Reserves	5,918	(5,918)	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2016/17	5,918	24,432	50	(973)	-	56	29,483	278,174	307,657	308,580	(923)
Balance at 31 March 2017	(279,524)	(55,299)	(1,045)	(1,633)	-	(2,735)	(340,236)	(647,343)	(987,579)	(984,901)	(2,678)

Statement of Accounts - Group Accounts

Group Balance Sheet as at 31st March 2017

31 March 2016	Note		31 March 2017	
£000			£000	£000
		Property, Plant and Equipment		
		Operational assets		
1,632,682		Land and buildings	1,600,880	
19,077		Vehicles, plant and equipment	24,893	
900,850		Infrastructure	991,596	
2,607		Community assets	2,347	
		Non operational assets		
94,169		Assets under construction	114,905	
35,587		Surplus assets held pending disposal	34,299	
		Total Property, Plant and Equipment	2,768,920	
2,684,972				
14,363		Heritage assets	14,505	
6,723		Investment property	12,511	
154		Intangible assets	11,946	
4,960		Long term investments	12,128	
16,408		Long term debtors	17,342	
		Long term assets		2,837,352
2,727,580				
155,352		Short term investments	230,700	
16,835		Assets held for sale	9,497	
373		Investment Properties held for sale	373	
1,934		Inventory	1,972	
124,259	5	Short term debtors	149,396	
58,894		Cash and cash equivalents	71,270	
		Current assets		463,208
357,647				
(7,963)		Short-term borrowing	(8,227)	
(219,785)	5	Creditors	(250,291)	
(12,571)		Revenue grant receipts in advance	(9,315)	
(53,868)		Capital grant receipts in advance	(57,268)	
(17,553)		Provisions (current)	(14,264)	
(5,779)		Finance lease obligations - short term	(6,285)	
		Current liabilities		(345,650)
(317,519)				
(54)		Long term creditors	(112)	
(24,297)		Provisions (non-current)	(24,278)	
(351,620)		Long term borrowing	(511,758)	
		Other long term liabilities		
(149,139)		Finance lease obligations - long term	(147,424)	
(13,824)		Deferred credits	(13,053)	
(933,538)	6	Net Pensions liability	(1,270,706)	
		Long term liabilities		(1,967,331)
(1,472,472)				
1,295,236		Net Assets		987,579
		Usable reserves		
(285,442)		Earmarked reserves	(279,524)	
(79,731)		General Fund Balance	(55,299)	
(1,095)		Profit and Loss reserve	(1,045)	
(660)	6	Pension reserve	(1,633)	
-		Usable capital receipts reserve	-	
(2,791)		Capital grants unapplied	(2,735)	
		Unusable reserves		(340,236)
(369,719)				
(514,628)		Revaluation reserve	(578,469)	
(1,343,174)		Capital Adjustments Account	(1,340,533)	
3,141		Financial Instruments Adjustment Account	3,101	
(777)		Available for Sale Financial Instruments Reserve	(369)	
934,198	6	Pension reserve	1,272,339	
-		Deferred capital receipts	(2,492)	
(14,944)		Collection Fund Adjustment Account	(17,426)	
10,667		Accumulating Compensated Absences Adjustment Account	16,506	
		Total Reserves		(647,343)
(925,517)				
(1,295,236)				(987,579)

Statement of Accounts - Group Accounts

Group Cash Flow Statement

For the year ended 31 March 2017

2015/16 £000	Notes		2016/17 £000
(32,131)	7	Operating activities	(19,329)
102,246	↓	Investing activities	160,789
7,950	↓	Financing activities	(153,836)
78,065		Net (increase) / decrease in cash and cash equivalents	(12,376)
136,959		Cash and cash equivalents at 1st April	58,894
58,894		Cash and cash equivalents at 31st March	71,270

Statement of Accounts - Group Accounts

Notes to the Group Accounts

1. Group boundary

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

Essex Cares Ltd commenced trading in July 2009 and was established by the Council in order to provide services for people living in the Community who require care, support and assistance. Essex Cares Ltd is a company limited by shares. Essex County Council owns 100% of the ordinary shares of the Essex Cares Ltd group, which are vested with the Council as a corporate shareholder. Essex Cares Ltd is a subsidiary of the Council for accounting purposes, and its results have been consolidated into the Group Accounts on a line by line basis using 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

2015/16			2016/17		
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
384,814	3,528	388,342	412,987	2,506	415,493
117,394	2,467	119,861	113,358	1,826	115,184
13,877	2,570	16,447	17,580	3,061	20,641
1,969	71	2,040	1,761	34	1,795
6,454	3,329	9,783	5,837	5,542	11,379
2,357	(5,393)	(3,036)	4,824	(1,514)	3,310
49,311	57,698	107,009	48,628	14,157	62,785
75,666	6,610	82,276	76,965	4,088	81,053
22,304	615	22,919	22,180	(297)	21,883
29,239	192	29,431	21,761	(384)	21,377
86,308	19,623	105,931	76,172	22,969	99,141
4,328	(3,313)	1,015	8,179	(14,839)	(6,660)
14,503	422	14,925	11,865	257	12,122
23,865	10,183	34,048	20,851	7,206	28,057
24,268	1,730	25,998	25,009	593	25,602
1	-	1	-	-	-
37,231	5,431	42,662	29,036	5,703	34,739
893,889	105,763	999,652	896,993	50,908	947,901
(885,790)	(32,284)	(918,074)	(866,593)	48,805	(817,788)
8,099	73,479	81,578	30,400	99,713	130,113
General Fund Balance & Profit and Loss Reserve					
(62,918)			(80,826)		
8,099			30,400		
(26,007)			(5,918)		
(80,826)			(56,344)		

Statement of Accounts - Group Accounts

4. Note to the Group Expenditure and Funding Analysis

2015/16	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	£000	£000	£000	£000	£000
Adult Social Care	2,262	1,283	(17)	-	3,528
Children and Families	705	1,770	(8)	-	2,467
Corporate and Communities	2,018	582	13	(43)	2,570
Digital Innovation, IT and Customer Services	-	67	4	-	71
Economic Growth, Infrastructure and Partnerships	3,212	115	2	-	3,329
Education and Lifelong Learning					
Dedicated Schools Budget	(2,412)	-	(1,537)	(1,444)	(5,393)
Non Dedicated Schools Budget	63,377	3,977	(21)	(9,635)	57,698
Environment and Waste	6,511	127	(17)	(11)	6,610
Finance, Traded Services, Housing and Planning	2,269	183	(8)	(1,829)	615
Health	81	140	(29)	-	192
Highways and Transport	29,626	407	92	(10,502)	19,623
Leader	2,168	(4,702)	(18)	(761)	(3,313)
Recharged Strategic Support Services					
Corporate and Communities	-	452	(30)	-	422
Digital Innovation, IT and Customer Services	9,877	333	(27)	-	10,183
Finance, Traded Services, Housing and Planning	1,204	822	(8)	(288)	1,730
Highways and Transport	-	-	-	-	-
Leader	4,963	386	82	-	5,431
Cost of services - continuing operations	125,861	5,942	(1,527)	(24,513)	105,763
Other income and expenditure not charged to services	(91,158)	33,648	713	24,513	(32,284)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	34,703	39,590	(814)	-	73,479

2016/17	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	£000	£000	£000	£000	£000
Adult Social Care	3,308	(803)	1	-	2,506
Children and Families	576	1,221	29	-	1,826
Corporate and Communities	2,927	252	(8)	(110)	3,061
Digital Innovation, IT and Customer Services	-	38	(4)	-	34
Economic Growth, Infrastructure and Partnerships	5,468	70	4	-	5,542
Education and Lifelong Learning					
Dedicated Schools Budget	(6,283)	-	6,022	(1,253)	(1,514)
Non Dedicated Schools Budget	21,823	1,893	(32)	(9,527)	14,157
Environment and Waste	4,011	80	5	(8)	4,088
Finance, Traded Services, Housing and Planning	1,459	145	(13)	(1,888)	(297)
Health	(441)	62	(5)	-	(384)
Highways and Transport	32,370	281	(30)	(9,652)	22,969
Leader	(4,064)	(15,777)	(7)	5,009	(14,839)
Recharged Strategic Support Services					
Corporate and Communities	-	295	(38)	-	257
Digital Innovation, IT and Customer Services	6,928	259	19	-	7,206
Finance, Traded Services, Housing and Planning	330	560	(26)	(271)	593
Highways and Transport	-	-	-	-	-
Leader	5,602	182	(81)	-	5,703
Cost of services - continuing operations	74,014	(11,242)	5,836	(17,700)	50,908
Other income and expenditure not charged to services	884	32,740	(2,519)	17,700	48,805
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure					
Statement surplus or deficit on the Provision of Services	74,898	21,498	3,317	-	99,713

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 29 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 2016/17 in relation to participation in the Local Government Pension Scheme:

2015/16			2016/17		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
Comprehensive Income and Expenditure Statement					
Cost of Services					
66,530	1,854	68,384	63,072	1,137	64,209
1,453	-	1,453	498	-	498
(6,200)	-	(6,200)	(16,304)	(2,145)	(18,449)
61,783	1,854	63,637	47,266	(1,008)	46,258
Financing and Investment Income and Expenditure					
31,918	(49)	31,869	31,593	(224)	31,369
31,918	(49)	31,869	31,593	(224)	31,369
93,701	1,805	95,506	78,859	(1,232)	77,627
Total charge to the Surplus / Deficit on Provision of Services					
Re-measurement of the net pensions liability					
18,162	671	18,833	(270,838)	(9,833)	(280,671)
(137,999)	(3,321)	(141,320)	648,705	14,424	663,129
-	-	-	(51,230)	(410)	(51,640)
253	-	253	956	(2,751)	(1,795)
-	-	-	(8,875)	(408)	(9,283)
-	3,060	3,060		(204)	(204)
(119,584)	410	(119,174)	318,718	818	319,536
(25,883)	2,215	(23,668)	397,577	(414)	397,163
Total charged to the Comprehensive Income and Expenditure Statement					
Movement on the Authority's General Fund Balance					
(93,701)	(1,805)	(95,506)	(78,859)	1,232	(77,627)
52,785	1,117	53,902	53,654	559	54,213
(40,916)	(688)	(41,604)	(25,205)	1,791	(23,414)

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:

2015/16				2016/17		
Council £000	Subsidiary £000	Total £000		Council £000	Subsidiary £000	Total £000
2,627,336	54,711	2,682,047	Present value of the defined benefit obligation	3,288,495	67,235	3,355,730
(1,734,248)	(58,431)	(1,792,679)	Fair value of plan assets	(2,051,484)	(71,724)	(2,123,208)
893,088	(3,720)	889,368	Sub total	1,237,011	(4,489)	1,232,522
	3,060	3,060	Impact of asset ceiling		2,856	2,856
893,088	(660)	892,428	Net liability arising from defined benefit obligations	1,237,011	(1,633)	1,235,378

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

2015/16				2016/17		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
2,679,567	55,622	2,735,189	Balance as at 1 April	2,627,336	54,711	2,682,047
66,530	1,662	68,192	Current service cost	63,072	1,137	64,209
87,300	1,869	89,169	Interest Cost	92,868	1,956	94,824
16,836	408	17,244	Contributions by scheme participants	16,622	283	16,905
			Actuarial (gains) / losses			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(51,230)	(410)	(51,640)
(137,999)	(3,321)	(141,320)	Actuarial (gains) / losses arising from changes in financial assumptions	648,705	14,424	663,129
-	-	-	Experience loss (gain) on defined benefit obligation	-	(2,751)	(2,751)
253	-	253	Other	956	3,910	4,866
1,453	271	1,724	Past service costs	498	-	498
(78,957)	(1,530)	(80,487)	Benefits paid	(85,494)	(1,165)	(86,659)
(7,647)	(270)	(7,917)	Liabilities extinguished on settlements	(24,838)	(4,860)	(29,698)
2,627,336	54,711	2,682,047	Balance as at 31 March	3,288,495	67,235	3,355,730

Statement of Accounts - Group Accounts

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

2015/16				2016/17		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
1,707,811	57,380	1,765,191	Balance as at 1 April	1,734,248	58,431	1,792,679
55,382	1,918	57,300	Interest income	61,275	2,180	63,455
			Remeasurement gain / (loss)			
(18,162)	(671)	(18,833)	Return on plan assets (excl. amount incl in net interest expense)	270,838	9,833	280,671
-	-	-	Other	8,875	4,318	13,193
52,785	1,117	53,902	Contributions by Employer	53,654	559	54,213
16,836	408	17,244	Contributions by scheme participants	16,622	283	16,905
(78,957)	(1,530)	(80,487)	Benefits paid	(85,494)	(1,165)	(86,659)
(1,447)	(191)	(1,638)	Settlements	(8,534)	(2,715)	(11,249)
1,734,248	58,431	1,792,679	Balance as at 31 March	2,051,484	71,724	2,123,208

The Local Government Pension Scheme assets comprised:

31 March 2016				31 March 2017	
£000	%			£000	%
1,213,305	68.0%	Equities		1,450,481	68.0%
52,853	3.0%	Gilts		80,102	4.0%
86,045	5.0%	Other bonds		87,009	4.0%
213,487	12.0%	Property		206,455	10.0%
58,235	3.0%	Cash and cash equivalents		63,908	3.0%
79,705	4.0%	Alternative Assets		141,201	7.0%
89,049	5.0%	Other managed funds		94,052	4.0%
1,792,679	100.0%	Total assets		2,123,208	100.0%

Paragraph 29.4 of the Council's 'single entity' accounts, which commences on page 108, set out the significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme.

Statement of Accounts - Group Accounts

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.

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,292,744	3,355,730	3,414,267
Projected Service Cost	98,687	101,150	103,674
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,360,058	3,355,730	3,345,854
Projected Service Cost	101,150	101,150	101,150
Adjustment to pension increases and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	3,406,821	3,355,730	3,300,012
Projected Service Cost	103,673	101,150	98,685
Adjustment to mortality age rating assumption	+ 1 year	None	- 1 year
Present value of total obligation	3,480,174	3,355,730	3,230,471
Projected Service Cost	104,376	101,150	98,025

Statement of Accounts - Group Accounts

7. Cash Flow

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

2015/16 £000	2016/17	
	£000	£000
Cash flows from operating activities		
Cash inflows		
(593,413)	Taxation	(623,555)
(1,014,316)	Grants	(951,746)
(279,678)	Sales of goods and rendering of services	(250,142)
(2,783)	Interest received	(3,032)
<u>(1,890,190)</u>		<u>(1,828,475)</u>
Cash outflows		
529,949	Cash paid to and on behalf of employees	509,084
35,385	Interest paid	36,463
1,172,509	Cash paid to suppliers of goods and services	1,139,916
120,216	Other payments for operating activities	123,683
<u>1,858,059</u>		<u>1,809,146</u>
<u>(32,131)</u>	Net inflow of cash from operating activities	<u>(19,329)</u>
Cash flows from investing activities		
Cash inflows		
(12,640)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(28,235)
(140,846)	Other receipts from investing activities	(128,925)
<u>(153,486)</u>		<u>(157,160)</u>
Cash outflows		
180,615	Purchase of property, plant and equipment, investment property and intangible assets	196,733
33,000	Purchase of short and long term investments	82,702
42,117	Other payments for investing activities	38,514
<u>255,732</u>		<u>317,949</u>
<u>102,246</u>	Net outflow of cash from investing activities	<u>160,789</u>
Cash flows generated from financing activities		
Cash inflows		
-	Cash receipts of short and long term borrowing	(163,000)
(114)	Other receipts from financing activities	(228)
<u>(114)</u>		<u>(163,228)</u>
Cash outflows		
7,122	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	6,794
942	Repayment of short and long term borrowing	2,598
<u>8,064</u>		<u>9,392</u>
<u>7,950</u>	Net (inflow) / outflow of cash from financing activities	<u>(153,836)</u>
<u>78,065</u>	Net (increase) / decrease in cash and cash equivalents	<u>(12,376)</u>

Statement of Accounts - Pension Fund Accounts

Introduction

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

	Page
Fund Account	137
Net Assets Statement	138
Notes to the Pension Fund Accounts	139

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2017

2015/16 Restated £000	Note		2016/17	
			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(53,964)	8	Member contributions	(54,497)	
(168,443)	8	Employers' contributions	(169,859)	
(7,936)	8	Transfers in from other Pension Funds	(12,465)	
(1,576)		Other income	(1,720)	
<u>(231,919)</u>		Total income		(238,541)
		Expenditure		
		Benefits payable		
177,467	8	Pensions	183,131	
31,935		Commutation of pensions & lump sum retirement benefits	36,481	
6,344		Lump sum death benefits	5,693	
		Payments to and on account of Leavers		
544		Refunds of contributions	680	
321		State scheme premiums	378	
5,288	8	Transfers out to other schemes	11,890	
33,097	10	Management expenses	36,645	
<u>254,996</u>		Total expenditure		274,898
23,077		Net additions from dealings with members		36,357
		Returns on investments		
(87,752)	9	Investment income	(85,320)	
(43,640)	11	Profit and losses on disposal of investments and changes in market value of investments	(947,557)	
3,834	14	Taxes on income	2,571	
<u>(127,558)</u>		Net returns on investments		(1,030,306)
(104,481)		Net (increase)/decrease in the assets available for benefits during the year		(993,949)
(4,932,623)		Net assets as at 1 April		(5,037,104)
<u>(5,037,104)</u>		Net assets as at 31 March		(6,031,053)

The Fund in 2016/17 has changed its policy in 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. For 2016/17 the administration expenses are shown gross of this income. The income totalling £1.306m (£1.281m in 2015/16) 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

Pension Fund Accounts

Net Assets Statement as at 31 March 2017

31 March 2016 £000	Note		31 March 2017	
			£000	£000
	11	Investments at market value		
	↓	Investment assets		
235,486		Fixed interest securities	241,885	
3,124,105		Equities	3,797,199	
144,369		Index linked securities	252,209	
358,780		Property	366,185	
215,089		Property unit trusts	211,841	
247,281		Private Equity	297,552	
162,085		Infrastructure	191,819	
77,675		Timber	101,983	
76,705		Illiquid Debt	101,367	
248,358		Other managed funds	261,836	
17,300		Derivative contracts	20,544	
116,692		Cash/deposits	156,226	
7,632		Other investment balances	9,084	
<u>5,031,557</u>				<u>6,009,730</u>
		Investment liabilities		
(35,744)		Derivative contracts	(21,941)	
(353)		Other investment balances	(2,977)	
<u>(36,097)</u>				<u>(24,918)</u>
4,995,460	↓	Total Investments		<u>5,984,812</u>
		Long term assets		
5,196		Contributions due from employers		4,294
	13	Current assets and liabilities		
	↓	Current Assets		
26,311		Cash		35,592
17,669		Contributions due from employers and other current assets		17,257
<u>5,044,636</u>				<u>6,041,955</u>
		Current liabilities		
(7,532)	↓	Unpaid benefits and other current liabilities		(10,902)
<u>5,037,104</u>		Net assets of the scheme available to fund benefits		<u>6,031,053</u>

Statement of Accounts - Pension Fund Accounts

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 and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for 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).

Statement of Accounts - Pension Fund Accounts

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 **700** 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 31 March 2017. 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 **31 March 2016**. Details can be found on the website 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.

Statement of Accounts - Pension Fund Accounts

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 2016/17 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 2016/17 (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 2017 and its position as at 31st March 2017. 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 2017 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 2016/17 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2016

An actuarial valuation of the Essex Pension Fund was carried out as at 31 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.

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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.

The main financial assumptions used were as follows:

Assumptions	Past and future liabilities Rate per annum
Rate of discount	5.10%
Short term pay increase	In line with CPI assumptions for 31 March 2016 to 31 March 2020
Long term pay increase	3.90%
Rate of increase to pensions in payment	2.40%
Pension increases on GMP	Funds will pay limited increases for members that have reached 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).

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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 are 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 a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2016.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2017 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond yield curve which is closest to the duration of the Fund's liabilities.

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 2017 is 19 years which in turn means a discount rate of **2.7%** per annum (31 March 2016: 3.6%). The value of the Fund's promised retirement benefits as at 31 March 2017 was **£9,485m** (31 March 2016: £7,438m).

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.

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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 8 which commences on page 153).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 8 which commences on page 153).

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 14 (page 168) 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

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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.

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 14).

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'.

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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 2016/17 this totalled **£1.955m** (2015/17: £2.346m).

The Fund in 2016/17 has changed its policy in 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. For 2016/17, the administration expenses are shown gross of this income. The income totalling £1.306m (2015/16: £1.281m) is now shown under other income in the Fund Account. The change in policy has a net nil effect.

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 2016/17, this totalled **£1.249m** (£1.073m in 2015/16).

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 2016/17, **£4.186m** of fees is based on such estimates (2015/16: £3.037m). 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.

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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.

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 11). 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 2016/17, these are mainly valued as at 31 December 2016, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2017

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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 31 March 2017.

Investments in unquoted property, illiquid 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.

- **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 9).

- **Direct Property Investments**

Direct property investments have been valued, at open market value as at 31 March 2017, by 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 11).

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

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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.

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 31st 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 and contingent assets

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

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

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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.

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 31 March 2017 was **£297.6m** (31 March 2016: £247.3m).

▪ 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 31 March 2017 was **£191.8m** (31 March 2016: £162.1m).

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- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2017 was **£102.0m** (31 March 2016: £77.7m).

- **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.

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 31 March 2017 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
Actuarial present value of promised retirement benefits <i>Note: Results are taken from the 2016 Actuarial valuation)</i>	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.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £89m . An increase of the CPI assumption by 0.1% per annum increases the value of liabilities by approximately £76m . A 0.1% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £8m .

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Item	Uncertainties	Effect if actual results differ from assumptions
		Increasing the long-term rate of improvement used in the mortality projection by 0.25% per annum would increase the liability by approximately £54m .
Pooled property funds and directly held freehold and leasehold property	<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 significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.</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 £366.2m .
Private equity / Infrastructure / Timber / Illiquid 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 illiquid debt investments in the financial statements are £693m . 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).

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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. Membership activities

8.1 Membership

31 March 2016		31 March 2017
53,432	Contributors	59,954
57,331	Deferred pensioners	55,536
37,370	Pensioners	39,106

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

The 31 March 2016 figures reflect the membership as per the 2016 Actuarial Valuation.

8.2 Pension benefits payable

2015/16 Restated £000		2016/17 £000
65,215	Administering Authority	66,286
95,237	Scheduled Bodies	99,054
11,113	Community Admission Bodies	11,207
5,378	Transferee Admission Bodies	6,002
524	Resolution Bodies	582
177,467		183,131

An exercise took place in 2016/17 where there category of each employer was reviewed. This resulted in some revisions. 2015/16 figures have been restated to reflect the revised employer categories. This change had a nil effect on the bottom line.

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8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2015/16		2016/17	
£000		£000	£000
53,964	Employee's normal contributions		54,497
	Employers' normal contributions		
114,743	Normal contributions	116,907	
48,247	Employers' deficit recovery contributions	48,613	
5,453	Employers' augmentation	4,339	
<u>168,443</u>			<u>169,859</u>
<u>222,407</u>			<u>224,356</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 2014/15 Colchester Women's Refuge entered into a three year cessation plan. The final payment of **£21,000** was paid in 2016/17.

In 2015/16 Essex County Scout Council entered into a five year cessation plan. The second instalment of **£28,000** was received in 2016/17. Three further payments of **£30,000** are due in 2017/18, 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 2016/17, final termination amounts were received from University College London of **£457,000** and Inclusion Trust of **£500,000**.

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8.3.2 By type

2015/16			2016/17	
Member £000	Employer £000		Member £000	Employer £000
16,741	50,956	Administering Authority	16,631	49,942
33,558	104,499	Scheduled Bodies	34,657	109,190
1,218	6,575	Community Admission Bodies	1,257	4,408
2,176	5,609	Transferee Admission Bodies	1,667	5,438
271	804	Resolution Bodies	285	881
53,964	168,443		54,497	169,859

An exercise took place in 2016/17 where the category of each employer was reviewed. This resulted in some revisions. 2015/16 figures have been restated to reflect the revised employer categories. This change had a nil effect on the bottom line.

8.4 Transfers in from, and out to, other pension funds

2015/16			2016/17	
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000
-	-	Group transfers	-	1,560
7,936	5,288	Individual transfers	12,465	10,330
7,936	5,288	Total	12,465	11,890

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**. No amounts were payable in respect of group transfers to other schemes during 2015/16.

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9. Investment Income

9.1 By Type

2015/16 £000		2016/17 £000
25,865	Dividends from equities	27,863
1,016	Income from index linked securities	597
4,855	Private Equity income	7,385
15,748	Infrastructure / timberland income	10,216
11,978	Managed fund income	11,589
6,739	Income from pooled property investments	8,383
19,443	Net rent from properties	14,120
458	Interest from cash deposits	528
1,056	Other	1,722
87,158	Total investment income showing net property rent	82,403
	Add back:	
594	Property operating expenses	2,917
87,752	Total investment income showing gross property rent	85,320

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.

9.2 Investment property net rental

2015/16 £000		2016/17 £000
19,486	Rental Income from investment property	16,494
(290)	Direct operating expenses arising from investment property	(2,124)
19,196	Total	14,370

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9.3 Contractual rental receivable

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

2015/16 £000		2016/17 £000
17,445	Within one year	17,372
51,547	Between one and five years	48,684
41,141	Beyond five years	34,010
110,133	Total	100,066

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2015	240,745	81,390	322,135
Additions	33,166	24	33,190
Disposals	(9,349)	(9,855)	(19,204)
Net gain/loss on fair value	20,008	2,651	22,659
Fair value at 31 March 2016	284,570	74,210	358,780
Additions	34,088	23	34,111
Disposals	(17,519)	(4,968)	(22,487)
Net gain/loss on fair value	(3,724)	(495)	(4,219)
Fair value at 31 March 2017	297,415	68,770	366,185

10. Management expenses

10.1 By type

2015/16 £000		2016/17 £000
2,346	Administration costs	1,955
29,678	Investment management expenses	33,441
1,073	Oversight and governance	1,249
33,097	Total	36,645

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

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Administrative costs are now shown gross of administration income received from employers. Administration income received from employers totalled **£1.306m** for 2016/17 (£2015/16: £1.281m) 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 **£723,000** for 2016/17 (2015/16: £768,000).

10.2 Investment management expenses

2015/16 Restated £000		2016/17 £000
28,616	Management fees	32,325
294	Custody fees	393
768	Transaction costs	723
29,678	Total	33,441

11. Investments

11.1 Value of investments held by managers

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

2016			2017		
£m	%		£m	%	
79	1.6	Alcentra Ltd	110	1.8	
619	12.4	Aviva Investors	614	10.3	
398	8.0	Baillie Gifford and Co	545	9.1	
243	4.9	Stewart Investors (formerly First State)	310	5.2	
235	4.7	Goldman Sachs Asset Management International	242	4.0	
257	5.1	Hamilton Lane	315	5.3	
1,558	31.2	Legal and General Investment Management	1,785	29.8	
(18)	-0.4	Legal and General Investment Management (Currency)	(2)	-	
384	7.7	Longview Partners	496	8.3	
393	7.9	Marathon Asset Management Ltd	515	8.6	
347	6.9	M&G Investments	474	7.9	
238	4.8	M&G Investments Alpha Opportunities	255	4.3	
61	1.2	M&G Investments Infracapital	38	0.6	
9	0.2	M&G Investments Financing Fund	6	0.1	
107	2.1	Partners Group Management II S.à r.l	161	2.7	
1	-	RWC Specialist UK Focus Fund (formerly Hermes)	3	-	
78	1.6	Stafford Timberland Limited	105	1.8	
6	0.1	Other	13	0.2	
4,995	100.0		5,985	100.0	

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11.2 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:

2015/16	Value at 1 April 2015	2015/16 Movement					Value at 31 March 2016
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	232,568	-	-	-	2,918	-	235,486
Equities							
UK quoted	153,973	9,641	(1,694)	(36,200)	(5,693)	-	120,027
Overseas quoted	1,278,488	254,675	(98,301)	(209,200)	18,182	-	1,243,844
UK unit trusts	243,770	37,379	(3,388)	(9,603)	(4,344)	-	263,814
Overseas unit trusts	780,132	137,901	26,087	(142,342)	(7,756)	-	794,022
Global unit life assurance policies	309,953	585	47,975	(540)	(2,199)	-	355,774
Global unit trusts	299,192	20,241	29,321	(2,741)	611	-	346,624
Index linked securities							
Index unit linked life assurance policies	40,702	26,366	75,001	(92,361)	1,062	-	50,770
UK public sector quoted	175,830	19,192	(74,890)	(27,036)	503	-	93,599
Property							
UK properties (freehold)	240,745	33,166	-	(9,349)	20,008	-	284,570
UK properties (leasehold)	81,390	24	-	(9,855)	2,651	-	74,210
Property unit trusts	217,452	6,452	5,608	(25,845)	11,422	-	215,089
Private equity							
UK unquoted	164	-	-	(125)	-	-	39
Overseas unquoted	237,815	46,354	-	(69,855)	32,928	-	247,242
Infrastructure							
UK unquoted	84,080	1,330	-	(38,671)	13,985	-	60,724
overseas unquoted	74,895	23,204	-	(10,439)	13,701	-	101,361
Timber (Overseas unquoted)	49,057	19,134	-	(1,074)	10,558	-	77,675
Illiquid Debt							
UK unquoted	24,442	-	-	(69)	921	-	25,294
Overseas unquoted	38,887	12,564	-	(3,784)	3,744	-	51,411
Other managed funds							
UK unquoted	253,665	5,648	-	(4,081)	(6,874)	-	248,358
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	71,342	-	-	-	-	5,201	76,543
Foreign currency	38,468	-	-	62,688	(62,688)	1,681	40,149
	4,927,010	653,856	5,719	(630,482)	43,640	6,882	5,006,625
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,232						1,720
Investment income due	5,202						5,912
Liabilities							
Amounts payable for purchase of investments	(1,873)						(203)
Investment withholding tax payable	(114)						(150)
Derivative pending foreign currency contracts							
Assets	22,902						17,300
Liabilities	(48,206)						(35,744)
	4,906,153						4,995,460

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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.

For 2016/17, the total transaction costs were **£723,000** (2015/16: £768,000). These are included within investment management expenses (see note 10).

2016/17	Value at 1 April 2016	2016/17 Movement					Value at 31 March 2017
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	235,486	-	-	-	6,399		241,885
Equities							
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 trusts	263,814	-	-	(44,720)	46,475		265,569
Overseas unit trusts	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
Index linked securities (UK public sector quoted)							
Index linked unit 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
Property							
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
Private equity							
UK unquoted	39	-	-	(13)	(5)		21
Overseas unquoted	247,242	51,049	-	(77,129)	76,369		297,531
Infrastructure							
UK unquoted	60,724	-	-	(45,744)	16,316		31,296
overseas unquoted	101,361	59,354	-	(19,272)	19,080		160,523
Timber (Overseas unquoted)	77,675	15,991	-	(1,003)	9,320		101,983
Illiquid Debt							
UK unquoted	25,294	-	-	(126)	3,084		28,252
Overseas unquoted	51,411	35,028	-	(11,928)	(1,396)		73,115
Other managed funds							
UK unquoted	248,358	6,721	-	(6,983)	13,740		261,836
Cash							
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
Other investment balances							
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)
Derivative pending foreign currency contracts							
Assets	17,300						20,544
Liabilities	(35,744)						(21,941)
	4,995,460						5,984,812

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31 March 2016 £000		31 March 2017 £000
	Fixed interest securities	
235,486	UK quoted	241,885
	Equities	
120,027	UK quoted	150,362
1,243,844	Overseas quoted	1,640,941
263,814	UK unit trusts	265,569
794,022	Overseas unit trusts	782,461
355,774	Global unit life assurance policies	484,099
346,624	Global unit trusts	473,767
	Index linked securities: UK public sector quoted	
50,770	UK unit linked life assurance policies	137,996
93,599	UK public sector quoted	114,213
	Property	
284,570	UK properties (freehold)	297,415
74,210	UK properties (leasehold)	68,770
215,089	Property unit trusts	211,841
	Private equity	
39	UK unquoted	21
247,242	Overseas unquoted	297,531
	Infrastructure	
60,724	UK unquoted	31,296
101,361	Overseas unquoted	160,523
77,675	Timber: Overseas unquoted	101,983
	Illiquid Debt	
25,294	UK unquoted	28,252
51,411	Overseas unquoted	73,115
248,358	Other managed funds: UK unquoted	261,836
	Derivative contracts	
17,300	Assets: Derivative pending foreign currency contracts	20,544
(35,744)	Liabilities: Derivative pending foreign currency contracts	(21,941)
	Cash deposits	
	Cash deposits held at custodian/other	
76,543	Sterling	102,074
40,149	Foreign currency	54,152
4,988,181		5,978,705
	Other investment balances	
	Assets	
1,720	Amounts receivable for sales of investments	2,663
5,912	Investment income due	6,421
	Liabilities	
(203)	Amounts payable for purchase of investments	(2,619)
(150)	Investment withholding tax payable	(255)
-	Amounts payable re. GLF	(103)
4,995,460	Value at 31 March	5,984,812

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11.3 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 2016			31 March 2017		
£000	%		£000	%	
355,774	7.1%	Legal & General FTSE RAFI AW 3000 Index	484,099	8.0%	
346,624	6.9%	M&G Global Dividend Fund	473,767	7.9%	
344,396	6.8%	Legal & General North America Equity Index	340,024	5.6%	
257,839	5.1%	Legal & General Europe (Ex UK) Equity Index	258,444	4.3%	

11.4 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 2016		Asset type / Asset name	31 March 2017	
£000	%		£000	%
UK QUOTED EQUITIES				
20,188	16.8%	Unilever plc Ord GBP0.031	25,396	16.9%
16,255	13.5%	WPP Plc Ord GBP0.10	18,933	12.6%
-	-	Whitbread Ord GBP0.76	16,428	10.9%
14,038	11.7%	Compass Group Ord GBP0.10	16,096	10.7%
13,263	11.1%	Lloyds Banking GP Ord GBP0.1	12,932	8.6%
7,592	6.3%	Sabmiller plc Ord050.10	-	-
7,224	6.0%	Arm Holdings Ord GBP0.0005	-	-
6,020	5.0%	Reckitt Benck GBP Ord GBP0.10	6,135	4.1%
PROPERTY				
26,900	7.5%	Canning Town Business Park, London	30,140	8.2%
-	-	201 Deansgate, Manchester	29,150	8.0%
21,950	6.1%	48-49 Chancery Lane, London	20,800	5.7%

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31 March 2016		Asset type / Asset name	31 March 2017	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
34,388	16.0%	Aviva Investors Property Fund	25,711	12.1%
19,616	9.1%	Industrial Property Investment Fund	20,958	9.9%
13,679	6.4%	Unite UK Student Accomodation Fund	19,081	9.0%
18,846	8.8%	Blackrock UK Property Fund	18,855	8.9%
16,174	7.5%	Standard Life Property Fund Closed	16,456	7.8%
14,726	6.8%	Lothbury Property Fund	15,495	7.3%
14,756	6.9%	Airport Industrial Fund	15,353	7.2%
13,986	6.5%	Standard Life UK Shopping Centre	13,639	6.4%
12,020	5.6%	Henderson UK Retail Warehouse Fund	10,900	5.1%
PRIVATE EQUITY				
10,683	4.3%	American Securities Partners VI LP	16,088	5.4%
INFRASTRUCTURE				
50,068	30.9%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	52,777	27.5%
31,948	19.7%	Partners Group Global Infrastructure 2012 LP	47,252	24.6%
-	-	Partners Group Global Infrastructure 2015 (USD) SCA SICAR	34,967	18.2%
60,724	37.5%	Infracapital Partners	31,296	16.3%
14,513	9.0%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	16,586	8.6%
TIMBER				
47,405	61.0%	Stafford International Timberland VI Fund LP	52,523	51.5%
30,270	39.0%	Stafford International Timberland VII Fund (No 2) LP	49,460	48.5%
ILLIQUID DEBT				
51,412	67.0%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2)	47,225	46.6%
25,294	33.0%	Alcentra Global Multi-Credit Solutions Class IV A GBP	28,252	27.9%
-	-	Clareant European Direct Lending Fund II (GBP) LP	25,890	25.5%
OTHER MANAGED FUNDS				
237,654	95.7%	M&G Alpha Opportunities Fund	255,159	97.4%
CASH				
36,360	31.2%	BNP Paribas Investment Partners GBP	50,057	32.0%
29,730	25.5%	Northern Trust Liquidity Fund GBP	40,861	26.2%
22,334	19.1%	Northern Trust Liquidity Fund US\$	29,906	19.1%
-	-	BNP Paribas Investment Partners US\$	10,106	6.5%

11.5 Derivative contracts

11.5.1 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.

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11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2017 and 31 March 2016.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **66.6%** of the Fund's NAS is in overseas assets as at 31 March 2017 (31 March 2016: 63.9%).

To reduce the volatility associated with fluctuating currency rates (currency risk) the Fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges **50%** of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

11.5.4 Open forward currency contracts

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	28,380	GBP	15,073	116	-	116
Up to one month	CAD	24,175	GBP	12,880	123	-	123
Up to one month	CHF	28,689	GBP	20,793	50	-	50
Up to one month	EUR	81,608	GBP	64,460	242	-	242
Up to one month	GBP	13,491	AUD	28,388	-	(1,702)	(1,702)
Up to one month	GBP	11,605	CAD	24,175	-	(1,398)	(1,398)
Up to one month	GBP	19,408	CHF	28,689	-	(1,435)	(1,435)
Up to one month	GBP	76,654	EUR	104,265	-	(6,018)	(6,018)
Up to one month	GBP	33,840	JPY	6,104,120	-	(3,946)	(3,946)
Up to one month	GBP	6,075	SEK	77,074	-	(540)	(540)
Up to one month	GBP	282,414	USD	421,526	-	(10,863)	(10,863)
Up to one month	GBP	-	ZAR	9	-	-	-
Up to one month	JPY	6,104,120	GBP	38,380	-	(594)	(594)
Up to one month	SEK	77,074	GBP	6,568	47	-	47
Up to one month	USD	421,526	GBP	298,081	-	(4,805)	(4,805)
One to six months	GBP	39,775	AUD	(77,717)	-	(1,684)	(1,684)
One to six months	GBP	34,466	CAD	(66,568)	-	(1,335)	(1,335)
One to six months	GBP	53,427	CHF	(74,174)	-	(615)	(615)
One to six months	GBP	203,578	EUR	(260,131)	-	(3,028)	(3,028)
One to six months	GBP	142,753	JPY	(22,848,727)	1,081	-	1,081
One to six months	GBP	21,505	SEK	(256,012)	-	(512)	(512)
One to six months	GBP	902,202	USD	(1,270,596)	18,372	-	18,372
Open forward currency contracts at 31 March 2016					20,031	(38,475)	(18,444)
Open forward currency contracts at 31 March 2015					11,970	(37,274)	(25,304)

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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	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)

12. 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

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information provided by Equitable Life, Prudential and Standard Life to the Fund is shown in the table below.

12.1 Reconciliation of movements in AVC investments

2015/16 £000		2016/17 £000
6,178	Value of AVC fund at beginning of year	5,837
655	Employees contributions	703
(27)	Investment income and change in market value	669
(969)	Benefits paid and transfers out	(873)
5,837		6,336

12.2 Analysis of AVC investments by Provider

2015/16 £000		2016/17 £000
131	Equitable Life	112
718	Prudential	1,031
4,988	Standard Life	5,193
5,837		6,336

13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2016 £000		31 March 2017 £000	£000
	Cash Balances		
788	Cash at bank	1,560	
25,523	Cash on short term deposits within 3 months	34,032	
26,311			35,592
	Debtors and payments in advance		
3,784	Contributions due – employees	4,091	
13,398	Contributions due – employers	12,410	
487	Sundry debtors	756	
17,669			17,257
43,980	Total		52,849

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13.2 Analysis of debtors

31 March 2016			31 March 2017	
Short term	Long term		Short term	Long term
£000	£000		£000	£000
3,505	5,058	Central Government	4,513	3,810
11,412	24	Other Local Authorities	10,107	17
29	-	NHS Bodies	19	-
2,033	114	Public Funded Bodies	1,968	467
690	-	Other	650	-
<u>17,669</u>	<u>5,196</u>	Total	<u>17,257</u>	<u>4,294</u>

13.3 Analysis of long term debtors

31 March 2016		31 March 2017
£000		£000
83	Financial strain instalments due	160
5,113	Other employer contributions due	4,134
<u>5,196</u>	Total	<u>4,294</u>

13.4 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.

13.5 Analysis of current liabilities

31 March 2016		31 March 2017
£000		£000
	Unpaid benefits and other current liabilities	
(193)	Contributions due – employers	(316)
(3,037)	Investment manager fees payable	(4,186)
(4,091)	Benefits payable	(4,246)
(211)	Other	(2,154)
<u>(7,532)</u>	Total	<u>(10,902)</u>

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13.6 Analysis of creditors

31 March 2016 £000		31 March 2017 £000
	Creditors and receipts in advance	
(111)	Central Government	(282)
(1,399)	Other Local Authorities	(3,668)
(2)	NHS Bodies	-
(851)	Public Funded Bodies	(296)
(5,169)	Other	(6,656)
(7,532)	Total	(10,902)

13.7 Contingent liabilities and contractual commitments

As at 31 March 2017, the Fund had a commitment to contribute a further **£654.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2016: £479.2m). 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.

14. Taxes on income

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

2015/16 £000		2016/17 £000
560	UK withholding tax	206
3,157	Overseas withholding tax	2,130
117	Payment to HMRC in respect of returned contributions	235
3,834		2,571

15. 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.

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15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£2.516m** in 2016/17 (2015/16: £2.495m) 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 **£49.942m** to the Fund in 2016/17 (2015/16: **£50.956m**). 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 **23 March 2016**. This service is provided to the Fund at a cost of **£27,000** (2015/16: £26,000).

During the year to 31 March 2017, the Pension Fund had an average investment balance of **£30.618m** (2015/16: £27.089m) earning **£117,000** interest (2015/16: £143,000).

15.2 Governance

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

15.3 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 2016/17, 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 small employing bodies	▪ Cllr K. Bobbin *
▪ J. Moore	▪ Cllr M. Mackrory *

* Membership relates to non councillor service.

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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 2016/17, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ K. Flowers **
▪ Cllr S. Walsh	▪ P. Hewitt
	▪ J. Hunt
	▪ M. Paget

*** PAB membership ceased in January 2017*

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2016/17 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2016/17 approximately **2%** (2015/16: 2%) of the Executive Director for 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 2016/17 was **£156,000** (2015/16: £164,000). The 2016/17 current service cost in respect of these personnel was **£68,000** (2015/16: £75,000). 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.

16. 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.

The sums are disclosed below:

2015/16 £000		2016/17 £000
1,554	Administering Authority	1,514
5,509	Scheduled Bodies	5,356
152	Community Admission Bodies	137
1	Transferree Admission Bodies	-
2	Resolution Bodies	2
22	Former employers	22
7,240	Total	7,031

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17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2016 £000		Asset value as at 31 Mar 2017 £000
	Financial assets	
75,863	Fair value through profit and loss	1,133,174
(62,688)	Loans and receivables	(186,425)
<u>13,175</u>	Total	<u>946,749</u>

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 **£808,000** as at 31st March 2017 (31st March 2016: £30.465m).

17.3 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

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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 Unit Trusts Money Market Funds 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 each dealing point but are not exchange traded	Price of recent transactions for identical instrument	Significant change in economic circumstances 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 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 Estimated rental growth Covenant strength for existing tendencies Discount rate 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	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

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Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
		same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation		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 Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets 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 Partner in accordance with the terms of the Partnership Agreement and US GAAP	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets 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
Timberlands	Level 3	Valuation technique is based on accepted valuation techniques that include discounted cashflow and multiple earnings	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets 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

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17.5 Reconciliation of fair value measurements within Level 3

2016/17	Value at 1 April 2016	2016/17 Movement						Value at 31 March 2017
		Transfer to Level 3	Purchases	Net Transfers	Sale Proceeds	Unrealised profit/ loss	Realised profit/ loss	
	£000	£000	£000	£000	£000	£000	£000	
Properties								
UK properties (freehold)	284,570		34,088		(17,519)	111	(3,835)	297,415
UK properties (leasehold)	74,210		23		(4,968)	(2,195)	1,700	68,770
Property unit trusts	-	215,089	12,163	1	(15,200)	10,699	(10,911)	211,841
Private equity								
UK unquoted	39		-		(13)	(18)	13	21
Overseas unquoted	247,242		51,049		(77,129)	43,170	33,199	297,531
Infrastructure								
UK unquoted	60,724		-		(45,744)	(7,065)	23,381	31,296
Overseas unquoted	101,361		59,354		(19,272)	17,205	1,875	160,523
Timber (Overseas unquoted)	77,675		15,991		(1,003)	9,281	39	101,983
Illiquid Debt								
UK unquoted	25,294		-		(126)	3,084	-	28,252
Overseas unquoted	51,411		35,028		(11,928)	(3,887)	2,491	73,115
	922,526	215,089	207,696	1	(192,902)	70,385	47,952	1,270,747

18. Nature and extent of risks arising

18.1 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.

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18.2 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. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

18.3 Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

18.4 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 2016/17.

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

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31st March 2016 Potential Market movement %	Asset type	31st March 2017 Potential Market movement %
9.2%	UK bonds	8.7%
18.0%	UK equities	15.8%
21.0%	Overseas equities	18.4%
7.0%	UK index linked bonds	7.1%
15.0%	Pooled property unit trusts	14.2%
29.0%	Private equity	28.5%
15.0%	Infrastructure funds	11.3%
15.0%	Timber	11.3%
14.0%	Illiquid debt	12.3%
15.0%	Property	14.2%
1.0%	Cash	0.0%

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:

31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2017 £000	Percentage change %	Value increase £000	Value decrease £000
116,692	1.0%	117,859	115,525	Cash and equivalents	156,226	-	156,226	156,226
				Investment portfolio assets				
235,486	9.2%	257,151	213,821	UK bonds	241,885	8.7%	262,929	220,841
120,027	18.0%	141,632	98,422	UK equities	150,362	15.8%	174,119	126,605
1,243,844	21.0%	1,505,051	982,637	Overseas equities	1,640,941	18.4%	1,942,874	1,339,008
263,814	18.0%	311,301	216,327	UK equities unit insurance policies	265,569	15.8%	307,529	223,609
794,022	21.0%	960,767	627,277	Overseas equities insurance policies	782,461	18.4%	926,434	638,488
355,774	21.0%	430,487	281,061	Global equities insurance policies	484,099	18.4%	573,173	395,025
346,624	21.0%	419,415	273,833	Global unit trusts	473,767	18.4%	560,940	386,594
144,369	7.0%	154,475	134,263	UK index linked bonds	252,209	7.1%	270,116	234,302
215,089	15.0%	247,352	182,826	Pooled property unit trusts	211,841	14.2%	241,922	181,760
247,281	29.0%	318,992	175,570	Private equity	297,552	28.5%	382,354	212,750
162,085	15.0%	186,398	137,772	Infrastructure	191,819	11.3%	213,495	170,143
77,675	15.0%	89,326	66,024	Timber	101,983	11.3%	113,507	90,459
76,705	14.0%	87,444	65,966	Illiquid Debt	101,367	12.3%	113,835	88,899
248,358	15.0%	285,612	211,104	Other managed funds	261,836	11.3%	291,423	232,249
358,780	15.0%	412,597	304,963	Property	366,185	14.2%	418,183	314,187
(18,444)	-	(18,444)	(18,444)	Net derivative assets	(1,397)	-	(1,397)	(1,397)
5,912	-	5,912	5,912	Investment income due	6,421	-	6,421	6,421
(150)	-	(150)	(150)	WHT payable	(255)	-	(255)	(255)
1,720	-	1,720	1,720	Amounts receivable for sales	2,663	-	2,663	2,663
(203)	-	(203)	(203)	Amounts payable for purchases	(2,619)	-	(2,619)	(2,619)
-	-	-	-	Amounts payable for GLF	(103)	-	(103)	(103)
4,995,460		5,914,694	4,076,226	Total assets available to pay benefits	5,984,812		6,953,769	5,015,855

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18.5 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 2017 to 30 June 2017. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2017 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

18.6 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 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 an illiquid 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 as at 31 Mar 2016 £000	Asset type	Asset value as at 31 Mar 2017 £000
116,692	Cash and cash equivalents	156,226
26,311	Cash balances	35,593
235,486	Fixed interest securities	241,885
144,369	Index-linked securities	252,209
76,705	Illiquid debt	101,367
599,563	Total assets	787,280

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18.7 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 as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2017 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
116,692	1,167	(1,167)	Cash and cash equivalents	156,226	1,562	(1,562)
26,311	263	(263)	Cash balances	35,593	356	(356)
235,486	2,355	(2,355)	Fixed interest securities	241,885	2,419	(2,419)
144,369	1,444	(1,444)	Index-linked securities	252,209	2,522	(2,522)
76,705	767	(767)	Illiquid debt	101,367	1,014	(1,014)
599,563	5,996	(5,996)	Total change in assets available	787,280	7,873	(7,873)

18.8 Currency risk

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

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The following table summarises the Fund's currency exposure as at 31 March 2017 and prior year:

31 Mar 2016 £000	Asset type	31 Mar 2017 £000
1,243,844	Overseas equities quoted	1,640,941
794,022	Overseas unit life assurance policies	782,461
355,774	Global unit life assurance policies	484,099
346,624	Global unit trusts	473,767
247,242	Overseas private equity	297,531
101,361	Overseas infrastructure	160,523
77,675	Overseas timber	101,983
51,411	Overseas illiquid debt	73,115
3,217,953	Total oversea assets	4,014,420

18.9 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%** (2015/16: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2015/16: 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:

Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2017 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,243,844	1,405,544	1,082,144	Overseas equities quoted	1,640,941	1,854,263	1,427,619
794,022	897,245	690,799	Overseas unit trusts	782,461	884,181	680,741
355,774	402,025	309,523	Global unit life assurance policies	484,099	547,032	421,166
346,624	391,685	301,563	Global unit trusts	473,767	535,357	412,177
247,242	279,383	215,101	Overseas private equity	297,531	336,210	258,852
101,361	114,538	88,184	Overseas infrastructure	160,523	181,391	139,655
77,675	87,773	67,577	Overseas timber	101,983	115,241	88,725
51,411	58,094	44,728	Overseas illiquid debt	73,115	82,620	63,610
3,217,953	3,636,287	2,799,619	Total change in assets available	4,014,420	4,536,295	3,492,545

18.10 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

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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.

18.11 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 tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2017 is provided in Note 13.

18.12 Forward currency contracts

Forward currency contracts are undertaken by Legal and General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2017 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 11.

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Exposure at 31 March 2016		Counterparty	Exposure at 31 March 2017	
£000	%		£000	%
-	-	Barclays Capital	58,779	2.1%
40,156	1.8%	BNP Paribas Capital Markets	140,525	5.0%
123,342	5.4%	Citigroup	357,393	12.6%
-	-	Goldman Sachs	338,690	11.9%
136,249	6.0%	Deutsche Bank AG	-	-
301,887	13.2%	HSBC	416,105	14.7%
137,876	6.1%	J P Morgan Securities	115,216	4.1%
406,036	17.8%	Lloyds	236,434	8.3%
177,099	7.8%	Merrill Lynch	171,317	6.0%
128,820	5.6%	Morgan Stanley	-	-
844	0.0%	RBC Europe	147,062	5.2%
168,668	7.4%	RBS	240,276	8.5%
-	-	SEB	-	-
-	-	SG Securities	117,330	4.1%
259,625	11.4%	Standard Chartered	396,013	14.0%
137,649	6.0%	UBS	19,614	0.7%
261,879	11.5%	Westpac Bank Corp	79,886	2.8%
2,280,130	100.0%	Total	2,834,640	100.0%

18.13 Futures

There were no open future contracts as at 31st March 2016 or 31st March 2017.

18.14 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, 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 31 March 2017, the average credit quality of the MandG bond mandate was **A-** rated (**BBB+** rated as at 31 March 2016). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2016. The average credit rating of the financing fund was **BB+** rated as at 31 March 2017 (**BB+** rated as at 31 March 2016), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2017 had an average credit quality of **AA+** (**AA+** rated as at 31 March 2016) and has

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suffered six defaults since inception, one occurring in 2016/17, three occurring in 2015/16 and two occurring 2011/12.

18.15 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 2016) 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 31 March 2017 **£35.592m** (31 March 2016: £26.311m) 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 31 March 2017, the total balance held in the Sterling and US dollar AAA money market funds was **£130.930m** with a smaller balance of **£25.296m** held in the custodian current account (31 March 2016: £88.424m and £28.268m 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.

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

31 March 2016			31 March 2017		
Rating	£000		Rating	£000	
Cash managed externally					
Cash held on deposit (GLF)					
AAA	36,360	BNP Paribas	AAA	50,967	
AAA	52,064	Northern Trust	AAA	79,963	
Cash held in Current Account					
AA-	28,268	Northern Trust	AA-	25,296	
	116,692	Total cash managed externally		156,226	
Cash managed internally					
Cash held on deposit					
AAA	3,002	Blackrock	AAA	7,502	
AA-	7,508	HSBC	AA-	7,500	
A	-	Santander UK	A	4,001	
AAA	10,004	Standard Life (formerly IGNIS)	AAA	10,002	
AA-	5,009	Svenska Handelsbanken	AA-	5,027	
Cash held in Current Account					
A	788	Lloyds Bank plc	A	1,560	
	26,311	Total cash managed internally		35,592	
	143,003	Total		191,818	

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

31 March 2016		31 March 2017	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
Cash managed externally					
Deposit with bank and other financial institutions					
88,424	AAA Rated	130,930	80,000	0.0367%	48
28,268	AA Rated	25,296	N/A	0.0067%	2
116,692	Total cash managed externally	156,226			50
Cash managed internally					
Deposit with bank and other financial institutions					
13,006	AAA Rated	17,504	10,000	0.0367%	6
12,517	AA Rated	12,527	7,500	0.0067%	1
788	A Rated	5,561	5,000	0.0620%	3
26,311	Total cash managed internally	35,592			10
143,003	Total cash	191,818			60

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18.16 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. 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 31 March 2017 had immediate access to its pension fund cash holdings held internally and externally of **£191.818m** (31 March 2016: £143.003m). 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 Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

18.17 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.

18.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2017 Northern Trust had **\$7.1 trillion** of assets under custody (31 March 2016: \$6.20 trillion) and had a credit rating of **AA** (31 March 2016: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

18.19 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

Statement of Accounts - Pension Fund Accounts

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.

19. Further information

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

Director for Essex Pension Fund
County Hall
Chelmsford
CM1 1LX

Telephone 03330 138501

E-mail 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 Income and Expenditure Account 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	This account represents: <ul style="list-style-type: none"> ▪ Amounts set aside from revenue resources to repay external loans; ▪ The financing of capital payments from capital receipts and revenue reserves; and ▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.
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.

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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 done, 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 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.
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
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.
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 party in exchange for rental payments.
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.

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Term	Explanation
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. 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.
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.
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	The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events. Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.

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Term	Explanation
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.
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 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.

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Essex County Council

Annual Governance Statement

Introduction

This statement summarises the outcome of our review of the governance arrangements that have been in place during 2016/17.

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 refreshed in April 2016 in line with new CIPFA guidance and our Code of Governance external webpages were also refreshed at this time and reviewed again in January 2017.

The effectiveness of key elements of the governance framework are assessed throughout the year by the Corporate Governance Steering Board, the Audit 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). Both codes of conduct were refreshed and relaunched in May 2016. Most new Members attended induction sessions on the code of conduct in May 2017 and plans are in place to ensure that all new members attend this training. Any non-attendance will be reported to the Standards Committee.

The ECC and Fire Authority Joint Standards Committee's main function in relation to ECC is to promote and maintain high standards of conduct by Councillors and to help them follow the Code of Conduct. The Joint 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 complaints referred to the Standards Committee during 2016/17.

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Our mandatory corporate governance e-learning training includes modules called 'How We Behave' and 'Good Decision Making' which cover the Code of Conduct and other expectations we have of Councillors and employees. This was refreshed and relaunched to Officers in January 2017. The modules were launched to Members after the May 2017 elections. Completion rates for all governance e learning modules for Officers and Members are monitored at Corporate Governance Steering Board.

The [Policy](#) adopted by full Council in May 2016 is that all Members are asked to undergo a Disclosure and Barring Service (DBS) check when elected.

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.

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 for 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 Head of Internal Audit and Counter Fraud is responsible for providing assurance on internal controls and ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud.

Each Director or Executive Director is required to complete an evidence-based Service Assurance Statement (SAS), accompanied by a plan setting out actions to be taken to strengthen any areas

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of weakness. These were completed in March/April 2017 and formally signed off by the Executive Director for each functional area. The organisation's 2016/17 Service Assurance Statements returned an adequate overall assessment. Where necessary improvements were 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.

The system of delegations ensures that decisions are not *ultra vires* whilst allowing ECC to fully utilise its powers.

We actively observe both the specific requirements of legislation and the general responsibilities placed on us by 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](#)' page 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](#).

Our Vision and Corporate Plan (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).

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4. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

ECC's [Communications and Marketing Strategy](#) 2014/18 outlines how we communicate with partners and the 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.

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 2016/17 **92%** 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 opportunities for involvement and engagement that are inclusive and meet individual need. This includes statutory consultations, surveys (with 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 ensures that the Consultation that is presented to the public fully engages the communities, and seeks a full set of responses which can be used to inform the Councils decision making.

Our consultation portal [Essex Insight](#) is used by ECC, and by district and borough councils, to manage 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/carer 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.

ECC has a framework which enables ECC 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.

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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.**

Our [Vision for Essex 2013/17](#) is available on our website. ECC is currently developing an overarching vision for Essex, which will articulate a high level narrative and shared ambitions to guide progress to 2035. This is a partnership vision, which we are developing together and will deliver together.

Our [Corporate Outcomes Framework 2014/18](#) translates this vision into a set of outcomes that ECC will work towards:

- Children in Essex get the best start in life
- People in Essex enjoy good health and wellbeing
- People have aspirations and achieve their ambitions through education, training and lifelong-learning
- People in Essex live in safe communities and are protected from harm
- Sustainable economic growth for Essex communities and businesses
- People in Essex experience a high quality and sustainable environment
- People in Essex can live independently and exercise control over their lives

Our 2016/17 Corporate Plan articulates how we will deliver these outcomes. Our new Chief Executive was appointed in January 2016 and he shared his [100 day plan](#) at Cabinet in July 2016, this outlining his thoughts on the issues he identified in his first 100 Days that the organisation needs to address.

The 2016/17 budget was approved at Full Council on 9 February 2016 and the 2017/18 [budget](#) was approved at the 14 February 2017 meeting. The council took the decision to implement the Government's Social Care Precept, increasing council tax by **3%**. This will raise an extra **£17m** to support vulnerable residents, in recognition that this is the biggest area of pressure for the local authority.

Our employees are supported by a comprehensive individual performance management process. In 2016/17 the 'Supporting Success' process was moved to an online platform in which the outcomes required from each employee were defined. The '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 restructure underway in 2016/17 is designed to enable ECC to meet our ambitions for the future and to take account of our financial constraints. The formal launch of phase 1 was from April 2017. Phase 2 of the redesign will be completed in 2017/18.

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Essex is committed to a shared vision and set of ambitions that can only be delivered through effective, joined-up partnership. Partnership 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:

- The Greater Essex Leadership Collaborative programme, cohort 1 comprises 50 participants from across public and voluntary services in Essex; working to develop whole system leadership personally, together and for the benefit of communities.
- 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 refresh of the Economic Plan for Essex, which set out economic priorities for Essex, under the aegis of an Integrated Growth Forum;
- 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;
- Planned launch 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.

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 be able to take 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.

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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.

To simplify our decision making process in February 2017 Full Council decided that financial transactions between **£500,000** and **£2 million** (other than key decisions) can now be approved by an Executive Director. Such decisions would simply be undertaken in consultation with the S151 Officer and the relevant Cabinet Member without the need for formal Cabinet Member Action. As a consequence, fewer decisions would need to be published, thereby reducing the number of decisions subject to call-in and potential delay.

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 8 call-ins in 2016/17.

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).

For 2016/17 **94%** of published decisions had an Equality Impact Assessment completed.

ECC has a robust [Data Quality Strategy](#) in place which was approved in May 2015.

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.

Our performance management framework sets out the arrangements for ensuring we are delivering against the priorities and outcomes we have committed to and how we will measure our progress. Progress is regularly reviewed at various levels including Cabinet, Scrutiny, Corporate Management Board, Operations Board, Outcomes Board and Functional Leadership Teams.

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 commercial strategy and procurement policy 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.

Annual Governance Statement

ECC Service Quality has been recognised nationally during 2016/17:

- ECC had nine nominations at this year's Social Worker of the Year Awards. ECC's Bianka Lang, won both the Team Leader of the Year – Children's Services, and overall Social Worker of the Year categories in the 2016 Social Worker of the Year Awards.
- ACL Friary Preschool is the first early years setting in Essex to achieve the Good Beginnings Autism-friendly Silver award in October 2016.
- An Essex Libraries' employee was named 'Mobile Champion of the Year' by National Chartered Institute of Library and Information Professionals (CILIP) Awards.
- Our libraries 'Baby Rhyme Time' sessions were voted 'Best Baby and Toddler Group' by Essex's parents.
- ECC was nominated for four awards at the Children and Young People Now awards for our youth work, winning the Recruitment and Professional Development and the National Citizen Service Awards.
- A grazing conservation project at Mill Meadows in Billericay has been awarded a Living Landscapes Award. The project was a partnership between Basildon Council, Essex County Council and the Mill Meadows Society.
- The All Party Parliamentary Group for Housing and Care for Older People acknowledged ECC's Independent Living housing programme in the House of Lords in October 2016.
- Four Essex County Council Country Parks were awarded Green Flag status in 2016, an award that recognises some of the best green spaces in the country.
- Essex Country Parks Outdoor Learning team won the advocate category at the national Learning Outside the Classroom awards in recognition of the work they do to connect young people with nature, inspiring them with opportunities to learn in the natural environment.
- Ten Essex teachers and support staff received national recognition in June having being put forward by Essex County Council following the Essex Teaching Awards.
- ECC's Quality Innovation team is in the running for a national Patient Safety Award for the second consecutive year for improving the quality of life of the county's residents both in care homes and those living in their own homes.
- Essex County Council owned Cressing Temple Barns received a TripAdvisor Certificate of Excellence in June.
- An innovative new communications tool for adults with learning disabilities trialed by ECC earlier this year was shortlisted for a national Employers Network for Equality and Inclusion Award
- Visit Essex won the Tourism and Hospitality category at the first ever Digital Awards Champion in February 2017.

Annual Governance Statement

- 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 and were updated for the new Officer structure which came into effect on 1 April 2017.

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.

ECC has [financial regulations](#) in place which provide a framework to identify our financial responsibilities and the financial limits assigned to Officers. These also set out the responsibilities in relation to partnerships and commissioning arrangements. The financial regulations were updated and approved at Full Council on 14 February 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 (2015). Our Chief Financial Officer for 2016/17 was the Executive Director for Corporate and Customer Services.

- 11. Ensuring effective arrangements are in place for the discharge of the monitoring officer function.**

For 2016/17 the Deputy Monitoring Officer was acting as Monitoring Officer in the absence of the substantive postholder until July 2016 when he was appointed as Monitoring Officer on an interim basis. In February 2017 this Monitoring Officer was also appointed as the new Director, Legal and Assurance.

- 12. Ensuring effective arrangements are in place for the discharge of the head of paid service function.**

For the year 2016/17 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 for members' development and is responsible for shaping the Member Development Programme. ECC achieved the Member

Annual Governance Statement

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.

All members are offered a Personal Development Plan. For 2016/17 80% of Members had a Personal Development Plan in place and 50% have taken part in the 360 degree feedback programme. Council Members were offered a comprehensive Induction after the May 2017 Election and there are regular briefing and development sessions throughout their term of office.

All employees are required to complete our comprehensive corporate governance e learning programme. 5 of the 7 e-learning courses were refreshed and re launched in January 2017 for completion by all ECC employees. The remaining 2 were launched in May 2017.

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.

Following the organisational restructure all Directors and Executive Directors took part in a 're-contracting' meeting with the Chief Executive to support identification of development needs. As part of the phase 1 organisational restructure all new and transferring leaders were provided with a 'handover pack' which provided information on their responsibilities to help ensure a smooth transition. This covered key areas such as financial management, governance and assurance arrangements.

14. Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.

ECC's [Risk Management Strategy 2014/17](#) was approved at Audit Committee in March 2016. It is communicated to staff with accompanying guidance and these are reviewed at least annually to ensure they remain fit for purpose and set out on our intranet site. The revised Risk Management Strategy 2017/21 was presented to the Audit Committee in June 2017.

The Risk Assurance Statement for 2016/17 was included in the Head of Internal Audit Annual Report which was presented to the Audit Committee in June 2017.

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 Corporate Management Board and Political Leadership Team.

Annual Governance Statement

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 Internal Audit and Counter Fraud Service. The Counter Fraud Team delivers services to both ECC 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 66 referrals have been received and investigated by the Counter Fraud Team during 2016/17. The Counter Fraud Team have undertaken proactive prevention and detection work, specifically the management of the National Fraud Initiative (NFI) and directed fraud awareness training.

The resulting matches from the NFI biennial data matching exercise, co-ordinated by the Cabinet Office, were reviewed and investigated by the Counter Fraud Team during 2016/17. The following results / outcomes have been returned (matches were released in February 2017 so work is still in progress):

- Personal Budget monies recovered in respect of deceased service users totalling £121k.
- Residential Care monies recovered in respect of deceased service users totalling £94k

The Audit Committee received quarterly updates in respect of counter fraud activity and a summary is included in the Internal Audit Annual Report. The ECC Counter Fraud and Anti-Bribery Strategy was approved by Audit Committee in December 2016 and the Anti Money Laundering Strategy was approved in December 2015.

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 scrutiny committees. One of these is chaired by an opposition member. Induction, training and support are provided to individual Members and whole committees to support them in their policy development and holding-to-account roles.

The Chairmen of the four committees (and the chairman of the Audit Committee) meet as the Scrutiny Board, to oversee the coordination of scrutiny activity, consider its development strategically and share best practice. Each cabinet member was periodically invited to attend this forum on an informal basis to encourage open dialogue between executive members and scrutiny members. Most Scrutiny Chairmen also meet regularly with their cabinet counterparts.

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In 2016/17 scrutiny in ECC was supported by a dedicated team of three Scrutiny Officers and a Scrutiny and Corporate Governance Manager, in addition to support from committee officers to clerk and minute the meetings.

A review of ECC's scrutiny arrangements was commenced by the scrutiny team during 2016/17, 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 final recommendations will be received by the incoming Scrutiny Board or Cabinet members, as relevant, after the May 2017 elections.

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**
18. **Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)**

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 2016, the Audit Committee approved ECC's 2015/16 [Statement of Accounts](#) and in March 2017 it approved the 2017/18 Audit Plan.

The Audit Committee have met 4 times during the 2016/17 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.

Our assurance arrangements for 2016/17 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

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 collaboration with the relevant teams with issues being addressed promptly as they have arisen. These activities have been reported to the Audit Committee throughout 2016/17.

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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 monitors 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 Head of Internal Audit and Counter Fraud meet with the external auditors on a monthly basis to discuss audit activity and ensure that appropriate support is being provided. Quarterly meetings are also scheduled with 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 Partnership Board, who meet 4 times per year to steer the work of partners together to deliver shared priorities for Essex communities.

Essex Partnership 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.

A review of partnership governance was initiated in 2016, resulting in a programme of reform for implementation in 2017. The governance review has focussed on the Essex Partnership Board and the Essex Health and Wellbeing Board and on the relationship between the two Boards.

Following the reviews a number of changes to partnership governance in Essex are being launched and developed in 2017:

- The creation of a new 'Essex Assembly' to bring together senior leaders bi-annually, to drive the new Essex vision and strengthen system working;
- Rebranding and re-tasking the Essex Partnership Board (now called "Essex Partners"); and
- A new Essex Strategic Co-ordination Group (SCG) to join up the strategic agendas and work programmes of the Essex Partnership Board, Health and Wellbeing Board and other partnerships

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The County Council is the accountable body for the South Essex Local Enterprise Partnership (SELEP) which has undergone a full governance review following the update to the National Assurance Framework for LEPs in 2016/17. This has resulted in the Assurance Framework for SELEP, the Terms of Reference and working groups' membership to be reviewed. The Government will only release funding in the new financial year on the basis that there is a strong and robust Assurance Framework in place, and signed by the S151 Officer of the accountable body (who is also the S151 Officer of ECC). Therefore we have taken this opportunity to undertake a full review and update to remain ambitious and build in good governance practice.

NHS England has established new Sustainability and Transformation Partnerships (STPs). Essex County Council is party to three 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.

Head of Internal Audit Opinion

The Head of Internal Audit and Counter Fraud'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, appropriately designed to meet the Council's objectives, and controls are generally being applied consistently. It should be noted that the internal audit review of IT Disaster Recovery delivered a 'no assurance' opinion, although the authority's approach to this has been along the lines of building resilience and this matter is being considered by the Audit Committee in September 2017. Management have also agreed to take action in response to the audit recommendations.

The Internal Audit Annual Report provides a summary of the activity used to support this opinion and concludes that the 'adequate' opinion is a reducing level of assurance from the 'good' opinion provided in 2015/16, but recognises the importance of setting this in context in light of the particular challenges of 2016/17. The report specifically highlights the implementation of a new Corporate System which went fully 'live' January 2017 and the associated work around the key fundamental audits which focused on the new 'live' system. It was anticipated that a project of this scale and complexity would inevitably have areas of improvement that would be identified in the live operating environment and that undertaking the audits promptly allowed early identification and implementation of the control improvements. It is also acknowledged that the Organisational Design (Phase1) has also had impact on

Annual Governance Statement

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 2015/16 financial statements. This was reported to the Audit Committee in September 2016.

External inspections

Adult Community Learning (ACL) received an automatic “Inadequate” grading at its December 2016 Ofsted inspection due to Ofsted considering that its safeguarding procedures for children and vulnerable adults were inadequate. This placed the service under “intervention” by the Department for Education, and the Skills Funding Agency, and subject to a series of further monitoring visits by Ofsted inspectors.

At its first Ofsted monitoring visit in March 2017 inspectors agreed that all concerns had been rectified, safeguarding arrangements are effective and no learners are at risk. This view was reinforced in a letter from the Minister of State for Apprenticeship and Skills in which, following a visit to ACL by his Further Education (FE) Commissioners’ team, he agreed that all safeguarding issues had been addressed. The second Ofsted monitoring visit report issued in June 2017 indicated that progress with regard to safeguarding concerns has been significant, having addressed the concerns raised at the December 2016 inspection which were at the heart of its original judgement.

Notwithstanding the progress in this area, ACL will remain rated as “Inadequate” until its re-inspection by Ofsted, which is likely to be in between January and April 2018. Alongside its findings on safeguarding, Ofsted identified a number of other areas of weakness in relation to governance arrangements, the quality of teaching and learning, and ACL’s use of management information. These are all being addressed through a comprehensive Service Quality Improvement Plan which is the subject of continued scrutiny and monitoring by Ofsted, the FE Commissioner’s representatives and the ESFA. Ofsted has noted that it has seen an overall trajectory of improvement since the December 2016 inspection, although further progress is required. The target completion date on the delivery of the Service Quality Improvement Plan is December 2017.

Ofsted inspectors reported that ACL learners were developing their practical skills and were enjoying attending their courses. This has been underlined by the publication in mid-July of the national FE Choices Survey, which showed learner satisfaction at ACL of **94.3%**.

Information Governance

The ICO have made the following comments in their Decision Notices received during 2016/17, none of which have resulted in further action or Monetary Penalties:

- 1 instance of exceeding the 40 calendar day deadline for responding to a Subject Access Request under the Data Protection Act

Annual Governance Statement

- **1** instance of exceeding the 20 working day deadline for responding to a request under the Environmental Information Regulations
- **1** historic instance of retaining personal data longer than necessary breaching Principle 5 of the Data Protection Act

Monthly performance in responding to statutory requests for information frequently falls below the corporate target and the ICO's threshold for concern. Additional measures have been implemented to improve this but ongoing monitoring, resource analysis and further review will be required 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, is being provided to 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 **148** contacts from the LGO during 2016/17 which is significantly less than those received in 2015/16. Of the **148** contacts only **85** went to formal investigation of which **54%** were either withdrawn, outside of the LGO's jurisdiction or no maladministration or injustice was found. Of the final decisions we have received to date only **16%** recommended a financial remedy. The Customer Team continues to work collaboratively with the LGO and Service Areas to ensure a consistent and efficient approach when responding to all correspondence.

Health and Safety

There have been no prosecutions, or other enforcement actions under health and safety legislation, against of the Council during the financial year 2016/17.

The Health and Safety Consultation Arrangements policy, and terms of reference for the Corporate Health and Safety Board, have been amended to include in the membership of the Board representatives of all ECC recognised Trade Unions. This makes the Corporate Health and Safety Board a "Safety Committee" under health and safety legislation and assists ECC in discharging its duty to consult with employees on health and safety matters.

The ECC Corporate Health and Safety Team has had some recent involvement with the Mechanical and Biological Treatment Plant in Basildon. A health and safety report identified some traces of asbestos in the air in the delivery hall in December 2016 although the levels of asbestos detected were within the legal limit. The report concluded that as a precautionary measure, any drivers visiting the plant should wear face masks. A new monitoring regime and other changes were agreed with the contractor, with the intention of improving the sharing of information between the various parties and restoring confidence in health and safety standards.

Annual Governance Statement

Disability Confident

ECC pledged to become one of Britain’s first accredited employers under the Department for Work and Pension’s nationwide Disability Confident campaign in 2017.

Previous Governance Matters Arising

All Governance remedial actions identified in the 2015/16 Annual Governance Statement have been adequately addressed, with implementation being reviewed by the Corporate Governance Steering Board.

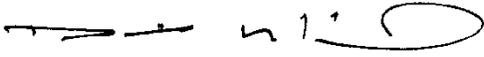
Action Plan

We do not consider that there have been any significant governance issues arising in 2016/17. However the actions detailed below are in place to maintain good governance arrangements throughout 2017/18.

Subject	Action(s)	Responsible Officer	Target completion date
Induction of new Councillors.	Ensure a comprehensive induction on governance arrangements is provided.	Director, Legal and Assurance	June 2017
Phase 2 of organisational redesign.	Ensure good governance arrangements are maintained.	Chief Executive	31 March 2018
Adult Community Learning	Ensure delivery of Service Quality Improvement Plan.	Director Economic Growth and Localities	December 2017
Information Governance	Monthly performance in responding to statutory requests for information to be monitored and reviewed.	Head of Strategy and Information Governance	Ongoing
	GDPR implementation project and roll out of Egress, a secure way of sending emails.	Head of Strategy and Information Governance	30 June 2017

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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

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 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Movement in Reserves Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related notes 1 to 37 for the Council's single entity Accounts and notes 1 to 7 to the Group Accounts.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

2. Respective responsibilities of the Executive Director for Corporate and Customer Services and auditor

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 30, the Executive Director for 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 Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

3. Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

Independent Auditor's Report

whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate and Customer Services; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

4. Opinion on financial statements

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 2017 and of its expenditure and income for the year then ended;
- A true and fair view of the financial position of the Group as at 31 March 2017 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 2016/17.

5. Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Independent Auditor's Report

7. Conclusion on Essex County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

7.1 Authority's responsibilities

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

7.2 Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Independent Auditor's Report

7.4 Basis for except for conclusion

Medium Term Financial Planning:

- The Authority have disclosed in the 'Revenue Spending plan for 2017/18' section of the Narrative Report the estimated total savings still to find over the medium term period as at 31 March 2017.
- The Authority, in line with previous years, is undertaking a review of budget proposals (savings and income generating opportunities) to bridge the gap. At this stage, the gap is **£88m (£26m in 2018/19, increasing to £62m by 2019/20)**.
- Unless the budget gap forecast in the Medium Term Financial Strategy is closed, the Authority will have spent substantially all of its usable revenue reserves by the end of 2019/20.

In our view, despite the commencement of a significant reorganisation project to identify the required savings, the Authority has not yet been able to make sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term in order to support the sustainable delivery of strategic priorities.

7.5 Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for the 'except for' 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 2017.

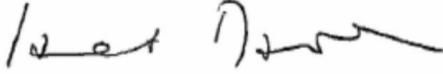
7.6 Delay in certification of completion of the audit

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.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Essex Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Independent Auditor's Report

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Janet Dawson (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

London

22 September 2017

Independent Auditor's Report

Opinion on the Pension Fund financial statements

8. Opinion on the Pension Fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 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 19. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Essex Pension Fund 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 authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

9. Respective responsibilities of the Executive Director for Corporate and Customer Services and auditor

As explained more fully in the Statement of the Executive Director for Corporate and Customer Services' Responsibilities set out on page 30, the Executive Director for 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 Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

10. Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate and Customer Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Essex County Council Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge

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acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

11. Opinion on the financial statements

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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

12. Opinion on other matters

In our opinion, the information given in the 2016/17 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.



Melissa Hargreaves

for and on behalf of Ernst & Young LLP, Appointed Auditor

Manchester

22 September 2017