

# Essex County Council Annual Financial Report 2013/14



Essex County Council



# Contents

---

Essex County Council's Annual Financial Report for 2013/14 is divided into several distinct sections, as follows:

Section	Content	Page
One	Explanatory Foreword	3
Two	Statement of Accounts <i>(including the Council's 'single entity' accounts and the Group and Pension Fund Accounts)</i>	12
Three	Annual Governance Statement	184
Four	Independent Auditor's Report	208



# **Explanatory Foreword**

# Section One – Explanatory Foreword

---

## 1. Introduction

The Council's overarching aim is for Essex to be a vibrant place, where every individual and community has the opportunity to grow and reach their potential and play a part in our County's success by:

- Enabling every individual to achieve their ambitions by supporting world-class education and the skills offer in the County;
- Securing the highways, infrastructure and environment to enable businesses to grow;
- Improving public health and wellbeing;
- Protecting and safeguarding vulnerable people; and
- Giving people a greater say, and a greater role, in building safer and stronger communities.

These priorities, as articulated in the Council's 'EssexWorks: Corporate Plan 2012-2017', provide the backdrop against which the 2013/14 Revenue Budget and Capital Programmes were set.

## 2. Revenue Expenditure

### 2.1 Background to the 2013/14 Budget

The 2013/14 Revenue Budget was set within the context of a difficult economic environment and at a time of unprecedented change in the Local Government Finance framework:

- The Local Government business rates retention scheme was introduced, which fundamentally altered the process of funding from the collection of business rates. Previously, the Council received a grant from the Government – a redistribution of all the business rates collected nationally by billing authorities on behalf of the Government. However, from 1 April 2013, the Council receives a **9%** share of the business rates collected locally. Alongside the Council's share of business rate receipts, the Council receives a fixed 'top-up' payment from the Government.
- The introduction of the Local Government business rates retention scheme also means a significant change to the role of the Revenue Support Grant (RSG). RSG is now the mechanism through which funding is provided to local authorities that was previously allocated as specific grants. It is also the flexible element of funding that the Government uses to achieve their reducing spending control totals for local government. It is anticipated that the RSG received by the Council will gradually reduce, to assist in achieving the reducing control totals at a national level.
- From 1 April 2013, responsibility for providing Council Tax relief passed from the Government to billing authorities although, as approximately 80% of the council tax yield passes to county councils, this change was expected to impact upon the County Council too. However, the government provided cash limited grant equivalent to 90% of the previous cost of Council Tax benefit, which billing authorities had to use to provide appropriate levels

# Section One – Explanatory Foreword

---

of support, with the proviso that recipients over the age of 65 were not affected by the change.

The 2013/14 Revenue Budget was set taking into account the main funding changes detailed above and following a review of spending pressures and efficiency programmes to reflect the priorities of the people of Essex and to meet statutory obligations. In total, the Council planned to spend some **£2.269bn** on delivering services, of which **£1.336bn** was to be financed from income, specific and general government grants and by a withdrawal of **£26m** from the Council's General Fund Balance. Budgeted net expenditure therefore originally amounted to **£907m**. The net budget was financed from Revenue Support Grant (**£232m**), non-domestic rates (**£154m**) and local taxpayers (**£521m**).

As a result of the continuing and difficult national economic situation, the Council expects significant on-going pressure to continue which will necessitate innovation and change to deliver high quality services with reducing funding. Within its 2013/14 budget, the Council identified an additional **£55m** of savings and efficiencies to absorb the pressures arising from demographic growth, inflation and other factors. This was on top of the savings the Council is set to make by 2017 under the second phase of its transformation programme. At the time of publication of the 2013/14 budget, the savings target was estimated at **£200m** - the latest estimate of savings required amounts to some **£237m**.

The Council Tax for band D amounted to **£1,086.75**. This was the same as that for the previous three years. As the Council did not increase its Council Tax again this year, it received government funding equivalent to a **1%** increase in Council Tax.

## 2.2 Outturn position

The Revenue Budget for 2013/14 was aligned to the portfolios of the Council's Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet. Cabinet Members monitored actual spending against their approved budgets throughout the year, and Cabinet reviewed the overall position on a quarterly basis.

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



# Section One – Explanatory Foreword

	Budget		Actual net expenditure	(Under) / Over spend against final estimate	
	Original	Final Estimate			
	£000	£000	£000	£000	%
Adult Social Care	370,656	367,811	365,041	(2,770)	0.75%
Families and Children	128,788	119,465	116,366	(3,099)	2.59%
Highways and Transportation	87,125	91,498	87,303	(4,195)	4.58%
Education and Lifelong Learning	39,604	38,707	42,822	4,115	10.63%
Waste and Recycling	66,511	66,158	66,790	632	0.96%
Public Health and Wellbeing	26,990	26,383	26,153	(230)	0.87%
Libraries, Communities and Planning	19,927	20,158	20,274	116	0.58%
Economic Growth and Infrastructure	4,589	5,323	5,242	(81)	1.52%
Leader and Finance	26,762	27,500	26,386	(1,114)	4.05%
Transformation and Corporate Services	24,753	20,638	20,351	(287)	1.39%
Recharged strategic support services	69,606	90,243	87,100	(3,143)	3.48%
<b>Net expenditure by Portfolios</b>	<b>865,311</b>	<b>873,884</b>	<b>863,828</b>	<b>(10,056)</b>	<b>1.15%</b>
Other operating costs					
Emergency Contingency	8,000	6,909	-	(6,909)	100.00%
Interest and capital financing	44,751	41,635	41,400	(235)	0.56%
Appropriations to earmarked revenue reserves	50,929	49,280	65,428	16,148	32.77%
<b>Total net expenditure</b>	<b>968,991</b>	<b>971,708</b>	<b>970,656</b>	<b>(1,052)</b>	<b>0.11%</b>
General government grant (excl. Revenue Support Grant)	(36,339)	(36,339)	(35,019)	1,320	3.63%
General Balance - contribution / (withdrawal)	(25,470)	(28,187)	(28,187)	-	-
<b>Net Total</b>	<b>907,182</b>	<b>907,182</b>	<b>907,450</b>	<b>268</b>	<b>0.03%</b>
<b>Financed by</b>					
Revenue Support Grant	(231,945)	(231,945)	(231,945)	-	-
National non-domestic rates	(154,226)	(154,226)	(154,226)	-	-
Council taxpayers	(521,011)	(521,011)	(521,279)	(268)	0.05%
<b>Total Financing</b>	<b>(907,182)</b>	<b>(907,182)</b>	<b>(907,450)</b>	<b>(268)</b>	<b>0.03%</b>

The outturn position on the Revenue Budget shows:

- A net under spend by services of **£10.056m**;
- **£6.909m** of the budget set aside as an emergency contingency not being needed to support services' expenditure in 2013/14;
- A small under spend of **£235,000** on interest and capital financing;
- An additional appropriation of **£16.148m** into various earmarked reserves, including **£15.250m** into the Carry Forwards reserve. The amount appropriated into the Carry Forwards reserve represents unspent budget in 2013/14 that will be used to support expenditure in 2014/15; and
- The receipt of fewer general government grants of **£1.320m**, partly offset by additional income from council tax payers of **£268,000**.

The presentation of services' expenditure in the above table differs from that provided in the Comprehensive Income and Expenditure Statement, which is shown according to the mandatory service headings specified within the CIPFA Service Reporting Code of Practice 2013/14. Note 29 to the Statement of Accounts, which commences on page 95, reconciles the above presentation to the position shown in the Comprehensive Income and Expenditure Statement.



# Section One – Explanatory Foreword

## 3. Capital Expenditure

### 3.1 Background to the Budget

Capital expenditure (including 'revenue expenditure funded from capital under statute') was originally estimated to amount to **£186.338m** in 2013/14, and included funding to provide a further 1,000 school places and accommodation for vulnerable people. The Council also committed to enhancing and maintaining its network of 8,500 miles of roads.

The capital programme was created following an assessment of schemes against relevant criteria, including those derived from Corporate Plan priorities.

The Council determined that it would borrow up to **£68.047m** for capital financing purposes in 2013/14. The remainder of the capital programme was to be financed from grants and contributions (**£103.786m**), capital receipts (**£3.932m**) and from reserves (**£10.573m**).

### 3.2 Outturn position

Capital payment approvals were reduced during the year to **£134.834m**, primarily to take account of slippage in schemes into later years. In comparison, actual expenditure amounted to **£115.994m**, giving rise to an under spend of **£18.840m**.

The end of year position is set out in the following table, which compares actual expenditure with the final approved budget by 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
<b>Capital payments</b>				
Adult Social Care	2,000	325	295	(30)
Families and Children	50	1,146	779	(367)
Economic Growth and Infrastructure	7,184	3,456	2,419	(1,037)
Education and Lifelong Learning	47,919	36,483	30,195	(6,288)
Waste and Recycling	23,146	8,532	9,044	512
Highways and Transportation	82,329	68,455	61,025	(7,430)
Leader	16,835	4,091	2,399	(1,692)
Libraries, Communities and Planning	3,772	5,578	3,762	(1,816)
Transformation and Support Services	3,103	6,768	6,076	(692)
<b>Total of capital payments financed</b>	<b>186,338</b>	<b>134,834</b>	<b>115,994</b>	<b>(18,840)</b>
<b>Financed by</b>				
Borrowing	68,047	2,740	-	2,740
Government grants and contributions	103,786	96,151	94,205	1,946
Capital receipts	3,932	4,136	-	4,136
Earmarked reserves applied	10,573	31,807	21,789	10,018
<b>Total financing</b>	<b>186,338</b>	<b>134,834</b>	<b>115,994</b>	<b>18,840</b>

The under spend largely results from slippage in capital projects. **£16.520m** of the under spend will therefore be carried forward to meet the costs of these projects in 2014/15.

# Section One – Explanatory Foreword

## 3.3 Capital projects undertaken

The most significant of the capital projects undertaken during 2013/14 were as follows:

Major schemes	Capital payments (£000)
▪ Highways maintenance (Countywide)	
▪ Roads	25,363
▪ Footways	3,778
▪ Street Lighting	4,262
▪ Other Highways schemes	
▪ Colchester Northern Approach Road	4,248
▪ Berechurch Road (Colchester)	2,268
▪ Waste transfer stations	7,885
▪ Education (schools) capital maintenance	7,658
▪ De La Salle School (Basildon)	3,399
▪ Parkside Office Village (Colchester)	1,950
▪ Hadleigh Farm and Country Park legacy	1,797

## 3.4 Significant disposals

The most significant asset disposals during 2013/14 were as follows:

Significant disposals	Capital receipts (£000)
▪ Willowbrook primary school	2,491
▪ Land at Chelmsford Business Park	2,409
▪ Former Children's Home, Chignall Road (Chelmsford)	840
▪ Tabor House, office accommodation (Braintree)	756
▪ Former Children's Centre, Lawton Road (Loughton)	723

# Section One – Explanatory Foreword

---

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

## 4. Borrowing

### 4.1 Long term borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital expenditure. In 2013/14, the Council was able to temporarily utilise its cash balances, held for other purposes, to defer the need for additional external borrowing, which is a cost effective way of supporting capital expenditure.

### 4.2 Short term borrowing

The Council undertook short term borrowing during 2013/14 in accordance with its agreement to temporarily borrow the surplus cash balances of Essex Cares Ltd.

## 5. Investments

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

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

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

The Council also lent funds to Essex Cares Ltd and Library Services (Slough) Ltd during 2013/14, as part of its agreement to provide treasury management support to these entities (*both of whom are wholly owned subsidiaries of the Council*). Interest was charged on amounts lent to these entities in accordance with the terms of formal agreements with these parties.

## 6. Considerations for 2014/15

### 6.1 Revenue investment plans

The Council continues to face considerable financial challenge due to national reductions in public sector spending, compounded by expected inflation and an increasing demand for its services.

# Section One – Explanatory Foreword

---

Total funding in 2014/15 is **£40.0m** lower than that for 2013/14 (equivalent to 4.1% reduction). This reduction reflects:

- A decrease in Revenue Support Grant of **£30m** (this represents a **13%** reduction in this source of funding);
- An increase in the total amount of council tax and business rates income of **£16m** (largely 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); and
- Not repeating the 2013/14 withdrawal from the General Fund Balance of **£26m**.

The budget requirement for 2014/15 is estimated at **£892.909m**, and reflects savings and efficiencies identified as part of the transformation programme. The Council Tax for band D amounts to **£1,086.75**, which is the same as that for the previous four financial years.

Further details of the Council's revenue investment plans are included in the 2014/15 Revenue Budget, which is available on the Council's web site.

## 6.2 Capital investment plans

Overall, the capital programme for 2014/15 has been set at **£212m**. This programme allows for:

- Provision of new school places and enhancements to existing schools;
- The enhancement to, and maintenance of, the County's road network;
- Improvements to the County's broadband access and upgrades to the Council's corporate systems; and
- Waste transfer stations.

It is intended to finance the capital programme from a combination of borrowing (**£93m**) and from grants, contributions and reserves (**£119m**).

Further details of the Council's capital investment plans are included in the 2014/15 Capital Programme, which is available on the Council's web site.

## 6.3 Borrowing

The Council does not expect to undertake external borrowing in 2014/15, despite increasing its 'Capital Financing Requirement' as a consequence of the capital investment plans referred to in paragraph 6.2 above. The Council will keep this position under review though and, in the event that further external borrowing is necessary, this will be undertaken in compliance with the parameters and limits set for borrowing activity.

# Section One – Explanatory Foreword

---

## 6.4 Investments

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

It is intended to take a longer term perspective to investing the Council's core / underlying balances (up to a maximum of **£100m**), with the aim of improving investment returns. Investments will be required to be made with counterparties that have satisfied eligibility criteria which have been designed to provide a sound approach to investing in normal market conditions.

## 7. Conclusion

Through careful planning and management, Essex County Council has been able to close its 2013/14 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2014/15 and beyond.



**Margaret Lee**

**Executive Director for Corporate Services and Customer Operations**

**19<sup>th</sup> September 2014**

# **2013/14 Statement of Accounts**

## Section Two – Statement of Accounts

<b>Contents</b>	<b>Page</b>
<b>Introduction</b>	<b>14</b>
<b>Statement of responsibilities for the Statement of Accounts</b>	<b>16</b>
<b>Financial Statements</b>	<b>18</b>
<b>Notes to the Financial Statements</b>	<b>23</b>
<b>Group Accounts</b>	<b>121</b>
<b>Pension Fund Accounts</b>	<b>133</b>
<b>Glossary of terms</b>	<b>179</b>



## Section Two - Introduction

---

### 1. Accounting statements

The Council's accounting statements for 2013/14 are set out on pages 18 to 22, and comprise:

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

Supplementary information is set out within the notes to the accounts (see pages 23 to 120) to provide further information on the financial performance of the Council during 2013/14.

### 2. Group Accounts

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

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

These statements, together with explanatory notes and accounting policies, are set out on page 121 to 132.

### 3. Pension Fund

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

They comprise:

- **Fund Account**

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

- **Net Assets Statement**

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

## Section Two - Introduction

---

Further information is provided in the notes to the Pension Fund accounts (see pages 133 to 178).

### 4. Accounting policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. All of the accounting policies adopted, that are material in the context of the Council's 2013/14 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in Note 2, which commences on page 25.

The Council has implemented changes to its accounting policies for 2013/14, as a consequence of changes to accounting standards / government legislation, as follows:

- **Policy 2.7:** Council Tax and Non-Domestic Rates, which commences on page 28. In previous years the Council received a re-distribution from the Government for its share of business rates. However, from 1 April 2013, 50% of business rates collected by billing authorities are retained locally and shared between the billing and precepting authorities. The remaining 50% is received by the Government and redistributed to local authorities within the Revenue Support Grant. The accounting policy has therefore been updated to detail the new accounting requirements relating to the localisation of business rates.
- **Policy 2.8.3:** Post-employment benefits, which commences on page 30. This has been updated to reflect the classification, recognition and measurement requirements introduced by the June 2011 amendments to IAS 19 *Employee Benefits*. The impact on the accounts as a result of these changes is shown within note 4, which commences on page 45 and the new disclosures required are shown in note 32, which commences on page 104.

### 5. Glossary of terms

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 179 to 183.

## Section Two - Statement of Responsibilities

---

### 1. Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. At Essex County Council, that officer is the Executive Director for Corporate Services and Customer Operations.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts. The Council has delegated this responsibility to the Audit Committee.

### 2. Executive Director for Corporate Services and Customer Operations' responsibilities

The Executive Director for Corporate Services and Customer Operations 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 Services and Customer Operations has:

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

### 3. Executive Director for Corporate Services and Customer Operations' 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 2014 and its expenditure and income for the year then ended.



**Margaret Lee**

**Executive Director for Corporate Services and Customer Operations**  
**19th September 2014**

## Section Two - Statement of Responsibilities

---

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

I approve these accounts on behalf of the Audit Committee and confirm that they were considered by the Committee at its meeting on **18<sup>th</sup> September 2014**.

A handwritten signature in dark ink, appearing to read 'Susan Barker', is written over a light blue horizontal line.

**Cllr Susan Barker**  
**Chairman of the Audit Committee**  
**18th September 2014**

# Section Two - Financial Statements

---

## Introduction

The financial statements comprise:

- **Movement in Reserves Statement**

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

The 'Surplus / Deficit on the provision of services' line, which is taken from the Comprehensive Income and Expenditure Statement, is different from the statutory amounts required to be charged to the General Fund Balance. The 'Net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

- **Comprehensive Income and Expenditure Statement**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. 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.

- **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.

# Movement in Reserves Statement

For the years ended 31 March 2013 and 31 March 2014

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000		
<b>Balance at 31 March 2012</b>		(220,397)	(63,016)	(3,175)	(20,600)	(307,188)	(771,778)	(1,078,966)
<b>Movement in Reserves during 2012/13</b>								
Deficit on Provision of Services	4	-	82,164	-	-	82,164	-	82,164
Other Comprehensive Income & Expenditure	4	-	-	-	-	-	(121,478)	(121,478)
<b>Total Comprehensive Income and Expenditure</b>		-	82,164	-	-	82,164	(121,478)	(39,314)
Adjustments between accounting basis & funding under regulations	8	-	(154,192)	127	(12,709)	(166,774)	166,774	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>		-	(72,028)	127	(12,709)	(84,610)	45,296	(39,314)
Transfers to Earmarked Reserves		(49,493)	49,493	-	-	-	-	-
<b>(Increase) / decrease in 2012/13</b>		(49,493)	(22,535)	127	(12,709)	(84,610)	45,296	(39,314)
<b>Balance at 31 March 2013</b>		(269,890)	(85,551)	(3,048)	(33,309)	(391,798)	(726,482)	(1,118,280)
<b>Movement in Reserves during 2013/14</b>								
Deficit on Provision of Services		-	117,280	-	-	117,280	-	117,280
Other Comprehensive Income & Expenditure		-	-	-	-	-	(215,382)	(215,382)
<b>Total Comprehensive Income and Expenditure</b>		-	117,280	-	-	117,280	(215,382)	(98,102)
Adjustments between accounting basis & funding under regulations	8	-	(137,010)	(18,228)	17,740	(137,498)	137,498	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>		-	(19,730)	(18,228)	17,740	(20,218)	(77,884)	(98,102)
Transfers to Earmarked Reserves	9	(47,918)	47,918	-	-	-	-	-
<b>(Increase) / decrease in 2013/14</b>		(47,918)	28,188	(18,228)	17,740	(20,218)	(77,884)	(98,102)
<b>Balance at 31 March 2014</b>		(317,808)	(57,363)	(21,276)	(15,569)	(412,016)	(804,366)	(1,216,382)

Prior year comparative figures have been restated – see note 4 (page 45) for details.

# Comprehensive Income and Expenditure Statement

For year ended 31<sup>st</sup> March 2014

20

2012/13 (Restated)				Note	2013/14			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
514,351	(83,123)	(72,646)	358,582		523,098	(73,872)	(25,285)	423,941
1,079,334	(63,735)	(703,129)	312,470		1,023,227	(62,113)	(669,806)	291,308
28,620	(6,090)	(924)	21,606		29,615	(4,572)	(3,825)	21,218
75,772	(2,055)	(25)	73,692		75,360	(2,669)	(2,994)	69,697
135,746	(19,959)	(8,885)	106,902		135,521	(21,605)	(1,020)	112,896
1,814	(626)	-	1,188		1,847	(661)	-	1,186
15,703	(2,751)	(1,143)	11,809		13,564	(1,088)	(544)	11,932
7,171	(4,418)	-	2,753		9,481	(4,373)	-	5,108
(22,128)	(57)	(35)	(22,220)		(13,823)	6	(72)	(13,889)
40,407	(631)	(1,365)	38,411		34,531	(1,297)	(744)	32,490
1,876,790	(183,445)	(788,152)	905,193		1,832,421	(172,244)	(704,290)	955,887
-	-	-	-	7	47,283	(1,234)	(45,065)	984
1,876,790	(183,445)	(788,152)	905,193		1,879,704	(173,478)	(749,355)	956,871
151,506	-	-	151,506	10	124,912	-	-	124,912
124,102	(62,788)	-	61,314	11	130,232	(67,775)	-	62,457
-	(854,718)	(181,131)	(1,035,849)	13	-	(681,250)	(345,710)	(1,026,960)
2,152,398	(1,100,951)	(969,283)	82,164		2,134,848	(922,503)	(1,095,065)	117,280
			(180,407)	27.2				(84,578)
			1,023	27.2				664
			-	27.5				(262)
			57,906	27.6				(131,206)
			(121,478)					(215,382)
			(39,314)					(98,102)

Prior year comparative figures have been restated – see note 4 (page 45) for details.



## Section Two - Financial Statements

### Balance Sheet as at 31 March 2014

31 March 2013 £000	Note		31 March 2014 £000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,608,850		Land and buildings	1,540,924	
68,140		Vehicles, plant and equipment	84,556	
667,957		Infrastructure	772,530	
3,006		Community assets	2,635	
		<b>Non operational assets</b>		
141,135		Assets under construction	61,537	
17,257		Surplus assets held pending disposal	16,056	
2,506,345	16	<b>Total Property, Plant and Equipment</b>	2,478,238	
14,340	16	Heritage assets	14,067	
5,371	16	Investment property	6,577	
1,239	16	Intangible assets	666	
4,638	20	Long term investments	7,432	
20,885	21	Long term debtors	17,768	
<b>2,552,818</b>		<b>Long term assets</b>		2,524,748
184,837	20	Short term investments	146,317	
8,318	16	Assets held for sale	4,431	
270		Inventory	39	
45		Current intangible assets	-	
107,677	21	Short term debtors	117,008	
71,654	22	Cash and cash equivalents	155,580	
<b>372,801</b>		<b>Current Assets</b>		423,375
(23,788)	20	Short-term borrowing	(25,502)	
(230,258)	23	Creditors	(223,775)	
(6,971)	25	Provisions (current)	(9,869)	
(15,957)	24	Revenue grant receipts in advance	(24,187)	
(44,337)	24	Capital grant receipts in advance	(46,930)	
(3,283)	18	Finance Lease obligations (short term)	(4,872)	
<b>(324,594)</b>		<b>Current liabilities</b>		(335,135)
(222)	23	Long term creditors	(30)	
(25,560)	25	Provisions (non-current)	(24,403)	
(342,261)	20	Long term borrowing	(335,081)	
		Other long term liabilities		
(132,670)	18	Finance lease obligations	(160,033)	
(16,294)		Deferred credits	(15,558)	
(965,738)	32	Net Pensions Liability	(861,501)	
<b>(1,482,745)</b>		<b>Long term liabilities</b>		(1,396,606)
<b>1,118,280</b>		<b>Net Assets</b>		1,216,382
		<b>Usable reserves</b>		
(269,890)	9	Earmarked reserves	(317,808)	
(85,551)		General Fund Balance	(57,363)	
(3,048)		Usable capital receipts reserve	(21,276)	
(33,309)		Capital grants unapplied	(15,569)	
<b>(391,798)</b>				(412,016)
	27	<b>Unusable reserves</b>		
(370,904)		Revaluation reserve	(415,094)	
(1,331,657)		Capital Adjustments Account	(1,256,726)	
3,261		Financial Instruments Adjustment Account	3,221	
-		Available for Sale Financial Instruments Reserve	(262)	
965,738		Pension reserve	861,501	
(3,221)		Deferred capital receipts	-	
(6,242)		Collection Fund Adjustment Account	(11,987)	
16,543		Accumulating Compensated Absences Adjustment Account	14,981	
<b>(726,482)</b>				(804,366)
<b>(1,118,280)</b>		<b>Total Reserves</b>		(1,216,382)

## Section Two - Financial Statements

### Cash Flow Statement

For year ended 31 March 2014

2012/13 £000	Notes		2013/14 £000
(121,672)	28	Operating activities	(116,407)
188,185	↓	Investing activities	(20,157)
13,726		Financing activities	52,638
<u>80,239</u>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<u>(83,926)</u>
<b>151,893</b>		Cash and cash equivalents at 1st April	<b>71,654</b>
<b>71,654</b>		Cash and cash equivalents at 31st March	<b>155,580</b>

## Section Two - Notes to the Financial Statements

### 1. Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 19 to 22) and provide further information on the financial performance of the Council during 2013/14. The notes set out within this section are as follows:

Note		Page
2.	Accounting policies	25
3.	Critical judgements in applying accounting policies	44
4.	Prior period adjustments	45
5.	Assumptions made about the future and other major sources of estimation uncertainty	47
6.	Events after the Balance Sheet Date	49
7.	Acquired services - Services transferred from local primary care trusts	49
8.	Adjustments between Accounting Basis and Funding under Regulations	49
9.	Earmarked revenue reserves	54
10.	Other operating expenditure	58
11.	Financing and investment income and expenditure	58
12.	Trading operations	59
13.	Taxation and non-specific grant income	61
14.	Grant income	62
15.	Dedicated Schools Grant	63
16.	Property, Plant and Equipment	65
17.	Capital expenditure and capital financing	68
18.	Leases	69
19.	Private Finance Initiative and similar contracts	70
20.	Financial instruments	75
21.	Debtors	83
22.	Cash and cash equivalents	83

## Section Two - Notes to the Financial Statements

Note		Page
23.	Creditors	83
24.	Grant receipts in advance	84
25.	Provisions	85
26.	Usable reserves	87
27.	Unusable reserves	87
	27.1 Introduction	87
	27.2 Revaluation Reserve	88
	27.3 Capital Adjustment Account	88
	27.4 Financial Instruments Adjustment Account	89
	27.5 Available for Sale Financial Instruments Reserve	90
	27.6 Pension Reserve	90
	27.7 Deferred Capital Receipts Reserve	91
	27.8 Collection Fund Adjustment Account	92
	27.9 Accumulated Absences Account	92
28.	Cash Flows from operating, investing and financing activities	93
29.	Amounts reported for resource allocation decisions	95
30.	Termination benefits	101
31.	Pension Schemes accounted for as Defined Contribution Schemes	102
32.	Defined Benefit Pension Schemes	104
33.	Audit costs	112
34.	Members' allowances and expenses	112
35.	Officers' remuneration	113
36.	Senior officers' remuneration	115
37.	Related parties	117
38.	Partnership arrangements	120

## Section Two - Notes to the Financial Statements

---

### 2. Accounting policies

#### 2.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year, and its position as at 31 March 2014. 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 2013/14 Statement of Accounts, are set out within the following paragraphs.

#### 2.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

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

#### 2.3 Accruals of income and expenditure

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

- **Sale of goods:** revenue is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, the amount of revenue can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Rendering of services:** revenue is recognised when the Council can reliably measure the proportion of the transaction that is complete and when it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Receipt of goods and services:** expenditure is recognised when the goods are consumed and the services are received by the Council.
- **Interest:** Amounts payable on borrowings and receivable on investments are accounted for on the basis of the effective interest rate for the relevant financial instrument rather than according to the cash flows fixed or determined by the contract.
- **Debtors and creditors:** where income and expenditure has been recognised, but the cash has not been received or paid, a debtor or creditor for the relevant amount is recognised in the Balance Sheet.

## Section Two - Notes to the Financial Statements

---

- **Doubtful debts:** where it is doubtful that debts will be settled, the balance of debtors is reduced and a charge is made for the income that might not be recoverable.

### 2.4 Provisions

Provisions are recognised when an event has taken place that gives the Council a legal or constructive obligation that can be reliably quantified and which it is probable will be settled by the transfer of economic benefits or service potential.

The Council establishes provisions, calculating the best estimate (taking into account relevant risks and uncertainties) of the likely settlement as at the Balance Sheet date, in the year that the Council first becomes aware of the obligations. Where the effect of the time value of money is material, the amount of the provision is discounted to the present value of the expenditure that it is expected will be required to settle the obligation.

Provisions are created by charging amounts calculated to:

- The appropriate service line in the Comprehensive Income and Expenditure Statement for revenue provisions; or
- Property, Plant and Equipment in the Balance Sheet for provisions raised for capital purposes.

When payments are eventually made, they are charged directly to the relevant provision in the Balance Sheet.

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

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

### 2.5 Earmarked revenue reserves

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

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

## Section Two - Notes to the Financial Statements

### 2.6 Government grants and contributions

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

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

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the grant or condition are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the awarding body.

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

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

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



## Section Two - Notes to the Financial Statements

Nature of grant	Accounting treatment
Non ring-fenced grants	<p>Grants are credited to Taxation and Non-specific grant income in the Comprehensive Income and Expenditure Statement when due.</p> <p>Where non ring-fenced grants are awarded to finance capital expenditure, the grant is reversed out the General Fund Balance in the Movement in Reserves Statement and is transferred to the Capital Adjustment Account.</p>

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

### 2.7 Council Tax and Non-Domestic Rates

Council Tax and Non-Domestic Rates income included in the Comprehensive Income and Expenditure Statement is the total of the:

- Council tax precept on the Collection Funds of each billing authority;
- Council's share of estimated non-domestic rates income collectable by each billing authority;
- Non-domestic rates top-up grant; and
- The Council's share of the actual surplus / deficit for council tax and non-domestic rates on the Collection Funds of each billing authority at the end of the current year, adjusted for the Council's share of the surplus / deficit on the Funds at the preceding year end that has not been distributed or recovered in the current year.

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

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

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

## Section Two - Notes to the Financial Statements

- An attributable share of provisions for Non-Domestic Rating appeals; and
- A Collection Fund Adjustment Account, which records the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by Regulation to be credited to the General Fund.

### 2.8 Employee benefits

#### 2.8.1 Benefits payable during employment

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

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

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

This means that:

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

An accrual is raised against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year.

## Section Two - Notes to the Financial Statements

---

Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

### 2.8.2 Termination benefits

Termination benefits are amounts payable as a result of:

- A decision by the Council to terminate an officer's employment before the normal retirement date; or
- An officer's decision to accept voluntary redundancy.

As termination benefits do not provide the Council with future economic benefits, they are charged on an accruals basis to the Comprehensive Income and Expenditure Statement immediately; that is, when the Council can no longer withdraw the offer of those benefits and when the Council recognises costs for restructuring (that are in accordance with proper accounting practice) and involves the payment of termination benefits.

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

### 2.8.3 Post-employment (retirement) benefits

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

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

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

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

## Section Two - Notes to the Financial Statements

---

- Children and Education Services - Teachers Pension Scheme; and
- Public Health Services – NHS Pensions.

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

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method. The projected unit method assesses the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate 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:
  - **Quoted securities** – current bid price
  - **Unquoted securities** – professional estimate of fair value
  - **Unitised securities** – current bid price
  - **Property** – Market value
- Changes in the net pensions liability are analysed into the following components:
  - **Service Costs** – these comprise:
    - **Current service cost** – the increase in liabilities as a result of service earned during the year is charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked);
    - **Past service cost** - the increase in liabilities arising from a current year pension scheme amendment or a curtailment, whose effect relates to years of service earned in earlier years, is debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs; and
    - **Gains/losses on settlements** - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are credited or debited to the Surplus/Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
  - **Net interest on the net pensions' liability** – the change during the period in the net pensions' liability that arises from the passage of time. It includes interest income on plan assets and interest costs on the pensions' liability. It is calculated by applying the discount rate used to measure the net pension obligation at the beginning of the

## Section Two - Notes to the Financial Statements

---

period to the net pension liability (asset) at the beginning of the period – taking into account any changes in the net pension liability (asset) during the period as a result of contribution and benefit payments. It is charged or credited to the ‘Financing and Investment Income and Expenditure’ line within the Comprehensive Income and Expenditure Statement.

- **Re-measurements of the net pensions’ liability** – these are recognised as Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement and are charged to the Pensions Reserve. They comprise:
  - **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.
  - **Return on plan assets** - interest, dividends and other income derived from the 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.
- **Contributions paid to the LGPS** – cash paid as employer’s contributions to the Pension Fund; these are not accounted for as an expense within the Comprehensive Income and Expenditure Statement.
- The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year to the LGPS, as determined in accordance with the statutory requirements governing the Scheme. Where this amount does not match the net amount charged to the Surplus or Deficit on the Provision of Services, the difference is taken to the Pensions Reserve. This is achieved by an appropriation, recorded in the Movement in Reserves Statement, from the General Fund Balance to the Pensions Reserve (or vice versa) to remove the notional entries referred to above, and replace them with the amount payable to the Fund for the year. As a consequence of these entries, a negative balance arises on the Pension Reserve. This balance represents the beneficial impact on the General Fund Balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### 2.8.4 Discretionary benefits

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

## 2.9 Value added tax

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

## Section Two - Notes to the Financial Statements

### 2.10 Overheads and support services

The costs of overheads and support services are recharged to those who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The full cost of overhead and support services are shared between services on agreed basis of allocation, with the exception of:

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

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

### 2.11 Property, plant and equipment

#### 2.11.1 Asset categories

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

#### 2.11.2 Recognition of Property, Plant and Equipment

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

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

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

Category	De-minimis limit
General	£10,000
Schools projects	£2,000
Land	Nil

## Section Two - Notes to the Financial Statements

Category	De-minimis limit
Highways infrastructure	Nil

The Council will capitalise individual items which fall below its de-minimis levels where it considers it appropriate to do so. This is considered on a case by case basis and is usually applied only where the Council makes a significant purchase comprising of a large number of assets which are individually all below the de-minimis level.

Expenditure on furniture and fittings is not capitalised.

### 2.11.3 Measurement

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

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

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

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

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

Assets included in the Balance Sheet at fair value are formally re-valued at least once every five years to ensure that their carrying value is not materially different from their fair value at the



## Section Two - Notes to the Financial Statements

year end. Assets not formally re-valued in the year of account are also assessed at year end to determine whether there is any indication that they may be impaired. Where the recoverable amount is estimated to be materially less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where 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 they arise from the reversal of a loss previously charged to a service.

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

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

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

### 2.11.4 Depreciation

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

Asset category	Depreciation bases
Land	Land is not depreciated.
Buildings	<p>Buildings are depreciated, on a straight line basis, over a period commensurate with the useful economic life (UEL) of each asset.</p> <p>Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately: the building's structure, its roof, the plant and machinery and the external works.</p> <p>The UEL's for each of these significant components is re-assessed every time the assets are re-valued over the Council's five year rolling re-valuation programme; the UEL's for each of the significant components will not exceed:</p> <ul style="list-style-type: none"><li>▪ Structure – <b>80</b> years;</li></ul>

## Section Two - Notes to the Financial Statements

Asset category	Depreciation bases
	<ul style="list-style-type: none"> <li>Roof – <b>25</b> to <b>80</b> years;</li> <li>Plant and machinery – <b>30</b> to <b>40</b> years;</li> <li>External works – <b>30</b> years.</li> </ul>
Community assets	Depreciated over <b>60</b> years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between <b>5</b> and <b>20</b> years.
Roads and other infrastructure	<p>Depreciation on additions to assets since 2008/09 is provided on a straight-line basis over the following useful economic lives:</p> <ul style="list-style-type: none"> <li>Road signage – <b>30</b> years;</li> <li>Roads and highway lighting – <b>40</b> years;</li> <li>Structures (eg: bridges) – <b>120</b> years;</li> <li>Off-highways drainage – <b>100</b> years; and</li> <li>Other infrastructure – between <b>15</b> and <b>20</b> years.</li> </ul> <p>Additions to assets prior to 2008/09 are depreciated over <b>30 – 35</b> years.</p>
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

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

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

### 2.11.5 Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction, rather than through its continuing use, the asset is re-valued immediately and is classified as an Asset Held for Sale. Assets that are to be abandoned or scrapped are not classified as held for sale.

Assets held for sale are carried at the lower of the re-valued amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the

## Section Two - Notes to the Financial Statements

---

Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are only recognised up to the amount of any previously recognised losses within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on assets held for sale.

Once the asset is disposed of:

- The carrying amount of the asset (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.
- Receipts from disposals (if any) are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.
- Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

### 2.12 Charges to revenue for non-current assets

All services (including support services and trading activities) 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 and impairment losses on the assets held or occupied (i.e. where there are no accumulated gains in the Revaluation Reserve against which the losses can be applied), and revaluation gains that reverse a revaluation or impairment 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 depreciation, revaluation and impairment losses or amortisations. However, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement; the annual revenue provision is determined in compliance with statutory guidance.

## Section Two - Notes to the Financial Statements

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 for the difference between the two.

### 2.13 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

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

### 2.14 Private Finance Initiative and Public Private Partnership schemes

Private Finance Initiative (PFI) and similar schemes are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. Where the Council is deemed to control the services that are provided under these schemes, and where ownership of the property, plant and equipment passes to the Council at the end of the contracts for no additional charges, the Council carries the assets used under the contracts on its own Balance Sheet as part of Property, Plant and Equipment.

PFI assets are recognised as Property, Plant and Equipment assets 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. The assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset. A PFI liability is also recognised for amounts due to the scheme operator for the capital investment.

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

Element of charge	Explanation	Accounting treatment
Services received	Services that the operator must provide with the property, plant and equipment.	Charged to relevant service in the Comprehensive Income and Expenditure Statement
Deferred income	Benefits that the Council is deemed to receive through its control of the services to be provided through the use of the	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.

## Section Two - Notes to the Financial Statements

Element of charge	Explanation	Accounting treatment
	property, plant and equipment.	
<b>Finance cost</b>	Interest charge on outstanding Balance Sheet liability.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
<b>Contingent rent</b>	Increases in the amount to be paid for the property arising during the contract.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
<b>Payment towards liability</b>	Obligation to pay the operator the value of the fair value of property, plant and equipment.	Applied to write down the Balance Sheet liability towards the PFI operator.
<b>Lifecycle replacement</b>	Comprise the replacement of components of an asset as they wear out.	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

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

### 2.15 Schools

A number of balances relating to schools are included within the Council's Statement of Accounts. The balances that are included is dependent on the type of school:

School type	Explanation
<b>Community Schools</b>	These schools are state-funded and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the admissions criteria.
<b>Voluntary Controlled (VC) schools</b>	These schools are state-funded via the Council. A foundation or trust has some formal influence in running the school, including appointing a proportion of the school governors, and usually owns the school land

## Section Two - Notes to the Financial Statements

School type	Explanation
	and buildings. The Council employs the school's staff and has primary responsibility for the school's admission arrangements.
<b>Voluntary aided (VA) schools</b>	In these schools all running costs and the majority of building costs are funded by central government via the Council. The remaining building costs are met by the religious foundation or trust that owns the school land and buildings. The governing body, comprising a majority of governors appointed by the foundation/trust, employs the school's staff and determines the school's admission arrangements in consultation with the Council.
<b>Foundation schools</b>	These schools are state-funded via the Council. The school land and buildings are usually owned by the school governing body or by a charitable foundation. The foundation will appoint a proportion of school governors to the governing body, which runs the school, employs the staff and sets the school's admission arrangements in consultation with the Council.
<b>Academy and free schools</b>	These schools are state-funded directly by Central Government and are independently managed. They are set up by sponsors from religious, business or voluntary groups in partnership with the Department for Education

Because academy and free schools are independently managed, none of these schools' income, expenditure, assets, liabilities or reserves is included within the Council's Statement of Accounts.

For all other schools, the Council recognises:

- Their income and expenditure in its Comprehensive Income and Expenditure Statement (within the Children's and Education Services line) in accordance with accounting policy 2.3 on Accruals of income and expenditure;
- Any unspent resources held by Schools within an earmarked revenue reserve, in line with the Council's reserves policy; and
- Their current assets and liabilities within its Balance Sheet, under the appropriate heading and in accordance with the Council's accounting policies specific to that asset / liability.

With regard to property, plant and equipment, the Council does not include schools' property, plant and equipment in its Balance Sheet where it does not own or have significant control (through significant involvement in the running of the school) over the economic benefits of these assets. This means that it only recognises the property, plant and equipment for community and voluntary controlled schools on its Balance Sheet.

## Section Two - Notes to the Financial Statements

---

Schools created and run under PFI arrangements are included within the Council's accounts in accordance with the above policies.

Further details on Central Government funding received by schools, via the Council, is provided in note 15 on Dedicated Schools Grant, on page 63.

### 2.16 Leases

#### 2.16.1 General

The Council accounts for leases as:

- Finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee (subject to the de-minimis levels outlined below); or
- Operating leases where the terms of the lease do not transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

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

Where the fair value of leased asset falls below the Council's de-minimis limits for capitalisation (see page 33), the leases will be classified as operating rather than finance leases.

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

#### 2.16.2 Authority as Lessee - Operating leases

Operating leases are accounted for as an expense of the service(s) benefiting from the use of the leased property, plant or equipment. Rentals payable are charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### 2.17 Interests in companies and other entities

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of companies. However, on the grounds of materiality, the Council has concluded that the requirement to produce Group Accounts applies only in relation to its interest in Essex Cares Ltd. In the Council's single entity accounts, the interest in Essex Cares Ltd is recorded at a financial asset at cost.

## Section Two - Notes to the Financial Statements

---

### 2.18 Jointly controlled operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council:

- Recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs; and
- Debits and credits the Comprehensive Income and Expenditure Statement with the expenditure and income it incurs and the share of income it earns from the operations.

### 2.19 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.

### 2.20 Financial instruments

The Council's policy in relation to the recognition, measurement, accounting and disclosure of its financial instruments is detailed below.

Although International Financial Reporting Standard (IFRS) 13 '*Fair Value Measurement*' became effective from 1 January 2013, the Code of Practice 2013 has deferred its adoption to 2014/15. Therefore, in accordance with the Code of Practice, the Council's financial statements do not include the measurement and disclosure requirements of IFRS 13.

#### 2.20.1 Financial liabilities

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

Interest is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the



## Section Two - Notes to the Financial Statements

---

instrument to the amount at which it was originally recognised. For most of the borrowing undertaken by the Council, this means that:

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

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

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

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

### 2.20.2 Financial Assets - Loans and Receivables

Loans and receivables are financial assets that have fixed or determinable payments but are not quoted in an active market. The Council recognises these assets on the Balance Sheet when it becomes a party to the contractual provisions of the financial instrument and it initially measures them at fair value. They are then measured at their amortised cost.

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

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

## Section Two - Notes to the Financial Statements

---

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

### **2.20.3 Financial Assets - Available for Sale Financial Assets**

Available for sale assets are financial assets that have a quoted market price and/or do not have fixed or determinable payments. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Income (e.g. dividends) received from available for sale financial assets is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. 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 for Sale Financial Assets.

### **2.21 Events after the Balance Sheet date**

Where events after the reporting period end date provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is adjusted to reflect such events.

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

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

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

## **3. Critical judgements in applying accounting policies**

In applying the accounting policies set out within Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

## Section Two - Notes to the Financial Statements

---

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide any indication that assets of the Council might be impaired due to the need to reduce service provision.
- The Council is deemed to control the services provided under the Private Finance Initiative (PFI) / Public Private Partnership (PPP) agreements for the A130 road and for the provision of various schools. It is assumed that the Council controls the residual values of the property, plant and machinery, and their facilities, at the end of these agreements. The accounting policies for PFI/PPP schemes and similar contracts have been applied to these arrangements (as per note 2.14). The value of these assets at 31<sup>st</sup> March 2014 is shown in Note 19.2, on page 73.
- In accordance with its policy on accounting for schools (see accounting policy note 2.15, which commences on page 39), the Council has accounted for voluntary controlled schools' non-current assets within 'Property, Plant and Equipment' on its Balance Sheet. This is on the basis that the Council is judged to have significant involvement in running these schools and therefore effectively controls the assets, even though the assets are owned by charitable trusts. The value of these schools at 31<sup>st</sup> March 2014 is **£175m** (31<sup>st</sup> March 2013: **£177m**).

### 4. Prior period adjustments

#### 4.1 International Accounting Standard (IAS) 19 'Employee Benefits'

The Code of Practice has been updated this year to adopt the amendments to IAS 19 '*Employee Benefits*'. This has meant changes have been required to the Council's accounting policy for employee benefits (see accounting policy note 2.8.3, which commences on page 30) to include two new classes of components of pension costs within the financial statements:

- **Net interest on the net liability** – this is the change in the net pensions' liability that arises from the passage of time and includes interest income on plan assets as well as interest costs on the pensions' liability. This new component has replaced the previous component 'Expected Returns on assets in the scheme', which is now effectively accounted for within the component 're-measurements of the net liability'; and
- **Re-measurements of the net liability** – this new component includes the return on plan assets, which were previously accounted for within the Surplus / Deficit on the Provision of Services, as well as actuarial gains and losses.

These new components have resulted in the reclassification of certain pension income and expenditure balances within the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement.

## Section Two - Notes to the Financial Statements

In addition, there are new definitions/recognition criteria for service costs and termination benefits:

- **Service costs** – this is a new definition and comprises current service cost, past service cost and any gain or loss on settlement; and
- **Termination benefits** – the recognition criteria have been amended so that benefits can only be recognised at the earlier of the date on which the Council can no longer withdraw from the offer of benefits and the date costs are recognised for restructuring and involve the payment of termination benefits.

Comparative amounts for the prior period have been restated to apply the change in accounting policy for employee benefits retrospectively. The impact of these changes on the Comprehensive Income and Expenditure Statement and the Movement in Reserve Statement for 2012/13 are shown below. These changes have no impact on the Balance Sheet as at 1 April 2012 and 31 March 2013 or the Cash Flow Statement for 2012/3.

### 4.2 Restatement of the 2012/13 Comprehensive Income and Expenditure Statement

	2012/13 Statement of Accounts £000	Prior period adjustment (IAS 19) £000	2012/13 Restated £000
<b>Cost of services</b>	<b>905,193</b>	-	<b>905,193</b>
Other Operating Expenditure	151,506	-	151,506
Financing and Investment Income and Expenditure	45,828	15,486	61,314
Taxation and Non-Specific Grant Income	(1,035,849)	-	(1,035,849)
<b>Deficit on Provision of Services</b>	<b>66,678</b>	15,486	<b>82,164</b>
Surplus arising on revaluation of non-current assets	(180,407)		(180,407)
Impairment losses on non-current assets charged to Revaluation Reserve	1,023		1,023
(Surplus) / deficit arising on revaluation of available for sale financial assets	-		-
Re-measurements of the net pension liability	73,392	(15,486)	57,906
<b>Other Comprehensive Income and Expenditure</b>	<b>(105,992)</b>	(15,486)	<b>(121,478)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(39,314)</b>	-	<b>(39,314)</b>

## Section Two - Notes to the Financial Statements

### 4.3 Restatement of the 2012/13 Movement in Reserves Statement

	2012/13 Statement of Accounts £000	Prior period adjustment (IAS 19) £000	2012/13 Restated £000
<b>Balance at 31 March 2012</b>	<b>(1,078,966)</b>	-	<b>(1,078,966)</b>
<b>Movement in Reserves during 2012/13</b>			
Surplus on Provision of Services	66,678	15,486	82,164
Other Comprehensive Income and Expenditure	(105,992)	(15,486)	(121,478)
<b>Total Comprehensive Income and Expenditure</b>	<b>(39,314)</b>	-	<b>(39,314)</b>
Adjustments between accounting basis and funding under regulations	-	-	-
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>(39,314)</b>	-	<b>(39,314)</b>
Transfers to Earmarked Reserves	-	-	-
<b>Increase in 2012/13</b>	<b>(39,314)</b>	-	<b>(39,314)</b>
<b>Balance at 31 March 2013</b>	<b>(1,118,280)</b>	-	<b>(1,118,280)</b>

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

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

The items in the Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred for each asset.</p> <p>The current economic climate makes it uncertain that the Council will be able to sustain its current</p>	<p>If the useful life of assets is reduced, depreciation will increase and the carrying value of assets will decrease.</p> <p>Details of the carrying</p>

## Section Two - Notes to the Financial Statements

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>values and depreciation are detailed in note 16 (<i>which commences on page 65</i>).</p>
Insurance Provision	<p>The estimate of the provision made for insurance claims depends on a number of complex actuarial assumptions and judgements which are used to forecast losses under claims. These include:</p> <ul style="list-style-type: none"> <li>▪ The loss development factors to predict ultimate losses;</li> <li>▪ The dates of historical claims data provided;</li> <li>▪ The basis on which historical years have been re-valued for inflation; and</li> <li>▪ That the profile of the body of claims is consistent.</li> </ul> <p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>In addition, it is not certain that all valid claims have been received by the Council.</p>	<p>At 31 March 2014, the insurance provision amounted to <b>£22.669m</b>. Further details are provided in Note 25 which commences on page 85.</p>
Pensions liability	<p>Estimation of the net pension liability to pay pensions depends on a number of complex actuarial assumptions / judgements relating to:</p> <ul style="list-style-type: none"> <li>▪ the discount rate used;</li> <li>▪ salary increases;</li> <li>▪ changes in retirement ages;</li> <li>▪ mortality rates; and</li> <li>▪ expected return on assets.</li> </ul> <p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The net pension liability in the accounts amounts to <b>£861.501m</b>.</p> <p>The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 32.4 which commences on page 109.</p>

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

## Section Two - Notes to the Financial Statements

---

### 6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director for Corporate Services and Customer Operations on **18th September 2014**. Events taking place after this date were not reflected in the financial statements or notes. There were no events which took place before this date that provided information about conditions existing at 31st March 2014 which necessitated an update to figures in the financial statements and notes.

### 7. Acquired services - Services transferred from local primary care trusts

The Health and Social Care Act 2012 transferred substantial health improvement duties from local primary care trusts to local authorities on 1<sup>st</sup> April 2013. These duties require the Council to work with other health bodies, such as clinical commissioning groups, and the police and community safety partnerships to:

- Assess the current and future health and social care needs of the local community; and
- Develop a strategy for meeting the identified needs in the local area.

These will be used to inform the Council's health commissioning plans, and will impact on Council spending in this area. To discharge these new duties, the Council received a ring-fenced Public Health grant (see note 14.2, on page 63) for 2013/14. The Public Health grant, and related expenditure, is disclosed separately within the Cost of Services in the Comprehensive Income and Expenditure Statement, within a new service heading 'Public Health Services'.

Under the new arrangements for Public Health, **41** staff performing public health functions were compulsorily transferred from local primary care trusts to the Council from 1 April 2013.

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

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

Some of the prior year comparative balances have been restated as a result of the change in accounting policy in relation to post-employment benefits. Further details of the change in policy and comparative balances amended have been included within note 4 which commences on page 45.

## Adjustments between accounting basis and funding under Regulations – 2012/13 (part one)

2012/13	Notes	Usable Reserves					Total Unusable Reserves £000
		Earmarked General Reserves £000	General Fund Balance £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>27.3</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>							
Depreciation and impairment of non current assets		-	(122,882)	-	-	(122,882)	122,882
Revaluation losses on property, plant and equipment		-	-	-	-	-	-
Movement in market value of investment properties		-	650	-	-	650	(650)
Amortisation of intangible assets		-	(573)	-	-	(573)	573
Capital grants and contributions applied		-	78,606	-	-	78,606	(78,606)
Donated assets		-	480	-	-	480	(480)
Revenue expenditure funded from capital under statute		-	(27,392)	-	-	(27,392)	27,392
Value of assets disposed of during the year		-	(159,074)	-	-	(159,074)	159,074
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>							
Statutory provision for the financing of capital investment		-	33,715	-	-	33,715	(33,715)
Capital expenditure charged against the General Fund		-	9,759	-	-	9,759	(9,759)
<b>Adjustments involving the Capital Adjustment Account</b>		<b>-</b>	<b>(186,711)</b>	<b>-</b>	<b>-</b>	<b>(186,711)</b>	<b>186,711</b>
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Grants applied to financing (transferred to the CAA)		-	-	-	18,291	18,291	(18,291)
Grants and contributions unapplied		-	31,000	-	(31,000)	-	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		<b>-</b>	<b>31,000</b>	<b>-</b>	<b>(12,709)</b>	<b>18,291</b>	<b>(18,291)</b>
<b>Adjustments involving the Capital Receipts Reserve</b>							
Sale proceeds (part of gain/loss on disposal)		-	10,815	(10,815)	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(2,000)	-	(2,000)	2,000
Use of reserve to finance new capital expenditure		-	-	12,942	-	12,942	(12,942)
<b>Adjustments involving the Capital Receipts Reserve</b>		<b>-</b>	<b>10,815</b>	<b>127</b>	<b>-</b>	<b>10,942</b>	<b>(10,942)</b>



## Adjustments between accounting basis and funding under Regulations – 2012/13 (part two)

2012/13	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Financial Instruments</b>							
<b>Adjustment Account (FIAA)</b>	27.4						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40	(40)
<b>Adjustments involving the FIAA</b>		-	40	-	-	40	(40)
<b>Adjustments involving the Pensions Reserve</b>							
<b>Adjustments involving the Pensions Reserve</b>	27.6						
Reversal of items debited/credited to the CIES		-	(73,844)	-	-	(73,844)	73,844
Employers' pension contributions payable in the year		-	59,843	-	-	59,843	(59,843)
<b>Adjustments involving the Pensions Reserve</b>		-	(14,001)	-	-	(14,001)	14,001
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
<b>Adjustments involving the Collection Fund Adjustment Account</b>	27.8						
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		-	3,666	-	-	3,666	(3,666)
<b>Adjustments involving the Collection Fund Adj Account</b>		-	3,666	-	-	3,666	(3,666)
<b>Adjustments involving the Accumulated Absences Account</b>							
<b>Adjustments involving the Accumulated Absences Account</b>	27.9						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	999	-	-	999	(999)
<b>Adjustments involving the Accumulated Absences Account</b>		-	999	-	-	999	(999)
<b>Total adjustments</b>		-	(154,192)	127	(12,709)	(166,774)	166,774

## Adjustments between accounting basis and funding under Regulations – 2013/14 (part one)

2013/14	Notes	Usable Reserves					Total Unusable Reserves £000
		Earmarked General Reserves £000	General Fund Balance £000	Usable Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>27.3</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>							
Depreciation and impairment of non current assets		-	(128,669)	-	-	(128,669)	128,669
Revaluation losses on property, plant and equipment		-	-	-	-	-	-
Movement in market value of investment properties		-	998	-	-	998	(998)
Amortisation of intangible assets		-	(573)	-	-	(573)	573
Capital grants and contributions applied		-	62,147	-	-	62,147	(62,147)
Donated assets		-	-	-	-	-	-
Exchange of assets (recognition of new assets)		-	20,406	-	-	20,406	(20,406)
Revenue expenditure funded from capital under statute		-	(20,674)	-	-	(20,674)	20,674
Value of assets disposed of during the year		-	(136,188)	-	-	(136,188)	136,188
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>							
Statutory provision for the financing of capital investment		-	34,051	-	-	34,051	(34,051)
Capital expenditure charged against the General Fund		-	21,789	-	-	21,789	(21,789)
<b>Adjustments involving the Capital Adjustment Account</b>		-	<b>(146,713)</b>	-	-	<b>(146,713)</b>	<b>146,713</b>
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Grants applied to financing (transferred to the CAA)		-	-	-	32,058	32,058	(32,058)
Grants and contributions unapplied		-	14,318	-	(14,318)	-	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		-	<b>14,318</b>	-	<b>17,740</b>	<b>32,058</b>	<b>(32,058)</b>
<b>Adjustments involving the Capital Receipts Reserve</b>							
Sale proceeds (part of gain/loss on disposal)		-	15,007	(15,007)	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(3,221)	-	(3,221)	3,221
Use of reserve to finance new capital expenditure		-	-	-	-	-	-
<b>Adjustments involving the Capital Receipts Reserve</b>		-	<b>15,007</b>	<b>(18,228)</b>	-	<b>(3,221)</b>	<b>3,221</b>

## Adjustments between accounting basis and funding under Regulations – 2013/14 (part two)

2013/14	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	£000
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>	<b>27.4</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40	(40)
<b>Adjustments involving the FIAA</b>		-	40	-	-	40	(40)
<b>Adjustments involving the Pensions Reserve</b>	<b>27.6</b>						
Reversal of items debited/credited to the CIES		-	(85,879)	-	-	(85,879)	85,879
Employers' pension contributions payable in the year		-	58,910	-	-	58,910	(58,910)
<b>Adjustments involving the Pensions Reserve</b>		-	(26,969)	-	-	(26,969)	26,969
<b>Adjustments involving the Collection Fund Adjustment Account</b>	<b>27.8</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	5,745	-	-	5,745	(5,745)
<b>Adjustments involving the Collection Fund Adj Account</b>		-	5,745	-	-	5,745	(5,745)
<b>Adjustments involving the Accumulated Compensated Absences Adjustment Account</b>	<b>27.9</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	1,562	-	-	1,562	(1,562)
<b>Adjustments involving the Accumulated Absences Account</b>		-	1,562	-	-	1,562	(1,562)
<b>Total adjustments</b>		-	(137,010)	(18,228)	17,740	(137,498)	137,498

## Section Two - Notes to the Financial Statements

### 9. Earmarked revenue reserves

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

Reserves	Purpose and usage	Timescale for usage
<b>Schools</b>	Schools are permitted to retain unspent resources (whether planned or unplanned), which are held in the Schools Reserves. The statutory authority to commit such resources rests with school governors.	No time constraints have been placed upon the usage of this reserve.
<b>Future capital funding</b>	Comprises revenue contributions to be used to supplement the resources available to finance future capital expenditure.	No time constraints have been placed upon the usage of this reserve.
<b>PFI reserves</b>	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
<b>Grant equalisation reserve</b>	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Accounting Policy 2.6) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
<b>Waste reserve</b>	To smooth the effects of future increases in the costs of waste disposal.	It is anticipated that this reserve will be utilised over a period not extending beyond 2040/41.
<b>Carry Forwards</b>	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 during the forthcoming financial year.
<b>Trading activities</b>	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
<b>Partnerships</b>	To retain unspent contributions from partners and apply them in subsequent years.	Usage of these reserves is determined by the individual partnerships.
<b>Building maintenance</b>	To support the delivery of the annual maintenance programme.	This reserve was utilised in 2013/14.

## Section Two - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
<b>Capital receipts pump priming</b>	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.
<b>Carbon reduction</b>	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
<b>Collection Fund investment risk</b>	Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.	No time constraints have been placed upon the usage of this reserve.
<b>Community resilience</b>	Used to create strong and resilience communities where people help each other, supported by a vibrant voluntary and community sector. The reserve will be used to stimulate and strengthen community led activity and create additional capacity, designed to improve community resilience and independence.	No time constraints have been placed upon the usage of this reserve.
<b>Consultation</b>	This reserve is to provide one-off flexibility in the light of a number of public consultations in progress or planned.	No time constraints have been placed upon the usage of this reserve.
<b>Economic growth strategy</b>	Used to encourage businesses to create new jobs and invest in skills and apprenticeships.	No time constraints have been placed upon the usage of this reserve.
<b>Energy inflation</b>	To ensure there is adequate funding to meet increases in energy prices relating to operational and office properties.	No time constraints have been placed upon the usage of this reserve.
<b>Essex Police and Crime</b>	To support the set up costs and subsequent financing of the Essex Crime and Police Panel.	No time constraints have been placed upon the usage of this reserve.
<b>Essex Transport</b>	The revenue reserves of the former Essex Transport trading activity which have been set aside to meet costs arising subsequent to the outsourcing of the service in 2009/10.	No time constraints have been placed upon the usage of this reserve.
<b>Health and safety</b>	Used to meet the costs of undertaking asbestos, legionella and Disability Discrimination Act surveys.	No time constraints have been placed upon the usage of this reserve.
<b>Insurance</b>	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.

## Section Two - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
<b>LAA performance reward</b>	This reserve represents the setting aside of Local Area Agreement performance reward grant to support projects over the medium term.	This reserve was fully utilised in 2013/14.
<b>Newton bequest</b>	Funds bequeathed to the Council for use by the Essex Records Office.	There are no time constraints placed upon the usage of this reserve.
<b>Procurement</b>	To provide funding for the development of a joint working arrangement with Chelmsford Borough Council.	This reserve was fully utilised in 2013/14.
<b>Quadrennial elections</b>	Reserve established to meet costs associated with the Council's quadrennial elections.	There are no time constraints placed upon the usage of this reserve.
<b>Redundancy</b>	Used to meet the cost of redundancies arising from transformation of services.	There are no time constraints placed upon the usage of this reserve.
<b>Severe weather</b>	To mitigate the impact on the Roads and Footways revenue budget of severe weather.	This reserve was utilised in 2013/14.
<b>Street lighting</b>	Reserve intended to help mitigate the impact on the street lighting budget of future increases in energy prices	This reserve was utilised in 2013/14.
<b>Tendring PPP</b>	To meet costs associated with the Tendring PPP contract.	It is anticipated that this reserve will be utilised over the remaining life of the Tendring PPP contract.
<b>Transformation</b>	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.

## Section Two - Notes to the Financial Statements

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

	Balance	2013/14 movements			Balance
	31 March 2013	Contributions	Withdrawals	Net Movement (to) / from reserves	31 March 2014
	£000	£000	£000	£000	£000
<b>Schools</b>	<b>(52,847)</b>	<b>(4,091)</b>	<b>5,248</b>	<b>1,157</b>	<b>(51,690)</b>
<b>Future capital funding</b>					
General	(12,345)	(34,902)	21,789	(13,113)	(25,458)
Bellhouse landfill site	(61)	-	-	-	(61)
	<b>(12,406)</b>	<b>(34,902)</b>	<b>21,789</b>	<b>(13,113)</b>	<b>(25,519)</b>
<b>Equalisation reserves</b>					
PFI equalisation reserves					
A130 PFI	(57,837)	(179)	949	770	(57,067)
Building Schools for the future	(1,296)	(4)	78	74	(1,222)
Clacton secondary schools	(3,969)	(200)	537	337	(3,632)
Debden PFI	(4,818)	(15)	251	236	(4,582)
Grants equalisation	(10,739)	(8,212)	5,134	(3,078)	(13,817)
Waste Reserve	(61,803)	(21,581)	22,400	819	(60,984)
	<b>(140,462)</b>	<b>(30,191)</b>	<b>29,349</b>	<b>(842)</b>	<b>(141,304)</b>
<b>Carry forwards reserve</b>	<b>-</b>	<b>(15,250)</b>	<b>-</b>	<b>(15,250)</b>	<b>(15,250)</b>
<b>Trading activities</b>	<b>(3,159)</b>	<b>(2,209)</b>	<b>362</b>	<b>(1,847)</b>	<b>(5,006)</b>
<b>Partnerships reserve</b>	<b>(2,133)</b>	<b>(568)</b>	<b>44</b>	<b>(524)</b>	<b>(2,657)</b>
<b>Other reserves</b>					
Building maintenance	(713)	-	713	713	-
Capital receipts pump priming	(1,692)	(1,000)	871	(129)	(1,821)
Carbon reduction	(2,955)	(529)	523	(6)	(2,961)
Collection Fund investment risk	-	(4,265)	-	(4,265)	(4,265)
Community resilience	-	(1,000)	-	(1,000)	(1,000)
Consultation	-	(5,896)	-	(5,896)	(5,896)
Economic growth strategy	-	(3,000)	-	(3,000)	(3,000)
Energy inflation	(1,200)	(200)	280	80	(1,120)
Essex Police and Crime	(73)	-	-	-	(73)
Essex Transport	(372)	-	-	-	(372)
Health and safety	(648)	(263)	648	385	(263)
Insurance	(10,743)	(1,795)	2,806	1,011	(9,732)
LAA Performance Reward	(1,000)	-	1,000	1,000	-
Newton bequest	(119)	-	-	-	(119)
Pension Deficit	-	(5,000)	-	(5,000)	(5,000)
Procurement	(24)	-	24	24	-
Quadrennial elections	(1,006)	(500)	1,506	1,006	-
Redundancy	(10,601)	(290)	1,547	1,257	(9,344)
Severe weather	(252)	-	252	252	-
Street lighting	(476)	-	476	476	-
Tendring PPP	(422)	-	-	-	(422)
Transformation	(26,587)	(19,606)	15,199	(4,407)	(30,994)
	<b>(58,883)</b>	<b>(43,344)</b>	<b>25,845</b>	<b>(17,499)</b>	<b>(76,382)</b>
<b>Total</b>	<b>(269,890)</b>	<b>(130,555)</b>	<b>82,637</b>	<b>(47,918)</b>	<b>(317,808)</b>

## Section Two - Notes to the Financial Statements

### 10. Other operating expenditure

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

2012/13 £000		2013/14 £000
3,214	Precepts and levies	3,289
148,292	Losses on disposal of non-current assets	121,623
<u>151,506</u>	<b>Total Other Operating Expenditure</b>	<u>124,912</u>

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

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

### 11. Financing and investment income and expenditure

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

2012/13 <i>Restated</i> £000		2013/14 £000
	<b>Net interest on the net defined benefit liability</b>	
96,330	Interest cost	100,986
(57,123)	Interest on assets	(60,823)
<u>39,207</u>		<u>40,163</u>
28,422	<b>Interest payable and similar charges</b>	30,244
(3,173)	<b>Interest receivable and similar income</b>	(3,079)
(705)	<b>Income and expenditure in relation to investment properties and changes in their value</b>	(1,053)
(2,437)	<b>Net surplus on trading activities</b>	(3,818)
<u>61,314</u>	<b>Financing and Investment income &amp; expenditure</b>	<u>62,457</u>

The prior year comparatives for 'net interest on the defined benefit liability / (asset)' have been restated – see note 4, which commences on page 45, for further details.



## Section Two - Notes to the Financial Statements

### 12. Trading operations

The Council has a number of trading activities that are required to operate in a commercial manner and balance their budget by generating income from other parts of the Council and other organisations. They are as follows:

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

## Section Two - Notes to the Financial Statements

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

	Balance at 1 April  £000	Movements				Balance at 31 March  £000
		Income  £000	Expend- iture  £000	Net (Surplus) / deficit £000	Approp- riations  £000	
<b>2012/13</b>						
School improvement and advisory service	(1,276)	(10,484)	9,691	(793)	1,321	(748)
School Support (Finance)	(160)	(1,283)	1,053	(230)	56	(334)
School staffing insurance scheme	(1,548)	(4,688)	4,782	94	-	(1,454)
Smarte East	(44)	(164)	116	(48)	-	(92)
Information Services infrastructure	(42)	(7,719)	7,746	27	-	(15)
Legal Services Trading	(157)	(9,022)	7,781	(1,241)	882	(516)
Library Services	(154)	(2,363)	2,117	(246)	400	-
	<b>(3,381)</b>	<b>(35,723)</b>	<b>33,286</b>	<b>(2,437)</b>	<b>2,659</b>	<b>(3,159)</b>
<b>2013/14</b>						
School improvement and advisory service	(748)	(11,436)	9,947	(1,489)	305	(1,932)
School Support (Finance)	(334)	(1,211)	1,144	(67)	59	(342)
School staffing insurance scheme	(1,454)	(4,591)	4,954	363	-	(1,091)
Smarte East	(92)	(271)	149	(122)	-	(214)
Information Services infrastructure	(15)	(6,355)	6,206	(149)	-	(164)
Legal Services	(516)	(9,539)	7,940	(1,599)	1,426	(689)
Library Services	-	(2,608)	1,889	(719)	450	(269)
Place Services	-	(1,590)	1,554	(36)	(269)	(305)
	<b>(3,159)</b>	<b>(37,601)</b>	<b>33,783</b>	<b>(3,818)</b>	<b>1,971</b>	<b>(5,006)</b>

## Section Two - Notes to the Financial Statements

### 13. Taxation and non-specific grant income

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

2012/13 £000		2013/14 £000
	<b>Taxation</b>	
(585,144)	Council tax	(528,694)
	Non domestic rates ( <i>see note (i) below</i> )	
(269,574)	Amounts received from re-distribution of rates collected nationally	-
-	Council's share of income collected by billing authorities	(39,343)
-	Top-up grant	(113,213)
(854,718)	<b>Total income from taxation</b>	(681,250)
	<b>Non specific grant income</b>	
(94,304)	Non ring-fenced government grants	(266,962)
(86,827)	Capital grants and contributions	(58,342)
(181,131)	<b>Sub total - Non specific government grants</b>	(325,304)
-	Exchange of assets - recognition of new assets ( <i>see note (ii) below</i> )	(20,406)
(181,131)	<b>Total non specific grant income</b>	(345,710)
(1,035,849)	<b>Taxation and non specific grant income</b>	(1,026,960)

Notes:

- (i) As noted in the Explanatory Foreword, the Council previously received a grant from the Government representing a redistribution of the non-domestic rates collected by billing authorities nationally. With effect from 2013/14, 50% of the non-domestic rates collected by billing authorities is retained locally, the County Council receiving a 9% share. In addition to receiving a share of the non-domestic rates collected locally, the Council receives 'top-up' funding from the Government, to ensure that its total funding is comparable with previous years.
- (ii) The Council has acquired property, plant and equipment in an exchange of assets. The carrying value of the asset given up has been written out of the Balance Sheet and the fair value of the new asset recognised. De-recognition of the old asset has been written out to Other Operating Costs within the Comprehensive Income and Expenditure Account, with the value of the new asset being credited to Taxation and Non-Specific Grant Income and Expenditure (as above).

## Section Two - Notes to the Financial Statements

### 14. Grant income

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

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

2012/13 £000		2013/14 £000
<b>Non ring-fenced grants</b>		
5,226	Revenue Support Grant ( <i>see note below</i> )	231,945
20,028	Private Finance Initiative Grant	20,089
14,540	Council Tax Freeze Grant	5,823
2,101	New Homes Bonus / New Homes Bonus Adjustment Grant	4,806
3,369	Local Services Support Grant	2,063
49,040	Early Intervention Grant	-
-	Other non ring-fenced grants	2,236
<u>94,304</u>		<u>266,962</u>
<b>Capital grants and contributions</b>		
	Department for Transport grants	
11,747	Direct funding	19,712
8,366	Integrated transport grant	9,357
6,289	Other	1,525
	Department for Education	
43,826	Standards Fund	15,630
8,406	Other	2,128
8,193	Other grants and contributions	9,990
<u>86,827</u>		<u>58,342</u>
<u>181,131</u>		<u>325,304</u>

Notes:

- (i) The introduction of the Local Government business rates retention scheme meant a significant change in the role of Revenue Support Grant from 2013/14. It is now the mechanism by which amounts previously distributed as specific grants are provided to local authorities. The Government also uses it to achieve reducing spending control totals for local government.
- (ii) Prior year comparatives are consistent with the figures presented in the 2012/13 Statement of Accounts, but some grants have been grouped together where the amounts are minor and no similar amounts have been received in 2013/14.

## Section Two - Notes to the Financial Statements

### 14.2 Amounts credited to Services

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

2012/13			2013/14		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
<b>Department for Education</b>					
-	640,944	640,944	-	584,870	584,870
-	16,438	16,438	-	22,820	22,820
6,164	-	6,164	9,342	-	9,342
5,992	1,614	7,606	2,461	2,163	4,624
-	-	-	-	3,321	3,321
635	1,068	1,703	858	358	1,216
12,791	660,064	672,855	12,661	613,532	626,193
<b>Department of Health</b>					
-	-	-	-	43,563	43,563
-	23,145	23,145	-	23,294	23,294
-	45,415	45,415	-	-	-
-	3,319	3,319	830	2,372	3,202
-	71,879	71,879	830	69,229	70,059
<b>Education Funding Agency</b>					
-	-	-	-	16,286	16,286
-	11,947	11,947	-	8,107	8,107
-	11,947	11,947	-	24,393	24,393
<b>Grants awarded by other bodies</b>					
-	9,847	9,847	-	10,139	10,139
8,092	591	8,683	2,770	260	3,030
-	2,367	2,367	-	3,582	3,582
-	528	528	-	3,270	3,270
-	1,145	1,145	-	1,522	1,522
-	1,552	1,552	-	1,428	1,428
-	2,027	2,027	-	1,300	1,300
-	744	744	-	1,177	1,177
-	3,143	3,143	-	1,170	1,170
-	1,435	1,435	-	2,092	2,092
8,092	23,379	31,471	2,770	25,940	28,710
20,883	767,269	788,152	16,261	733,094	749,355

*Note:*

*Prior year comparatives are consistent with the figures presented in the 2012/13 Statement of Accounts, but some grants have been grouped together where the amounts are minor and no similar amounts have been received in 2013/14.*

### 15. 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.

## Section Two - Notes to the Financial Statements

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 2013/14 are provided in the following table.

2012/13	Notes	2013/14 Total	Deployment in 2013/14	
			Central Expenditure	Individual Schools Budget
£000		£000	£000	£000
(939,748)	(i)	(958,278)		
300,325	(ii)	373,181		
(639,423)	(iii)	(585,097)		
(7,366)	(iv)	(5,845)		
(646,789)	(v)	(590,942)	(71,913)	(519,029)
-	(vi)	-	8,420	(8,420)
(646,789)	(vii)	(590,942)	(63,493)	(527,449)
640,944	(viii)	585,361	57,912	527,449
-	(ix)	-	-	-
(5,845)	(x)	(5,581)	(5,581)	-

### Notes:

- (i) DSG figure announced by the Department for Education (DfE) in July 2013.
- (ii) Amount recouped from the Council by the DfE for the conversion of maintained schools into Academies.
- (iii) Total figure after DfE Academy recoupment.
- (iv) Figure brought forward from the previous year, as agreed with the DfE.
- (v) Budgeted distribution of DSG, adjusted for carry forwards and a breach in the central expenditure limit, as agreed with the Schools Forum.
- (vi) Changes to the initial distribution of contingencies as a result of one-to-one tuition and a significant increase in pupil numbers.
- (vii) Budgeted distribution of DSG as at the end of the financial year.
- (viii) Actual amount of central expenditure items and amount of Individual Schools Budget actually distributed to schools.
- (ix) Any contribution from the Council which has the effect of substituting for DSG in funding the Schools Budget.
- (x) Carry forward to next year as a consequence of an under spend in-year.

## 16. Property, Plant and Equipment, other non-current assets and Assets Held for Sale

### 16.1 Movement in balances – 2012/13

	Property, plant and equipment						Intangible Assets	Investment Property	Heritage Assets	Assets 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
<b>Gross Book Value</b>										
As at 1 April 2012	1,693,331	70,365	839,236	3,378	128,593	4,924	4,490	3,831	14,327	4,328
Additions	10,866	322	24	250	88,487	83	10	-	-	-
Revaluation increases / (decreases) recognised in:										
Revaluation Reserve	136,860	4,575	-	47	-	667	-	-	53	-
Surplus/Deficit on the provision of services	(69,104)	(1,155)	-	-	-	(277)	-	650	-	-
Disposals	(153,114)	(6,692)	-	-	-	(100)	(17)	-	(34)	(2,653)
Reclassification of assets to / (from) other categories	(39,426)	20,475	9	(590)	-	11,986	-	890	13	6,643
Transfers to / (from) assets under construction	33,079	759	42,107	-	(75,945)	-	-	-	-	-
<b>As at 31 March 2013</b>	<b>1,612,492</b>	<b>88,649</b>	<b>881,376</b>	<b>3,085</b>	<b>141,135</b>	<b>17,283</b>	<b>4,483</b>	<b>5,371</b>	<b>14,359</b>	<b>8,318</b>
<b>Depreciation / Amortisation</b>										
As at 1 April 2012	(21,181)	(15,592)	(189,023)	(64)	-	(86)	(2,671)	-	(15)	-
Revaluations and restatements	36,952	218	-	-	-	12	-	-	-	-
Depreciation / amortisation on impairments	1,769	485	-	-	-	-	-	-	-	-
Depreciation / amortisation for the year	(23,566)	(6,652)	(24,396)	(15)	-	48	(589)	-	(4)	-
Depreciation / amortisation on assets sold	2,384	1,032	-	-	-	-	16	-	-	-
<b>As at 31 March 2013</b>	<b>(3,642)</b>	<b>(20,509)</b>	<b>(213,419)</b>	<b>(79)</b>	<b>-</b>	<b>(26)</b>	<b>(3,244)</b>	<b>-</b>	<b>(19)</b>	<b>-</b>
<b>Net book value at 31 March 2012</b>	<b>1,672,150</b>	<b>54,773</b>	<b>650,213</b>	<b>3,314</b>	<b>128,593</b>	<b>4,838</b>	<b>1,819</b>	<b>3,831</b>	<b>14,312</b>	<b>4,328</b>
<b>Net book value at 31 March 2013</b>	<b>1,608,850</b>	<b>68,140</b>	<b>667,957</b>	<b>3,006</b>	<b>141,135</b>	<b>17,257</b>	<b>1,239</b>	<b>5,371</b>	<b>14,340</b>	<b>8,318</b>

## 16.2 Movement in balances – 2013/14

	Property, plant and equipment						Intangible	Investment	Heritage	Assets
	Land	Vehicles	Infra-	Community	Assets	Surplus	Assets	Property	Assets	held for
	and	and	structure	Assets	under	Assets				sale
	buildings	equipment	Assets		construction					
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>										
As at 1 April 2013	1,612,492	88,649	881,376	3,085	141,135	17,283	4,483	5,371	14,359	8,318
Additions	51,536	6,255	44		91,051		-	-	-	
Revaluation increases / (decreases) recognised in:										
Revaluation Reserve	82,183	631	-	165	-	106	-	-	-	-
Surplus/Deficit on the provision of services	(67,600)	(2,487)	-	(345)	-	(161)	-	998	-	-
Disposals	(123,521)	(4,967)	-	(1)	-	(686)	-	(296)	(270)	(8,257)
Reclassification of assets to / (from) other categories	(24,523)	20,570	-	(455)	-	(466)	-	504		4,370
Transfers to / (from) assets under construction	37,311	3,043	129,999	266	(170,649)	30	-	-	-	-
<b>As at 31 March 2014</b>	<b>1,567,878</b>	<b>111,694</b>	<b>1,011,419</b>	<b>2,715</b>	<b>61,537</b>	<b>16,106</b>	<b>4,483</b>	<b>6,577</b>	<b>14,089</b>	<b>4,431</b>
<b>Depreciation / Amortisation</b>										
As at 1 April 2013	(3,642)	(20,509)	(213,419)	(79)	-	(26)	(3,244)	-	(19)	-
Revaluations and restatements	1,114	(302)	-	16	-	-	-	-	-	-
Depreciation / amortisation on impairments	807	335	-	19	-	8	-	-	-	-
Depreciation / amortisation for the year	(26,299)	(7,406)	(25,470)	(36)	-	(32)	(573)	-	(3)	-
Depreciation / amortisation on assets sold	1,066	744	-	-	-	-	-	-	-	-
<b>As at 31 March 2014</b>	<b>(26,954)</b>	<b>(27,138)</b>	<b>(238,889)</b>	<b>(80)</b>	<b>-</b>	<b>(50)</b>	<b>(3,817)</b>	<b>-</b>	<b>(22)</b>	<b>-</b>
<b>Net book value at 31 March 2013</b>	<b>1,608,850</b>	<b>68,140</b>	<b>667,957</b>	<b>3,006</b>	<b>141,135</b>	<b>17,257</b>	<b>1,239</b>	<b>5,371</b>	<b>14,340</b>	<b>8,318</b>
<b>Net book value at 31 March 2014</b>	<b>1,540,924</b>	<b>84,556</b>	<b>772,530</b>	<b>2,635</b>	<b>61,537</b>	<b>16,056</b>	<b>666</b>	<b>6,577</b>	<b>14,067</b>	<b>4,431</b>



## Section Two - Notes to the Financial Statements

### 16.3 Capital commitments

At 31st March 2014, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2014/15. The commitments are summarised as follows:

2013 £000		2014 £000
16,470	Highways and Transportation	6,792
6,104	Education (schools)	7,111
4,917	Other	13,022
<b>27,491</b>		<b>26,925</b>

### 16.4 Revaluations

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

The timing and amounts of the valuations of those classes of asset held at fair value are summarised in the following table:

	Valued at Fair Value as at					Total cost or valuation £000
	31 March 2010 £000	31 March 2011 £000	31 March 2012 £000	31 March 2013 £000	31 March 2014 £000	
<b>Operational Assets</b>						
Land and buildings	171,431	233,109	294,904	488,496	379,938	1,567,878
<b>Non-Operational Assets</b>						
Surplus Assets	4,609	650	415	10,287	145	16,106

Infrastructure, community assets and assets under construction are held at historical value and have not been formally re-valued.

## Section Two - Notes to the Financial Statements

### 17. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance lease and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase to the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

2012/13 £000		2013/14 £000      £000	
861,209	Opening Capital Financing Requirement		834,689
	<b>Capital investment</b>		
99,391	Property, plant and equipment	128,477	
10	Intangible assets	-	
27,392	Revenue expenditure funded from capital under statute	20,674	
-	Long term debtor - Local Authority Mortgage Scheme	1,000	
<b>126,793</b>	<b>Total capital investment</b>	<b>150,151</b>	
	<b>Sources of finance</b>		
(12,942)	Capital receipts	-	
(96,897)	Government grants & contributions	(94,205)	
(9,759)	Earmarked revenue reserves applied	(21,789)	
(33,715)	Revenue provision for the repayment of debt	(34,051)	
<b>(153,313)</b>	<b>Total sources of finance</b>	<b>(150,045)</b>	
(26,520)	Increase / (decrease) in the Capital Financing Requirement		106
<b>834,689</b>	<b>Closing Capital Financing Requirement</b>		<b>834,795</b>
	<b>Explanation of movements in year</b>		
(26,416)	Decrease in underlying need to borrow		(33,049)
-	Assets acquired under PFI contracts		27,155
(104)	Increase / (decrease) for assets acquired under finance lease		6,000
<b>(26,520)</b>	<b>Increase / (decrease) in the Capital Financing Requirement</b>		<b>106</b>

## Section Two - Notes to the Financial Statements

### 18. Leases

#### 18.1 Council as Lessee – Finance leases

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

31st March 2013			31st March 2014		
Short Term	Long Term		Short Term	Long Term	
£000	£000		£000	£000	
8	853	Property	8	837	
-	129	Vehicles, plant and equipment	886	4,336	
3,275	131,688	Private Finance Initiatives	3,978	154,860	
3,283	132,670		4,872	160,033	

Note:

*Whilst there is no overall change in the Council's finance lease liabilities for the prior year, the split between short and long term liabilities has been restated.*

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 19, which commences on page 70.

#### 18.2 Council as Lessee – Operating leases

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

31 March 2013 (Restated)				31 March 2014		
Property (Restated)	Other	Total		Property	Other	Total
£000	£000	£000		£000	£000	£000
3,699	4,495	8,194	One year	3,657	3,070	6,727
12,149	4,891	17,040	Two to five years	12,179	3,115	15,294
53,523	96	53,619	Over five years	53,740	68	53,808
69,371	9,482	78,853	Total lease rentals	69,576	6,253	75,829

*Prior year comparative figures have been restated on a basis consistent with 2013/14.*

## Section Two - Notes to the Financial Statements

### 19. Private Finance Initiative and similar contracts

#### 19.1 Nature and significant terms of PFI arrangements

The Council has entered into several Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes, as detailed within accounting policy note 2.14, which commences on page 38. The nature and significant terms of these arrangements are as follows:

Scheme	Nature and significant terms
<b>A130 Bypass</b>	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until the road was constructed. Construction costs were estimated at <b>£80m</b> (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed or traffic flow is affected by road works.</p> <p>The road will be passed to Council in a repaired/neutral state at the end of the arrangements in 2030.</p>
<b>Debden Park School</b>	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of <b>£15m</b>.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p> <p>The Operator refinanced its debt in December 2001.</p>
<b>Clacton Secondary Schools</b>	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of <b>£34m</b>.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, whose amounts vary according to inflation, the proportion of the time that</p>

## Section Two - Notes to the Financial Statements

Scheme	Nature and significant terms
	the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.
<b>Tendring Primary Schools</b>	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of <b>£15m</b>.</p> <p>The Operator is operating and maintaining the school facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary 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>The operator re-financed its debt with an effective date of 31st March 2008.</p>
<b>Castleview, Cornelius Vermuyden and Columbus schools</b>	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>Two of the schools included within this PFI scheme (i.e. Castleview School and Cornelius Vermuyden School and Arts College) are foundation schools. These schools' governing bodies consented to the Council acting on their behalf, and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement. Upon expiry of the contract, any property interests in respect of these two schools will revert to the schools' governing bodies. This means that control over the services provided and the residual values of these two schools remains with the governing bodies. As a consequence, the Council:</p> <ul style="list-style-type: none"> <li>▪ Recognises the costs arising under this PFI contract in the Comprehensive Income and Expenditure Statement as they arise, together with any contributions received from the schools; and</li> <li>▪ Does not recognise the assets or associated liabilities in respect of these schools within its own Balance Sheet.</li> </ul> <p>The third school included within this scheme (the Columbus New Model Special School) was a community school at financial close of the contract. In this instance, the Council has control over the services provided, and over the residual value of the school.</p>

## Section Two - Notes to the Financial Statements

Scheme	Nature and significant terms
	<p>This means that:</p> <ul style="list-style-type: none"> <li>▪ The Council carries the assets and associated liability in respect of this school on its own Balance Sheet; and</li> <li>▪ Accounts for payments for services provided in accordance with accounting policy 2.14.</li> <li>▪ Construction costs of this school amounted to <b>£22.3m</b>.</li> </ul>
<b>Woodlands School</b>	<p>The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction period). Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p> <p>Construction costs for this school amounted to <b>£27m</b>. The school became operational in January 2014.</p> <p>Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£4m</b> per annum.</p>
<b>Waste Treatment Plant - Basildon</b>	<p>This contract was entered into in May 2012 and provides for the design, construction and operation of a waste treatment plant in Basildon.</p> <p>Construction environmental planning and permitting application work commenced in June 2012. Work on the physical construction commenced in February 2013 and is due to be completed in June 2014. A period of commissioning will then follow, before the plant is fully operational in June 2015. The operational term for the PFI contract is 25 years (excluding the construction period).</p> <p>Construction costs are estimated at <b>£107m</b>. Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£22m</b> per annum.</p> <p>Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p>

## Section Two - Notes to the Financial Statements

### 19.2 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 2013 £000		31st March 2014 £000
<b>Gross Book Value</b>		
139,201	As at 1 April	118,651
-	Additions	27,155
	Revaluation increases / (decreases) recognised in:	
2,639	Revaluation Reserve	429
(909)	Surplus/Deficit on the provision of services	(3,637)
(22,280)	Disposals	-
<u>118,651</u>	<b>As at 31 March</b>	<u>142,598</u>
<b>Depreciation / Amortisation</b>		
(21,484)	As at 1 April	(22,509)
1,008	Revaluations and restatements	-
8	Depreciation / amortisation on impairments	-
(2,078)	Depreciation / amortisation for the year	(2,569)
37	Depreciation / amortisation on assets sold	-
<u>(22,509)</u>	<b>As at 31 March</b>	<u>(25,078)</u>
117,717	<b>Net book value at 1 April</b>	96,142
96,142	<b>Net book value at 31 March</b>	117,520

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

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

## Section Two - Notes to the Financial Statements

Payments remaining to be made under each operational PFI contract (*excluding any estimation of inflation and availability / performance deductions*) are as follows:

	Estimated timing of payments to PFI/PPP operators						
	Within one year	2 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	Total
	£000	£000	£000	£000	£000	£000	£000
<b>A130 Bypass</b>							
Service charges	1,207	5,137	7,177	8,120	1,747	-	23,388
Interest and similar charges	9,905	39,767	57,104	20,248	-	-	127,024
Repayment of liability	2,624	12,548	38,164	18,157	-	-	71,493
Lifecycle replacement	-	2,751	2,324	1,094	6,792	-	12,961
<b>Total</b>	13,736	60,203	104,769	47,619	8,539	-	234,866
<b>Debden Park School</b>							
Service charges	577	2,454	3,430	1,828	-	-	8,289
Interest and similar charges	1,214	4,854	5,788	2,751	-	-	14,607
Repayment of liability	478	2,184	3,817	2,616	-	-	9,095
Lifecycle replacement	314	1,500	2,324	990	-	-	5,128
<b>Total</b>	2,583	10,992	15,359	8,185	-	-	37,119
<b>Clacton Secondary Schools</b>							
Service charges	2,299	9,931	14,250	16,620	19,207	6,237	68,544
Interest and similar charges	1,774	6,084	5,923	4,109	3,216	652	21,758
Repayment of liability	882	2,771	3,055	3,369	5,915	2,657	18,649
Lifecycle replacement	664	3,971	5,862	5,717	2,948	328	19,490
<b>Total</b>	5,619	22,757	29,090	29,815	31,286	9,874	128,441
<b>Tendring Primary Schools</b>							
Service charges	744	3,165	4,422	5,003	5,102	-	18,436
Interest and similar charges	1,741	7,130	9,414	10,131	7,988	-	36,404
Repayment of liability	145	638	1,417	3,153	4,812	-	10,165
Lifecycle replacement	409	2,025	2,851	2,196	2,988	-	10,469
<b>Total</b>	3,039	12,958	18,104	20,483	20,890	-	75,474
<b>Building schools for the future (Columbus Special School)</b>							
Service charges	714	2,993	4,056	4,568	5,169	3,059	20,559
Interest and similar charges	2,529	8,221	9,163	7,411	4,666	1,213	33,203
Repayment of liability	-	1,641	3,179	4,760	6,982	5,718	22,280
Lifecycle replacement	55	234	937	1,385	2,196	898	5,705
<b>Total</b>	3,298	13,089	17,335	18,124	19,013	10,888	81,747
<b>Woodlands</b>							
Service charges	814	3,458	4,908	5,553	6,282	4,121	25,136
Interest and similar charges	2,812	11,174	13,506	12,409	10,145	3,819	53,865
Repayment of liability	197	1,163	2,543	4,987	9,660	8,605	27,155
Lifecycle replacement	-	272	1,180	1,892	2,217	877	6,438
<b>Total</b>	3,823	16,067	22,137	24,841	28,304	17,422	112,594
	32,098	136,066	206,794	149,067	108,032	38,184	670,241

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.



## Section Two - Notes to the Financial Statements

### 19.4 Value of liabilities resulting from PFI

The payments made under the schemes detailed in note 19.1 are calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding to pay the contractor for capital expenditure incurred is as follows:

	1 April 2012 £000	Repaid £000	Arising £000	31 March 2013 £000	Repaid £000	Arising £000	31 March 2014 £000
A130 Road	(75,124)	1,702	-	(73,422)	1,929	-	(71,493)
Debden Park school	(10,013)	434	-	(9,579)	484	-	(9,095)
Clacton secondary schools	(20,370)	854	-	(19,516)	867	-	(18,649)
Tendring primary schools	(10,288)	123	-	(10,165)	-	-	(10,165)
Columbus Special School	(22,280)	-	-	(22,280)	-	-	(22,280)
Woodlands School	-	-	-	-	-	(27,155)	(27,155)
Total	(138,075)	3,113	-	(134,962)	3,280	(27,155)	(158,837)

## 20. Financial instruments

### 20.1 Categories of Financial Instruments

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

31 March 2013			31 March 2014		
Long term £000	Short term £000		Long term £000	Short term £000	Total £000
<b>Financial assets - Loans and receivables</b>					
Investments					
4,638	184,837	Loans and receivables	4,670	146,317	150,987
-	-	Available for sale financial assets	2,762	-	2,762
20,885	82,036	Debtors (contractual)	17,768	86,360	104,128
-	71,654	Cash and cash equivalents	-	155,580	155,580
25,523	338,527	<b>Total</b>	25,200	388,257	413,457
<b>Financial liabilities at amortised cost</b>					
(342,261)	(23,788)	Borrowing	(335,081)	(25,502)	(360,583)
(132,670)	(3,283)	PFI / Finance lease liabilities	(160,033)	(4,872)	(164,905)
(222)	(214,894)	Creditors (contractual)	(30)	(210,948)	(210,978)
(475,153)	(241,965)	<b>Total</b>	(495,144)	(241,322)	(736,466)

## Section Two - Notes to the Financial Statements

Notes:

- (i) 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 22 on page 83.
- (ii) Not all short term debtors and creditors are classified as financial instruments, which is why the totals in the above table differ from the values in the Balance Sheet. Only those debtors and creditors which arise from contracts are financial instruments. Those debtors and creditors related to statutory debts such as council tax and non-domestic rates are not classified as financial instruments.

### 20.2 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:

2012/13				2013/14			
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
-	-	28,405	28,405	-	-	30,214	30,214
-	-	17	17	-	-	30	30
-	-	28,422	28,422	-	-	30,244	30,244
(3,173)	-	-	(3,173)	(2,963)	(116)	-	(3,079)
(3,173)	-	-	(3,173)	(2,963)	(116)	-	(3,079)
-	-	-	-	-	(262)	-	(262)
-	-	-	-	-	(262)	-	(262)
(3,173)	-	28,422	25,249	(2,963)	(378)	30,244	26,903

### 20.3 Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- The fair value of borrowing from the PWLB has been determined with reference to the 'premature repayment' set of PWLB rates in force at 31 March 2014. This demonstrates how much it would cost the Council to buy itself out of an unfavourable position or how much it could generate from liquidating a favourable position.

## Section Two - Notes to the Financial Statements

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade creditors and debtors is taken to be the invoiced or billed amount.

In some cases, there is no difference between the carrying value and fair value of financial instruments.

The following table compares the carrying and fair value of the financial instruments held:

31 March 2013			31 March 2014		
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000	
<b>Financial liabilities at amortised cost</b>					
(215,116)	(215,116)	Creditors (contractual)	(210,978)	(210,978)	
(366,049)	(437,961)	Borrowing	(360,583)	(405,889)	
(135,953)	(135,953)	PFI / finance lease liabilities	(164,905)	(164,905)	
(717,118)	(789,030)		(736,466)	(781,772)	
<b>Financial Assets - loans and receivables</b>					
189,475	189,472	Investments	153,749	153,712	
71,654	71,654	Cash	155,580	155,580	
102,921	102,921	Debtors (contractual)	104,128	104,128	
364,050	364,047		413,457	413,420	

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

The fair value of investments varies from the carrying amount because the Council's portfolio of investments includes some fixed rate investments where the interest rate earned is lower than the rates available for similar loans at the balance sheet date.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

## Section Two - Notes to the Financial Statements

---

### 20.4 Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

#### **Credit Risk**

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

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

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

- **Short term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments in the short term.

## Section Two - Notes to the Financial Statements

---

- **Long term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments over the longer term.
- **Financial strength / viability rating** – provides a measure of the likelihood that a bank will require financial assistance from third parties such as its owners, its industry group or official institutions. It also considers how a bank would be viewed if it were entirely independent and could not rely upon external support.
- **Support rating** – provides an assessment of a potential supporter's (either a sovereign state or an institutional owner) propensity to support the bank or of its ability to support it.

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

Application of the credit rating criteria set out within the Annual Investment Strategy means that investment limits of **£35m, £50m, £60m or £70m** may be applied. Surplus cash balances are usually invested on a short term basis (i.e. for periods of up to 364 days) until the funds are next required. Funds invested on this basis are either placed 'on-call' or in short term 'fixed' period deposits. Because of the short term nature of these investments, it is possible for the Council to respond to changes in credit risks reasonably quickly.

The Council may invest its underlying cash balances on a longer term basis (i.e. for periods beyond 364 days). Because it is not possible to respond to changes in credit risk as quickly, a limit is set within the annual treasury management strategy, upon the total amount that can be invested for periods beyond 364 days. For 2013/14, this limit was **£50m** (2012/13: £50m).

No credit limits were exceeded during 2013/14 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

## Section Two - Notes to the Financial Statements

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, adjusted to reflect current market conditions:

	Amount at 31 March 2014	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2014	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and other financial institutions				
AAA rated	57,450	0.000%	0.000%	-
AA rated	112,000	0.017%	0.017%	19
A rated	77,000	0.087%	0.087%	67
BBB rated	60,000	0.201%	0.201%	120
Other	2,500	0.000%	0.000%	-
	<b>308,950</b>			<b>206</b>
Debtors (contractual)	<b>104,128</b>	7.592%	7.592%	<b>7,905</b>
Potential maximum exposure to credit risk	<b>413,078</b>			<b>8,111</b>

Of the total amount of debtors at 31 March 2014, the following amounts (analysed by age) are past their due date for payment:

2012/13			2013/14	
Debtors past due date £000	Provision for doubtful debts £000		Debtors past due date £000	Provision for doubtful debts £000
5,681	362	Less than three months	10,349	474
1,910	148	Three to six months	1,947	174
5,082	1,308	Six months to one year	4,473	1,175
12,800	6,941	More than one year	11,628	6,082
<b>25,473</b>	<b>8,759</b>	<b>Total</b>	<b>28,397</b>	<b>7,905</b>

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

### Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there are no significant risks that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure a

## Section Two - Notes to the Financial Statements

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 2013				Repayment period	31 March 2014			
PWLB	Money Market	Other	Total		PWLB	Money Market	Other	Total
£000	£000	£000	£000		£000	£000	£000	£000
9,443	12,923	1,422	23,788	Less than one year	4,412	20,926	164	25,502
9,443	12,923	1,422	23,788	<b>Short term borrowing</b>	4,412	20,926	164	25,502
1,211	20,000	-	21,211	Between 1 and 2 years	1,261	47,000	2,050	50,311
3,938	45,000	-	48,938	Between 2 - 5 years	4,098	10,000	-	14,098
37,709	-	-	37,709	Between 5 - 10 years	38,023	-	-	38,023
27,754	-	-	27,754	Between 10 - 25 years	36,019	-	-	36,019
68,688	-	-	68,688	Between 25 - 40 years	89,271	-	-	89,271
137,961	-	-	137,961	Between 40 - 50 years	107,359	-	-	107,359
-	-	-	-	Over 50 years	-	-	-	-
277,261	65,000	-	342,261	<b>Long term borrowing</b>	276,031	57,000	2,050	335,081
286,704	77,923	1,422	366,049	<b>Total borrowing</b>	280,443	77,926	2,214	360,583

The maturity analysis of money market loans shown above assumes that these loans will be repaid in full at the next opportunity to lender has to vary the loan terms. In reality, these loans may run for many years beyond these dates.

### Market risk

#### ▪ Interest rate risk

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

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

Borrowing and investments are not carried at fair value, so nominal gains and losses on fixed rate borrowing and investments would not impact on the Surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings

## Section Two - Notes to the Financial Statements

and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of borrowings in variable rate loans (2012/13: 30%). During periods of falling interest rates, and where economic circumstances are favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2012/13 £000		2013/14 £000
412	Interest payable on variable rate borrowing	386
(1,468)	Interest receivable on variable rate investments	(2,012)
(1,056)	<b>Impact on Comprehensive Income and Expenditure Statement</b>	<b>(1,626)</b>

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

### ■ Price risk

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund. It did however make a modest investment in a pooled property fund during 2013/14, 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 2013/14, a gain was recognised in 'Other Comprehensive Income and Expenditure' (see note 20.2, on page 76).

### ■ Foreign exchange risk

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



## Section Two - Notes to the Financial Statements

### 21. Debtors

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

31 March 2013			31 March 2014		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
<b>Public sector bodies</b>					
14,361	-	14,361	18,034	-	18,034
16,190	15,352	31,542	18,725	14,656	33,381
3,286	-	3,286	4,890	-	4,890
3	-	3	1	-	1
33,840	15,352	49,192	41,650	14,656	56,306
73,837	5,533	79,370	75,358	3,112	78,470
107,677	20,885	128,562	117,008	17,768	134,776
			<b>Other entities</b>		
			<b>Total</b>		

### 22. Cash and cash equivalents

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

31st March 2013 £000		31st March 2014 £000
<b>Amounts that form an integral part of the Council's cash management</b>		
54,402	Cash repayable on demand	147,520
10,005	Cash equivalents	10,012
(41,683)	Bank overdraft	(48,867)
347	Petty cash balances	325
23,071		108,990
48,583	<b>Cash held by schools</b>	46,590
71,654	<b>Total of cash and cash equivalents</b>	155,580

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.

## Section Two - Notes to the Financial Statements

### 23. Creditors

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

31st March 2013				31st March 2014		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
			<b>Public sector bodies</b>			
3,980	76	4,056	Central government bodies	4,527	-	4,527
27,604	-	27,604	Other local authorities	25,420	22	25,442
1,871	-	1,871	NHS bodies	3,846	-	3,846
2	-	2	Public corporations	10	-	10
33,457	76	33,533		33,803	22	33,825
196,801	146	196,947	<b>Other entities</b>	189,972	8	189,980
<b>230,258</b>	<b>222</b>	<b>230,480</b>	<b>Total</b>	<b>223,775</b>	<b>30</b>	<b>223,805</b>

### 24. 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 2013				31st March 2014		
Revenue £000	Capital £000	Total £000		Revenue £000	Capital £000	Total £000
			<b>Department for Education</b>			
5,845	-	5,845	Dedicated Schools Grant	5,581	-	5,581
-	-	-	Targeted basic needs	-	3,803	3,803
84	4,899	4,983	Other grants	372	2,207	2,579
5,929	4,899	10,828		5,953	6,010	11,963
			<b>Other grants</b>			
2,427	36	2,463	Department of Health grants	10,445	8	10,453
-	264	264	Department for Transport grants	1,709	1,011	2,720
528	-	528	Teaching Agency	453	-	453
2,146	50	2,196	Other grants	1,374	2,258	3,632
5,101	350	5,451		13,981	3,277	17,258
<b>11,030</b>	<b>5,249</b>	<b>16,279</b>	<b>Total of grant receipts in advance</b>	<b>19,934</b>	<b>9,287</b>	<b>29,221</b>
4,927	39,088	44,015	<b>Developer contributions (S106)</b>	4,253	37,643	41,896
<b>15,957</b>	<b>44,337</b>	<b>60,294</b>	<b>Total</b>	<b>24,187</b>	<b>46,930</b>	<b>71,117</b>

*Note:*

*Prior year comparatives are consistent with the figures presented in the 2012/13 Statement of Accounts, but some grants have been grouped together where the amounts are minor.*

## Section Two - Notes to the Financial Statements

### 25. Provisions

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

Provision	Purpose
<b>Insurance</b>	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self-insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 1977, 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 itself to pay remaining claims.</p> <p>The Scheme was triggered, and therefore came into effect, on 13th November 2012 and, as a result the Council was required to make an initial levy payment to the Scheme Administrator of 15% of all claims for which it had received settlements since 1993. This resulted in a payment of <b>£1.149m</b> during 2013/14.</p> <p>Under the Scheme arrangements, the Council is also now required to meet a percentage (currently 85%) of any future claims made. The Insurance Provision therefore includes an allowance for this liability.</p> <p>Independent Insurance was the Council's insurer for the liability classes of business from 1st April 1993 to 31st March 2001, and went into provisional liquidation on 17th June 2001. It is currently not expected that any payments will be received from Independent Insurance.</p>
<b>Landfill aftercare</b>	<p>The Council has responsibility for the aftercare of twelve former landfill sites. Restoration work was undertaken at all sites during the 1990's, when the sites were closed. However, the Council continues to monitor each site, and to operate and maintain pollution control infrastructure, to ensure that these sites do not bring harm to human health, property and the environment; the Council will have this obligation until the sites become inert.</p> <p>As the Council expects to discharge its environmental monitoring liabilities over a prolonged period, the provision has been discounted to the present value of the expenditures expected to be required to settle the obligation.</p>

## Section Two - Notes to the Financial Statements

Provision	Purpose
<b>Non-domestic rating appeals</b>	Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks that the amount of non-domestic rates 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.
<b>Restructuring</b>	This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of certain services, where these plans are likely to result in the termination of a number of employees' employment before their normal retirement date.
<b>Carbon reduction commitment</b>	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 CO <sup>2</sup> emissions.
<b>Other</b>	Provisions have been established for various minor matters.

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 current and non-current provisions is provided in the following table.

## Section Two - Notes to the Financial Statements

	Insurance Provision	Landfill aftercare	Non-domestic rating appeals	Restructuring	Carbon Reduction Commitment	Other provisions	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Current provisions</b>							
<b>Balance at 1st April 2012</b>	(5,000)	-	-	(337)	(1,378)	(1,192)	(7,907)
Amounts arising	-	(296)	-	(196)	(1,080)	(1,170)	(2,742)
Provisions reversed	-	-	-	139	309	159	607
Provisions utilised	4,436	-	-	198	1,069	1,804	7,507
Amounts reclassified as current	(4,436)	-	-	-	-	-	(4,436)
<b>Balance at 31st March 2013</b>	<b>(5,000)</b>	<b>(296)</b>	<b>-</b>	<b>(196)</b>	<b>(1,080)</b>	<b>(399)</b>	<b>(6,971)</b>
Amounts arising	-	-	(2,604)	(449)	-	(79)	(3,132)
Provisions reversed	-	-	-	124	-	98	222
Provisions utilised	6,629	335	-	80	(220)	166	6,990
Unwinding of discount	-	(12)	-	-	-	-	(12)
Amounts reclassified as current	(6,629)	(329)	-	(8)	-	-	(6,966)
<b>Balance at 31st March 2014</b>	<b>(5,000)</b>	<b>(302)</b>	<b>(2,604)</b>	<b>(449)</b>	<b>(1,300)</b>	<b>(214)</b>	<b>(9,869)</b>
<b>Non-current provisions</b>							
<b>Balance at 1st April 2012</b>	(21,100)	-	-	-	-	-	(21,100)
Amounts arising	(1,828)	(7,060)	-	(8)	-	-	(8,896)
Provisions reversed	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-
Amounts reclassified as current	4,436	-	-	-	-	-	4,436
<b>Balance at 31st March 2013</b>	<b>(18,492)</b>	<b>(7,060)</b>	<b>-</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>(25,560)</b>
Amounts arising	(5,806)	(3)	-	-	-	-	(5,809)
Provisions reversed	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-
Amounts reclassified as current	6,629	329	-	8	-	-	6,966
<b>Balance at 31st March 2014</b>	<b>(17,669)</b>	<b>(6,734)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(24,403)</b>
<b>Total current and non-current provisions</b>							
<i>31st March 2013</i>	<i>(23,492)</i>	<i>(7,356)</i>	<i>-</i>	<i>(204)</i>	<i>(1,080)</i>	<i>(399)</i>	<i>(32,531)</i>
<i>31st March 2014</i>	<i>(22,669)</i>	<i>(7,036)</i>	<i>(2,604)</i>	<i>(449)</i>	<i>(1,300)</i>	<i>(214)</i>	<i>(34,272)</i>

### 26. Usable reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, which is shown on page 19.

### 27. Unusable reserves

#### 27.1 Introduction

The Council maintains a number of unusable reserves which are held for statutory reasons or to comply with property accounting practice. The Council is not able to use these reserves to provide services. Notes 27.2 to 27.9 explain the purpose of each unusable reserve and the movements in these reserves during the year.

## Section Two - Notes to the Financial Statements

### 27.2 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:

2012/13		2013/14	
£000		£000	£000
(218,739)	Balance as at 1 April		(370,904)
(199,018)	Revaluation of non current assets (increases)	(104,885)	
18,611	Revaluation of non current assets (subsequent decreases)	20,307	
1,023	Impairment of non-current assets	664	
(179,384)	Surplus on revaluations		(83,914)
8,248	Depreciation on revaluation gains	12,372	
18,971	Accumulated gains on assets sold or scrapped	27,352	
27,219	Amounts written off to the Capital Adjustment Account		39,724
(370,904)	Balance as at 31 March		(415,094)

*Note:*

*The analysis of the movement in this reserve for the prior year has been restated on a basis consistent with 2013/14; the net total of this reserve remains unchanged.*

### 27.3 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.

## Section Two - Notes to the Financial Statements

2012/13 £000		2013/14 £000      £000	
(1,459,916)	<b>Balance as at 1 April</b>		<b>(1,331,657)</b>
	<b>Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>		
55,173	Depreciation	59,821	
68,282	Impairment of non-current assets	69,421	
(480)	Donated assets	-	
-	Exchange of assts (recognition of new asset)	(20,406)	
27,392	Revenue expenditure financed from capital under statute	20,674	
159,074	Cost / value of assets disposed of during the year	136,188	
<u>309,441</u>			<u>265,698</u>
	<b>Adjusting amounts written out of the Revaluation Reserve</b>		
(8,248)	Difference between fair value and historical cost depreciation	(12,372)	
(18,971)	Revaluation gains outstanding for assets upon disposal	(27,352)	
<u>(27,219)</u>			<u>(39,724)</u>
<u>282,222</u>	<b>Net written out amount of the cost of non current assets consumed in the year</b>		<u>225,974</u>
	<b>Capital financing applied in the year</b>		
(9,759)	Revenue reserves applied	(21,789)	
(33,715)	Statutory provision for the financing of capital investment	(34,051)	
(12,942)	Capital receipts applied	-	
	Capital grants and contributions applied to finance:		
(55,927)	Capital Expenditure	(44,026)	
(22,679)	Revenue expenditure funded from capital	(18,121)	
(18,291)	Application of grants from the Capital Grants Unapplied Account	(32,058)	
<u>(153,313)</u>			<u>(150,045)</u>
(650)	<b>Movement in market value of investment properties</b>		<b>(998)</b>
<u>(1,331,657)</u>	<b>Balance as at 31 March</b>		<u><b>(1,256,726)</b></u>

### 27.4 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;
- 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.

## Section Two - Notes to the Financial Statements

2012/13				2013/14		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
7,902	(4,601)	3,301	Balance as at 1 April	7,680	(4,419)	3,261
(127)	18	(109)	Amortisation of premiums / discounts to the General Fund	(127)	19	(108)
(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	(96)	164	68
7,680	(4,419)	3,261	Balance as at 31 March	7,457	(4,236)	3,221

### 27.5 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:

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

2012/13 £000		2013/14 £000      £000	
-	Balance as at 1 April		-
-	Upward revaluation of investments	(262)	
-			(262)
	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		-
-	Balance as at 31 March		(262)

### 27.6 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 benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The Pension Reserve therefore absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.



## Section Two - Notes to the Financial Statements

2012/13 (Restated)				2013/14		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
857,538	36,293	893,831	Balance as at 1 April	918,700	47,038	965,738
			<b>Pension Reserve appropriation to / (from) the General Fund for:</b>			
72,249	1,595	73,844	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	84,474	1,405	85,879
(56,582)	(3,261)	(59,843)	Council contributions to the schemes	(55,431)	(3,479)	(58,910)
15,667	(1,666)	14,001	Total appropriation from Pension Reserve	29,043	(2,074)	26,969
45,495	12,411	57,906	Remeasurements of the net pension liability	(129,003)	(2,203)	(131,206)
918,700	47,038	965,738	Balance as at 31 March	818,740	42,761	861,501

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

### 27.7 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.

2012/13 £000		2013/14 £000
(5,221)	Balance as at 1 April	(3,221)
2,000	Amounts received	3,221
(3,221)	Balance as at 31 March	-

## Section Two - Notes to the Financial Statements

### 27.8 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and, with effect from 2013/14, 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.

2012/13			2013/14		
Council Tax £000	Non-domestic rates £000	Total £000	Council Tax £000	Non-domestic rates £000	Total £000
(2,576)	-	(2,576)	(6,242)	-	(6,242)
			<b>Balance at 1 April</b>		
			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		
(3,666)	-	(3,666)	(7,415)	1,670	(5,745)
(6,242)	-	(6,242)	(13,657)	1,670	(11,987)
			<b>Balance as at 31 March</b>		

### 27.9 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.

2012/13 £000		2013/14 £000      £000	
17,542	<b>Balance as at 1 April</b>		16,543
(17,542)	Settlement or cancellation of accrual made at the end of the preceding year	(16,543)	
16,543	Amounts accrued for at the end of the current year	14,981	
(999)	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		(1,562)
16,543	<b>Balance as at 31 March</b>		14,981

## Section Two - Notes to the Financial Statements

---

### **28. 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.

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

## Section Two - Notes to the Financial Statements

2012/13 £000	2013/14	
	£000	£000
<b>Cash flows from operating activities</b>		
<b>Cash inflows</b>		
(851,052)	Taxation	(675,505)
(876,303)	Grants	(1,011,734)
(222,657)	Sales of goods and rendering of services	(201,567)
(2,895)	Interest received	(4,112)
(1,952,907)		(1,892,918)
<b>Cash outflows</b>		
616,318	Cash paid to and on behalf of employees	572,991
29,329	Interest paid	31,046
1,081,389	Cash paid to suppliers of goods and services	1,043,352
104,199	Other payments for operating activities	129,122
1,831,235		1,776,511
(121,672)	<b>Net inflow of cash from operating activities</b>	(116,407)
<b>Cash flows from investing activities</b>		
<b>Cash inflows</b>		
(12,815)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(19,903)
-	Proceeds from short and long term investments	(38,000)
(91,060)	Other receipts from investing activities	(79,610)
(103,875)		(137,513)
<b>Cash outflows</b>		
96,326	Purchase of property, plant and equipment, investment property and intangible assets	92,847
168,342	Purchase of short and long term investments	2,500
27,392	Other payments for investing activities	22,009
292,060		117,356
188,185	<b>Net (inflow) / outflow of cash from investing activities</b>	(20,157)
<b>Cash flows generated from financing activities</b>		
<b>Cash inflows</b>		
(114)	Other receipts from financing activities	(114)
(114)		(114)
<b>Cash outflows</b>		
3,136	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	4,203
2,987	Repayment of short and long term borrowing	5,466
7,717	Other payments for financing activities	43,083
13,840		52,752
13,726	<b>Net outflow of cash from financing activities</b>	52,638
80,239	<b>Net (increase) / decrease in cash and cash equivalents</b>	(83,926)

## Section Two - Notes to the Financial Statements

---

### 29. Amounts reported for resource allocation decisions

#### 29.1 Analysis of income and expenditure

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2013/14. However, decisions about resource allocation are taken by the Council on the basis of Cabinet Members' respective responsibilities for service delivery. Cabinet reports are prepared on a different basis to that applied in the financial statements. In particular:

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

The income and expenditure of each of the Cabinet members' portfolios is shown in the following table. Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet members throughout 2013/14.

## Analysis of amounts reported for resource allocation in 2012/13

2012/13	Income			Grants	Expenditure						Controllable Net Expenditure
	Fees, charges and other service income	Interest and investment income	Corporate amounts		Employee expenses	Other Service expenses	Interest payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Adult Social Care	(74,481)	-	-	(71,772)	36,182	417,921	-	-	-	-	307,850
Education and Lifelong Learning	(54,969)	-	-	(685,750)	490,512	303,415	7,018	-	-	1,462	61,688
Families and Children	(6,016)	-	-	(4,552)	49,991	85,321	-	-	-	-	124,744
Highways and Transportation	(19,847)	-	-	(636)	13,558	85,684	6,817	-	-	1,702	87,278
Waste and Recycling	(2,054)	-	-	-	4,999	59,791	-	-	-	-	62,736
Public Health and Wellbeing	(13,786)	-	-	(888)	12,011	29,823	-	-	-	-	27,160
Economic Growth and Infrastructure	(1,058)	-	-	(1,776)	3,714	4,154	-	-	-	8	5,042
Leader and Finance	(674)	-	-	(1,321)	19,975	4,905	-	1,678	-	-	24,563
Libraries, Communities and Planning	(7,929)	-	-	(448)	17,886	10,804	15	1,536	-	-	21,864
Transformation and Support Services	(735)	-	(55)	(126)	20,717	3,598	-	-	-	-	23,399
	(181,549)	-	(55)	(767,269)	669,545	1,005,416	13,850	3,214	-	3,172	746,324
Recharged Support Services											
Facilities Management Service	-	-	-	-	-	21,161	-	-	-	-	21,161
Information Services	-	-	-	-	-	16,335	-	-	-	-	16,335
Finance	-	-	-	-	-	12,197	-	-	-	-	12,197
Transformation Support Unit	-	-	-	-	-	5,692	-	-	-	-	5,692
Customer Services	-	-	-	-	-	5,197	-	-	-	-	5,197
Human Resources	-	-	-	-	-	5,048	-	-	-	-	5,048
Other Recharged Strategic Support Services	-	-	-	-	-	11,914	-	-	33	-	11,947
Operating costs	-	(3,173)	(31,733)	-	-	-	14,612	-	-	119,216	98,922
<b>Net cost of services (portfolios)</b>	<b>(181,549)</b>	<b>(3,173)</b>	<b>(31,788)</b>	<b>(767,269)</b>	<b>669,545</b>	<b>1,082,960</b>	<b>28,462</b>	<b>3,214</b>	<b>33</b>	<b>122,388</b>	<b>922,823</b>

Note:

Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet members throughout 2013/14.

## Analysis of amounts reported for resource allocation in 2013/14

2013/14	Income			Grants	Expenditure						Controllable Net Expenditure
	<i>Fees, charges and other service income</i>	<i>Interest and investment income</i>	<i>Corporate amounts</i>		<i>Employee expenses</i>	<i>Other Service expenses</i>	<i>Interest payable and similar charges</i>	<i>Precepts &amp; levies</i>	<i>Gain or loss on disposal of fixed assets</i>	<i>Corporate amounts</i>	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Adult Social Care	(71,346)	-	-	(27,207)	38,641	424,954	-	-	-	-	365,042
Education and Lifelong Learning	(54,620)	-	-	(647,328)	466,765	268,838	7,762	-	-	1,406	42,823
Families and Children	(5,708)	-	-	(9,817)	53,028	78,863	-	-	-	-	116,366
Highways and Transportation	(21,522)	-	-	(296)	13,015	85,390	7,901	-	-	2,815	87,303
Waste and Recycling	(2,669)	-	-	-	5,083	64,042	12	-	-	322	66,790
Public Health and Wellbeing	(8,283)	-	-	(45,622)	11,833	68,225	-	-	-	-	26,153
Economic Growth and Infrastructure	(1,220)	-	-	(1,371)	3,440	4,375	-	-	-	16	5,240
Leader and Finance	(1,339)	-	-	(452)	19,614	6,838	-	1,725	-	-	26,386
Libraries, Communities and Planning	(4,862)	-	-	(965)	14,895	9,612	30	1,564	-	-	20,274
Transformation and Support Services	(49)	-	(55)	(36)	18,945	1,546	-	-	-	-	20,351
<b>Sub total</b>	<b>(171,618)</b>	<b>-</b>	<b>(55)</b>	<b>(733,094)</b>	<b>645,259</b>	<b>1,012,683</b>	<b>15,705</b>	<b>3,289</b>	<b>-</b>	<b>4,559</b>	<b>776,728</b>
Recharged Support Services											
Facilities Management Service	-	-	-	-	-	24,401	-	-	-	-	24,401
Information Services	-	-	-	-	-	16,944	-	-	-	-	16,944
Finance	-	-	-	-	-	11,928	-	-	-	-	11,928
Transformation Support Unit	-	-	-	-	-	7,832	-	-	-	-	7,832
Insurance Cost Recovery Account	-	-	-	-	-	5,690	-	-	-	-	5,690
Human Resources	-	-	-	-	-	5,334	-	-	-	-	5,334
Communications and customer relations	-	-	-	-	-	2,724	-	-	-	-	2,724
Customer Services	-	-	-	-	-	2,675	-	-	-	-	2,675
Other Recharged Strategic Support Services	-	-	-	-	-	9,131	-	-	442	-	9,573
<b>Operating costs</b>	<b>-</b>	<b>(3,079)</b>	<b>(62,738)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,579</b>	<b>-</b>	<b>-</b>	<b>158,065</b>	<b>106,827</b>
<b>Net cost of services (portfolios)</b>	<b>(171,618)</b>	<b>(3,079)</b>	<b>(62,793)</b>	<b>(733,094)</b>	<b>645,259</b>	<b>1,099,342</b>	<b>30,284</b>	<b>3,289</b>	<b>442</b>	<b>162,624</b>	<b>970,656</b>

## Section Two - Notes to the Financial Statements

### 29.2 Reconciliation to the Cost of Services

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

2012/13 £000		2013/14 £000
922,823	<b>Net expenditure in the Portfolio Analysis</b>	<b>970,656</b>
199,744	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<b>215,074</b>
(217,374)	Amounts included in the Analysis but not included in the Cost of Services in the Comprehensive Income and Expenditure Statement	<b>(228,859)</b>
<b>905,193</b>	<b>Cost of Services in the Comprehensive Income &amp; Expenditure Statement</b>	<b>956,871</b>

### 29.3 Reconciliation to Subjective Analysis

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



## Reconciliation to Subjective Analysis - 2012/13

2012/13	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(181,549)	(1,896)	-	(183,445)	-	(183,445)
Interest and investment income	(3,173)	-	3,173	-	(3,173)	(3,173)
Corporate amounts	(31,788)	-	31,788	-	(59,615)	(59,615)
Income from council tax	-	-	-	-	(585,144)	(585,144)
Income from non domestic rates	-	-	-	-	(269,574)	(269,574)
<b>Total income</b>	<b>(216,510)</b>	<b>(1,896)</b>	<b>34,961</b>	<b>(183,445)</b>	<b>(917,506)</b>	<b>(1,100,951)</b>
<b>Total Government Grants</b>	<b>(767,269)</b>	<b>(20,883)</b>	<b>-</b>	<b>(788,152)</b>	<b>(181,131)</b>	<b>(969,283)</b>
Employee expenses	669,545	72,845	(98,928)	643,462	-	643,462
Other service expenditure	1,082,960	27,392	-	1,110,352	-	1,110,352
Depreciation, amortisation and impairment	-	123,456	-	123,456	-	123,456
Donated assets	-	(480)	-	(480)	-	(480)
Interest payable and similar charges	28,462	(40)	(28,422)	-	28,422	28,422
Precepts and levies	3,214	-	(3,214)	-	3,214	3,214
Gain or loss on disposal of fixed assets	33	-	(33)	-	148,292	148,292
Corporate amounts	122,388	(650)	(121,738)	-	95,680	95,680
<b>Total gross expenditure</b>	<b>1,906,602</b>	<b>222,523</b>	<b>(252,335)</b>	<b>1,876,790</b>	<b>275,608</b>	<b>2,152,398</b>
<b>Deficit on the provision of services</b>	<b>922,823</b>	<b>199,744</b>	<b>(217,374)</b>	<b>905,193</b>	<b>(823,029)</b>	<b>82,164</b>

## Reconciliation to Subjective Analysis - 2013/14

2013/14	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(171,618)	(1,860)	-	(173,478)	-	(173,478)
Interest and investment income	(3,079)	-	3,079	-	(3,079)	(3,079)
Corporate amounts	(62,793)	-	62,793	-	(64,696)	(64,696)
Income from council tax	-	-	-	-	(528,694)	(528,694)
Income from non domestic rates	-	-	-	-	(152,556)	(152,556)
<b>Total income</b>	<b>(237,490)</b>	<b>(1,860)</b>	<b>65,872</b>	<b>(173,478)</b>	<b>(749,025)</b>	<b>(922,503)</b>
<b>Total Government Grants</b>	<b>(733,094)</b>	<b>(16,261)</b>	<b>-</b>	<b>(749,355)</b>	<b>(345,710)</b>	<b>(1,095,065)</b>
Employee expenses	645,259	84,317	(99,130)	630,446	-	630,446
Other service expenditure	1,099,342	20,674	-	1,120,016	-	1,120,016
Depreciation, amortisation and impairment	-	129,242	-	129,242	-	129,242
Interest payable and similar charges	30,284	(40)	(30,244)	-	30,244	30,244
Precepts and levies	3,289	-	(3,289)	-	3,289	3,289
Gain or loss on disposal of fixed assets	442	-	(442)	-	121,623	121,623
Corporate amounts	162,624	(998)	(161,626)	-	99,988	99,988
<b>Total gross expenditure</b>	<b>1,941,240</b>	<b>233,195</b>	<b>(294,731)</b>	<b>1,879,704</b>	<b>255,144</b>	<b>2,134,848</b>
<b>Deficit on the provision of services</b>	<b>970,656</b>	<b>215,074</b>	<b>(228,859)</b>	<b>956,871</b>	<b>(839,591)</b>	<b>117,280</b>

## Section Two - Notes to the Financial Statements

### 30. Termination benefits

The Council is undertaking a major transformation programme to improve core services, meet difficult budget pressures in challenging times and deliver better customer services. This transformation programme includes projects aimed at modernising working practices and utilising mobile technology and will reshape the Council into a smaller core organisation.

An unavoidable consequence of this programme is that a number of employees were made redundant during 2012/13 and 2013/14. The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

2012/13 <i>Restated</i> £000		2013/14 £000
140	Adult Social Care	2,113
3,364	Children's and Education Services	2,251
683	Cultural and Related Services	297
-	Environmental and Regulatory Services	133
1,341	Highways and Transport Services	518
-	Housing Services	-
58	Planning Services	208
-	Central Services to the public	81
32	Corporate and democratic core	799
967	Trading activities	32
<b>6,585</b>	<b>Total</b>	<b>6,432</b>

#### Notes:

- The prior year comparative figures (reported as £6.654m in the 2012/13 Statement of Accounts) have been restated as the number and value of termination payments in respect of employees on notice of redundancy at 31<sup>st</sup> March 2013 were lower than forecast.
- The above figures include provision for termination benefits arising from formal plans for the restructuring of certain services, where actual exit packages have yet to be agreed at each 31st March. Provision is raised on the basis of the best estimate of costs; actual costs, arising in 2013/14, were lower than the provision raised in 2012/13.

## Section Two - Notes to the Financial Statements

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

2012/13 (Restated)				2013/14				
No. packages agreed in the year			Total cost of packages £000	Value of exit packages	No. packages agreed in the year			Total cost of packages £000
Compulsory	Other	Total			Compulsory	Other	Total	
180	145	325	2,024	Less than £20,000	112	105	217	1,569
29	42	71	1,950	£20,000 to £39,999	20	25	45	1,254
4	11	15	716	£40,000 to £59,999	2	12	14	683
10	3	13	934	£60,000 to £79,999	4	8	12	849
3	4	7	583	£80,000 to £99,999	2	4	6	567
-	3	3	372	£100,000 to £299,999	3	5	8	1,141
226	208	434	6,579	Total no. of agreed packages	143	159	302	6,063
			6	Other termination benefits				369
			6,585					6,432

**Note:**

*The prior year comparative figures have been restated as the number and value of exit packages in respect of employees on notice of redundancy at 31<sup>st</sup> March 2013 were lower than forecast.*

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

The Council is required to recognise the costs of termination benefits within the Comprehensive Income and Expenditure Statement when it can no longer withdraw the offer of those benefits and when the Council recognises costs for restructuring (that are in accordance with proper accounting practice) involving the payment of termination benefits, even if individual exit packages have yet to be agreed. For this reason, the total cost of packages agreed may differ from the amounts charged to the Comprehensive Income and Expenditure Statement in each year; the 'other termination benefits' line provides a reconciliation between the total cost of packages agreed and the amounts charged to the Comprehensive Income and Expenditure Statement.

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

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

- **Teachers' Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Teachers' pension scheme has in excess of 3,700 participating employers.

## Section Two - Notes to the Financial Statements

### ■ NHS Pension Scheme

Under the new arrangements for Public Health, 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.

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

2012/13				2013/14		
Teachers £000	NHS £000	Total £000		Teachers £000	NHS £000	Total £000
32,881	-	<b>32,881</b>	Employer's contributions	29,597	223	<b>29,820</b>
17,932	-	<b>17,932</b>	Employee contributions	18,620	165	<b>18,785</b>
50,813	-	<b>50,813</b>	<b>Total</b>	48,217	388	<b>48,605</b>

In relation to both schemes, 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
	2012/13	2013/14	2013/14
Employer's contribution rate	14.1%	14.1%	14%
Employee contribution rate	6.4% to 8.8%	6.4% to 11.2%	5.0% to 13.3%

## Section Two - Notes to the Financial Statements

---

There were no contributions remaining payable as at 31 March 2014 (31 March 2013: Nil).

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

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

### 32. Defined Benefit Pension Schemes

#### 32.1 Participation in Pension Schemes

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

The Council participates in two schemes:

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

The LGPS is a defined benefit statutory scheme, which means that the Council and employees pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Administering Authority for the Fund is Essex County Council. The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2007/08. The LGPS is contracted out of the State Second Pension and currently provides benefits based on final salary and length of service on retirement. Changes to the LGPS will come into effect from 1 April 2014 though, and any benefits accrued from this date will be based on career average re-valued salary, with various protections in place for those members in the Scheme before the changes take effect.

The LGPS is operated under the regulatory framework and the governance of the scheme is the responsibility of the Essex Pension Fund Board. The Board oversees the functions of Essex County Council as the administering authority for the Fund. The Pension Fund Board:

- Ensures that the Essex Pension Fund administration and investments comply with relevant regulations and legislation;
- Approves administration discretions; and
- Agrees the annual business plan and the communications strategy.

The members of the Pension Fund Board include representatives of Fund scheme members. Hymans Robertson is the independent Governance and Administration advisory to the Board.

## Section Two - Notes to the Financial Statements

---

The Essex Pension Fund invests in all major asset classes. These investments are managed externally by specialist Fund Managers. Investment managers of the Fund are appointed by the Investment Steering Committee. The Investment Steering Committee consists of County Councillors, an observer who represent employers, an observer representing employees / beneficiaries, independent advisors and institutional investment consultants.

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

- **Investment risk** - the Fund holds investment 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 the risks above may also benefit the Employer (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 the accounting policies note.

### ▪ **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.

## Section Two - Notes to the Financial Statements

### 32.2 Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (Cost of Services) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

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

2012/13 (restated)			2013/14		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
57,674	-	57,674	60,942	-	60,942
2,305	-	2,305	2,600	-	2,600
(25,342)	-	(25,342)	(17,826)	-	(17,826)
34,637	-	34,637	45,716	-	45,716
<b>Financing and Investment Income and Expenditure</b>					
37,612	1,595	39,207	38,758	1,405	40,163
72,249	1,595	73,844	84,474	1,405	85,879
<b>Total charged to the Surplus / Deficit on Provision of Services</b>					
<b>Re-measurements of the net pensions liability</b>					
(97,726)	-	(97,726)	(60,650)	-	(60,650)
138,092	4,561	142,653	65,414	(2,373)	63,041
-	-	-	(134,779)	(2,708)	(137,487)
2,353	7,850	10,203	16,601	2,878	19,479
2,776	-	2,776	(15,589)	-	(15,589)
45,495	12,411	57,906	(129,003)	(2,203)	(131,206)
117,744	14,006	131,750	(44,529)	(798)	(45,327)
<b>Total charged to Comprehensive Income and Expenditure Statement</b>					
<b>Movement in Reserves Statement</b>					
(72,249)	(1,595)	(73,844)	(84,474)	(1,405)	(85,879)
56,582	3,261	59,843	55,431	3,479	58,910
(15,667)	1,666	(14,001)	(29,043)	2,074	(26,969)

**Note:**

*The comparative figures for 2012/13 have been restated – see note 4, which commences on page 45 for details.*



## Section Two - Notes to the Financial Statements

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

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

2012/13				2013/14		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,309,937	47,038	2,356,975	Present value of the defined benefit obligation	2,330,568	42,761	2,373,329
(1,391,237)	-	(1,391,237)	Fair value of plan assets	(1,511,828)	-	(1,511,828)
918,700	47,038	965,738	<b>Net liability arising from defined benefit obligations</b>	818,740	42,761	861,501

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 **£861.501m** (2012/13: £965.738m) 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:

2012/13 (Restated)				2013/14		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,107,230	36,293	2,143,523	<b>Balance as at 1 April</b>	2,309,937	47,038	2,356,975
57,674	-	57,674	Current service cost	60,942	-	60,942
94,735	1,595	96,330	Interest Cost	99,581	1,405	100,986
16,763	-	16,763	Contributions by scheme participants	16,526	-	16,526
			Remeasurement (gains)/losses:			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(134,779)	(2,708)	(137,487)
138,092	4,561	142,653	Actuarial (gains) / losses arising from changes in financial assumptions	65,414	(2,373)	63,041
2,353	7,850	10,203	Other	16,601	2,878	19,479
2,305	-	2,305	Past service costs	2,600	-	2,600
(70,995)	(3,261)	(74,256)	Benefits paid	(74,616)	(3,479)	(78,095)
(38,220)	-	(38,220)	Liabilities extinguished on settlements	(31,638)	-	(31,638)
2,309,937	47,038	2,356,975	<b>Balance as at 31 March</b>	2,330,568	42,761	2,373,329

## Section Two - Notes to the Financial Statements

### Scheme Assets

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

2012/13 (Restated)			2013/14		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
1,249,692	-	1,249,692	1,391,237	-	1,391,237
<b>Balance as at 1 April</b>					
57,123	-	57,123	60,823	-	60,823
Interest income					
Remeasurement gain/(loss)					
97,726	-	97,726	60,650	-	60,650
Return on plan assets (excl. amount incl in net interest expense)					
(2,776)	-	(2,776)	15,589	-	15,589
Other					
56,582	3,261	59,843	55,431	3,479	58,910
Contributions by the Council					
16,763	-	16,763	16,526	-	16,526
Contributions from employees into the scheme					
(70,995)	(3,261)	(74,256)	(74,616)	(3,479)	(78,095)
Benefits paid					
(12,878)	-	(12,878)	(13,812)	-	(13,812)
Amounts made for settlements					
1,391,237	-	1,391,237	1,511,828	-	1,511,828
<b>Balance as at 31 March</b>					

Local Government Pension Scheme assets comprised:

31 March 2013			31 March 2014		
£000	%		£000	%	
890,392	64.0%	Equities	1,007,987	67.0%	
97,387	7.0%	Gilts	120,356	8.0%	
111,299	8.0%	Other bonds	120,356	8.0%	
166,948	12.0%	Property	172,862	11.0%	
55,649	4.0%	Cash and cash equivalents	30,089	2.0%	
69,562	5.0%	Alternative Assets	60,178	4.0%	
<b>1,391,237</b>	<b>100.0%</b>	<b>Total assets</b>	<b>1,511,828</b>	<b>100.0%</b>	

Of the total Fund at 31<sup>st</sup> March 2014:

- **Equities:** 22% are UK investments and 78% are overseas investments. 93% of the Equities are listed and 7% are not.
- **Gilts:** the allocation consists entirely of UK index linked government securities.
- **Other bonds:** the allocation consists entirely of UK corporate bonds.
- **Property:** 49% of the allocation is listed.
- **Alternative assets:** 71% of the allocated is in Infrastructure (of which 53% is in the UK and 47% overseas), 8% is a Financing Fund, 19% in timber and 2% in currency.

## Section Two - Notes to the Financial Statements

### 32.4 Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by **Barnett Waddingham Public Sector Consulting**, an independent firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at **31st March 2013**.

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

Assumptions	2012/13	2013/14
▪ Rate of inflation		
- RPI	3.4%	3.6%
- CPI	2.6%	2.8%
▪ Rate of increase in salaries	4.4%	4.6%
▪ Rate of increase in pensions	2.6%	2.8%
▪ Discount rate	4.4%	4.4%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	24.2 years	24.9 years
▪ Female	26.9 years	27.4 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.7 years	22.7 years
▪ Female	25.3 years	25.1 years
▪ Long term expected rate of return on assets in the scheme	5.8%	8.0%

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

Assumptions	2012/13	2013/14
▪ Rate of inflation		
- RPI	3.1%	3.2%

## Section Two - Notes to the Financial Statements

Assumptions	2012/13	2013/14
- CPI	2.3%	2.4%
▪ Rate of increase in pensions	2.3%	2.4%
▪ Discount rate	3.1%	3.8%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above.

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

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,291,773	2,330,568	2,370,058
Projected Service Cost	57,330	58,610	59,919
<b>Adjustment to long term salary increase</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,334,502	2,330,568	2,326,651
Projected Service Cost	58,610	58,610	58,610
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,366,705	2,330,568	2,295,053
Projected Service Cost	59,939	58,610	57,309
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	2,248,863	2,330,568	2,413,011
Projected Service Cost	56,613	58,610	60,625

## Section Two - Notes to the Financial Statements

Unfunded Teachers' Pensions	Effect of change in assumptions		
	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	42,370	42,761	43,156
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	43,161	42,761	42,364
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	41,215	42,761	44,321

### 32.5 Asset and Liability Matching (ALM) Strategy

The Pensions Fund Board has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The LGPS has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (**67%** of scheme assets), gilts (**8%**) and other bonds (**8%**). These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments. There is a limited use of derivatives to manage the bond risk for the shorter-term instruments. The ALM strategy is monitored annually or more frequently if necessary.

### 32.6 Impact on the Authority'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 due to be carried out as at **31 March 2016**.

The LGPS will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014, (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average re-valued earnings schemes to pay pensions and other benefits to certain public servants.

## Section Two - Notes to the Financial Statements

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2015 is **£45.942m**. Expected contributions for the Teachers' unfunded added years awards to 31 March 2015 are **£3.5m**.

The weighted average duration of the pension obligation for the Local Government Pension Scheme members is **18** years. For the Teachers awards it is **10** years.

### 33. Audit costs

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

2012/13 £000		2013/14 £000
219	External audit services carried out by appointed auditor	219
21	Certification of grant claims and returns	11
110	Other services carried out by appointed auditor	57
<b>350</b>		<b>287</b>
(19)	Less: rebates in audit fees	-
<b>331</b>	Total fees payable to the appointed auditor	<b>287</b>

**Note:**

*The fee for 'other services carried out by appointed auditor' relates to the running of a workshop on behalf of the Council and the Clinical Commissioning Groups within Essex on the integration of health and social care services; the fee was funded from S256 grant provided by NHS England.*

### 34. Members' allowances and expenses

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

2012/13 £000		2013/14 £000
	<b>Members allowances</b>	
852	Basic allowances	863
678	Special responsibility allowances	611
<b>1,530</b>		<b>1,474</b>
77	<b>Members expenses</b>	74
<b>1,607</b>		<b>1,548</b>

## Section Two - Notes to the Financial Statements

---

### 35. 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.

2012/13			Remuneration band			2013/14		
Non-schools	Schools	Total				Non-schools	Schools	Total
122	173	295	£50,000	to	£54,999	129	173	302
82	143	225	£55,000	to	£59,999	93	130	223
44	102	146	£60,000	to	£64,999	44	94	138
39	52	91	£65,000	to	£69,999	40	44	84
27	22	49	£70,000	to	£74,999	41	27	68
19	10	29	£75,000	to	£79,999	15	13	28
20	5	25	£80,000	to	£84,999	22	3	25
11	4	15	£85,000	to	£89,999	14	3	17
12	3	15	£90,000	to	£94,999	9	3	12
5	4	9	£95,000	to	£99,999	5	2	7
9	1	10	£100,000	to	£104,999	10	4	14
5	2	7	£105,000	to	£109,999	5	-	5
3	-	3	£110,000	to	£114,999	4	-	4
1	-	1	£115,000	to	£119,999	3	-	3
2	-	2	£120,000	to	£124,999	3	-	3
1	-	1	£125,000	to	£129,999	4	-	4
2	-	2	£130,000	to	£134,999	3	-	3
-	-	-	£135,000	to	£139,999	2	-	2
1	-	1	£140,000	to	£144,999	1	1	2
1	-	1	£150,000	to	£154,999	1	-	1
2	-	2	£155,000	to	£159,999	2	-	2
-	-	-	£160,000	to	£164,999	1	-	1
1	-	1	£170,000	to	£174,999	1	-	1
1	-	1	£180,000	to	£184,999	1	-	1
-	-	-	£205,000	to	£209,999	1	-	1
1	-	1	£210,000	to	£214,999	-	-	-
411	521	932	Total			454	497	951



## Section Two - Notes to the Financial Statements

### 36. 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
		£	£	£	£	£	£	£
2012/13								
Chief Executive - Ms Joanna Killian		210,000	-	819	-	210,819	25,830	236,649
Executive Director for Schools Children & Families - Mr David Hill		182,000	-	1,093	-	183,093	21,525	204,618
Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		172,000	-	1,093	-	173,093	20,295	193,388
Director of Transformation - Mr Keir Lynch		157,000	-	1,093	-	158,093	18,450	176,543
Executive Director for Finance - Mrs Margaret Lee		157,000	-	1,093	-	158,093	18,450	176,543
Deputy Executive Director & Adult Social Care Director	(iv)	128,333	-	984	24,231	153,548	15,785	169,333
Assistant Chief Executive		123,000	-	1,093	-	124,093	14,760	138,853
Assistant Director - Corporate law	(v)	121,000	1,200	637	-	122,837	15,055	137,892
2013/14								
Chief Executive - Ms Joanna Killian		205,972	-	899	-	206,871	25,830	232,701
Executive Director - People Commissioning Mr David Hill		182,000	-	1,199	-	183,199	21,525	204,724
Deputy Chief Executive and Executive Director - Place Commissioning - Mr Robert Overall		172,275	-	1,199	-	173,474	20,329	193,803
Executive Director - Strategy, Transformation and Commissioning Support - Mr Keir Lynch		157,250	1,500	1,199	-	159,949	18,665	178,614
Executive Director for Corporate Services and Customer Operations - Mrs Margaret Lee		157,250	1,500	1,199	-	159,949	18,665	178,614
Executive Director - Family Operations	(vi)	146,500	4,095	1,199	-	151,794	17,801	169,595
Assistant Chief Executive	(vii)	30,675	1,200	300	-	32,175	3,733	35,908
Director - Corporate Law and Assurance	(v)	121,300	3,436	1,199	-	125,935	15,342	141,277
Director of Commissioning - Healthy Lifestyles Dr Michael Gogarty	(viii)	159,904	-	1,608	-	161,512	20,031	181,543

#### Notes:

- (i) Where a senior officer's salary is £50,000 or more, but less than £150,000, remuneration is disclosed individually by way of job title. For those senior officers whose salary is £150,000 or more, their name is also disclosed.
- (ii) The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have 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.

## Section Two - Notes to the Financial Statements

---

- (iv) The **Deputy Executive Director and Adult Social Care Director** left the Council on 28<sup>th</sup> February 2013.
- (v) The **Director – Corporate Law and Assurance** fulfils the role of Monitoring Officer for the Council.
- (vi) The **Executive Director – Family Operations** was appointed to the role in May 2013.
- (vii) The **Assistant Chief Executive** was a member of the Corporate Management Board until 1 July 2013. The figures included in the above table for 2013/14 therefore reflect the remuneration for this officer until this date.
- (viii) Section 57 of Schedule 5 to the Health and Social Care Act 2012 defines the Director of Public Health as a statutory chief officer by amendment to section 2 (6) of the Local Government and Housing Act 1989. The director is therefore brought within the scope of the senior officers' remuneration note with effect from 2013/14. The Council's **Director of Commissioning – Healthy Lifestyles** fulfils the statutory role of Director of Public Health.
- (ix) Several of the Council's Corporate Management Board have been employed on an interim basis during 2013/14, as follows:
- Mr Peter Tempest, who fulfils the role of **Executive Director – Adult Operations**, received **£188,802** (at a cost to the Council of £192,568);
  - Mr Mike Boyle, who also fulfils the role of **Executive Director – Adult Operations**, received **£157,617** (at a cost to the Council of £160,769); and
  - The **Executive Director – Customer Operations** (between August 2013 and February 2014) received **£75,800** (at a cost to the Council of £78,832).
- (x) The Council also employed various other staff on an interim basis during 2012/13 and 2013/14. The following interim staff earned £150,000, or more, in 2012/13 and/or 2013/14:
- Mrs Suzie Goodman, who held the position of **Interim Head of Externally Commissioned Placements and Family Support**, received **£160,092** (at a cost to the Council of £163,501) in 2012/13 and **£147,450** (at a cost to the Council of £150,577) in 2013/14;
  - Ms Sally Thornton, who held the position of **Senior Financial Analyst: Corporate Systems**, received **£153,534** in 2013/14 (at a cost to the Council of £156,828);
  - Ms Jo Twine, who holds the position of **Education Estates Strategy Manager**, received **£175,909** in 2013/14 (at a cost to the Council of £199,466); and
  - Mr Chris Proudfoot, who held the position of **Interim Category Manager – E-Sourcing**, received **£156,743** (at a cost to the Council of **£177,890**) in 2012/13.

## Section Two - Notes to the Financial Statements

### 37. 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	<p>The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.</p> <p>Grants received from government departments are detailed in notes 13 and 14.</p>
Elected members	<p>Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid is shown in note 34.</p> <p>During both 2012/13 and 2013/14, works and services were commissioned from companies in which certain members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders and procurement rules, and were minor in nature and value.</p> <p>Cllr David John Baugh (<i>who was a County Councillor until May 2013</i>) was a trustee of the Braintree District Museum and Study Centre Trust Ltd; the Council provided <b>£8,000</b> to the Trust in 2012/13. Cllr Baugh was also on the Board of the Braintree Community Youth Project which received <b>£8,000</b> from the Council during 2012/13.</p> <p>Cllr Michael Page is a trustee of the Rural Community Council of Essex (RCCE) and Cllr Mrs M J Webster (<i>who was a County Councillor until May 2013</i>) is a Director of the charity. The Council provided <b>£385,000</b> to the charity during 2013/14 (2012/13: £417,000).</p> <p>Cllr Anthony Jackson was the Chairman of Essex Cares Ltd. Further detail of the Council's relationship and transactions with Essex Cares Ltd is provided on page 119.</p> <p>Cllr Derrick Louis is a non-executive director and vice chair of Central Essex Community Services. The Council made payments totalling <b>£4.032m</b> to this organisation during 2013/14.</p> <p>The decisions to provide funding to, or to transact with, these organisations were made with proper consideration of members' declarations of interest, and none of the above members took part in any discussions or decisions relating to the giving of these amounts.</p>

## Section Two - Notes to the Financial Statements

Related party	Declaration
Officers	Members of the Council's Corporate Management Board, and other officers with independent statutory powers, can influence significantly the policies of the authority.
Essex Pension Fund	<p>The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies.</p> <p>The Council charged <b>£1.686m</b> for administering the Fund during 2013/14, of which <b>£123,000</b> was outstanding at 31st March 2014 (2012/13: <i>£1.438m, of which £77,000 was outstanding at 31<sup>st</sup> March 2013</i>).</p>
Essex Police Authority	The Council provided legal, pension, internal audit and coroners' services to the Essex Police Authority in 2013/14 to the value of <b>£824,000</b> , of which <b>£378,000</b> was outstanding at 31 March 2014 (2012/13: £860,000).
Essex Police and Crime Commissioner	<p>The Council provided legal services to the Police and Crime Commissioner during 2013/14.</p> <p>The charge levied for these services amounted to <b>£30,000</b>, of which <b>£24,000</b> was outstanding at 31st March 2014.</p>
Essex Fire Authority	<p>The Council's Monitoring Officer is also employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provides a pensions' service to the Authority.</p> <p>The total value of these services in 2013/14 was <b>£225,000</b>, of which <b>£79,000</b> was outstanding at 31 March 2014 (2012/13: £128,000).</p>
Essex Probation Board	<p>The Council provided financial and other support services to the Essex Probation Board until 31<sup>st</sup> December 2012.</p> <p>The value of the services provided in 2012/13 was <b>£83,000</b>; no amounts were outstanding at 31<sup>st</sup> March 2013.</p> <p>The Council also managed the Probation Board's surplus cash balances until 30<sup>th</sup> September 2012. The Council paid interest of <b>£4,000</b> (<i>no amounts were outstanding at 31st March 2013</i>) on the amounts borrowed (determined at the prevailing Local Authority Seven Day Rate of interest).</p>
London Probation Board	<p>The Council provided legal services to the London Probation Board during 2013/14.</p> <p>The charge levied for these services amounted to <b>£45,000</b> (2012/13: <i>£212,000, of which £12,000 was outstanding at 31<sup>st</sup> March 2013</i>).</p>
Brentwood Borough Council	The Council provided Internal Audit services to the Borough Council until 31 <sup>st</sup> March 2014. The charge for this service amounted to <b>£164,000</b> (2012/13: <i>£148,000, with £14,000 outstanding at 31<sup>st</sup> March 2013</i> ).

## Section Two - Notes to the Financial Statements

Related party	Declaration
Essex Cares Ltd	<p>Essex Cares Ltd is a 100% owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 121 to 132.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of <b>£31.1m</b> in 2013/14 (2012/13: £33.5m).</p> <p>The Council provided financial and other support services to Essex Cares Ltd during 2013/14; the value of the services provided in 2013/14 was <b>£273,000</b> (2012/13: £219,000, of which £4,000 was outstanding at 31<sup>st</sup> March 2013).</p> <p>The Council also provides cash management support to Essex Cares Ltd. The Council has paid interest of <b>£4,000</b> (net) on the amounts it borrowed from Essex Cares Ltd; no amounts were outstanding at 31<sup>st</sup> March 2014 (2012/13: paid interest of £5,000 (net) on amounts it borrowed; no amounts outstanding at 31<sup>st</sup> March 2013).</p> <p>The Council's former Deputy Executive Director and Adult Social Care Director became the Company Director with effect from March 2013.</p>
South East Local Enterprise Partnership	<p>The Local Enterprise Partnership has a range of members (including 19 businesses, 19 local authorities, 3 higher / further education representatives and a chairperson). The Council is a partner and the 'accountable body' for the partnership and for the Growing Places grant, which was awarded to the partnership by the Department for Communities and Local Government (CLG).</p> <p>The strategic aims of this partnership are to:</p> <ul style="list-style-type: none"> <li>• Secure the growth of the Thames Gateway;</li> <li>• Promote investment in coastal communities;</li> <li>• Strengthen the rural economy; and</li> <li>• Strengthen the competitive advantage of strategic growth locations.</li> </ul> <p>The Growing Places grant is used to establish and manage a recyclable fund to support economic growth, new enterprise and employment opportunities through the use of this fund.</p> <p>As 'accountable body', the Council is responsible for the proper administration and financial probity of the external funds received and it has responsibility for the funding received and its application. Any inappropriate use of grant funding, or failure to meet funding regulations, may result in the repayment of grant funding to CLG.</p> <p>Grant awarded and received from CLG to date amounts to <b>£49.208m</b>; the unapplied balance, at 31<sup>st</sup> March 2014, was <b>£45.188m</b>.</p>

## Section Two - Notes to the Financial Statements

### 38. Partnership arrangements

The Council is involved in the following partnership scheme under Section 75 of the National Health Service Act 2006:

Partnership	Nature of partnership
Essex Drug and Alcohol partnership (EDAP)	<p>This partnership aims to reduce and prevent usage of illegal drugs and alcohol, minimise their harm, treat and rehabilitate users, reduce related offending and crime, and thereby make a contribution to community well-being.</p> <p>The partners comprise the County Council, the County's Clinical Commissioning Groups, Essex Police, Essex Probation Service and HMP Chelmsford.</p> <p>The County Council receives funding from Public Health England (i.e. Public Health Grant), NHS England (Section 75 funding) and the Police and Crime Commissioner. These funds are managed by the Council, as lead commissioner, to support substance misuse services within Essex under the terms of the partnership.</p> <p>The Council accounts for the receipt of funding and related expenditure within its Statement of Accounts. Gross expenditure amounted to <b>£12.145m</b> in 2013/14, of which <b>£2.713m</b> was financed from partnership contributions and the remainder from Public Health Grant (<i>2012/13: expenditure amounted to £5.6m and partnership funding amounted to £6.355m</i>). The change since 2012/13 reflects the transition of services from the former Primary Care Trusts and NHS England.</p>

## Section Two - Group Accounts

### Introduction

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

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

These statements (*the purposes of which are explained on page 18*), 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.

	Page
Group Movement in Reserves Statement	122
Group Comprehensive Income and Expenditure Statement	123
Group Balance Sheet	124
Group Cash Flow Statement	125
Notes to the Group Accounts	126

## Group Movement in Reserves Statement

For the year ended 31 March 2014

	Notes	Usable Reserves						Total Unusable Reserves	Total Reserves	Analysis of Reserves		
		Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			Total Usable Reserves	Total Authority Reserves	Authority Share of Reserves of Subsidiary
		£000	£000	£000	£000	£000	£000			£000	£000	£000
Balance at 31 March 2012		(220,397)	(63,016)	1,040	543	(3,175)	(20,600)	(305,605)	(771,778)	(1,077,383)	(1,078,966)	1,583
Movement in Reserves during 2012/13												
Deficit on Provision of Services	3	-	82,164	(3,182)	-	-	-	78,982	-	78,982	82,164	(3,182)
Other Comprehensive Expenditure & Income	3	-	-	-	(2,063)	-	-	(2,063)	(121,478)	(123,541)	(121,478)	(2,063)
Total Comprehensive Expenditure and Income		-	82,164	(3,182)	(2,063)	-	-	76,919	(121,478)	(44,559)	(39,314)	(5,245)
Adjustments between accounting basis & funding under regulations		-	(154,192)	(1,136)	1,136	127	(12,709)	(166,774)	166,774	-	-	-
Net (increase)/decrease before transfers to earmarked reserves		-	(72,028)	(4,318)	(927)	127	(12,709)	(89,855)	45,296	(44,559)	(39,314)	(5,245)
Transfers to Earmarked Reserves		(49,493)	49,493	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2012/13		(49,493)	(22,535)	(4,318)	(927)	127	(12,709)	(89,855)	45,296	(44,559)	(39,314)	(5,245)
Balance at 31 March 2013		(269,890)	(85,551)	(3,278)	(384)	(3,048)	(33,309)	(395,460)	(726,482)	(1,121,942)	(1,118,280)	(3,662)
Movement in Reserves during 2013/14												
Deficit on Provision of Services		-	117,280	176	-	-	-	117,456	-	117,456	117,280	176
Other Comprehensive Expenditure & Income		-	-	-	(6,090)	-	-	(6,090)	(215,382)	(221,472)	(215,382)	(6,090)
Total Comprehensive Expenditure and Income		-	117,280	176	(6,090)	-	-	111,366	(215,382)	(104,016)	(98,102)	(5,914)
Adjustments between accounting basis & funding under regulations		-	(137,010)	(888)	888	(18,228)	17,740	(137,498)	137,498	-	-	-
Net (increase)/decrease before transfers to earmarked reserves		-	(19,730)	(712)	(5,202)	(18,228)	17,740	(26,132)	(77,884)	(104,016)	(98,102)	(5,914)
Transfers to Earmarked Reserves		(47,918)	47,918	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2013/14		(47,918)	28,188	(712)	(5,202)	(18,228)	17,740	(26,132)	(77,884)	(104,016)	(98,102)	(5,914)
Balance at 31 March 2014		(317,808)	(57,363)	(3,990)	(5,586)	(21,276)	(15,569)	(421,592)	(804,366)	(1,225,958)	(1,216,382)	(9,576)

Note:

Prior year comparatives have been restated – see Note 3 to the Group Accounts (which commences on page 126) for details.



# Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2014

2012/13 (restated)				Note	2013/14			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
512,240	(84,401)	(72,646)	355,193		531,155	(81,726)	(25,285)	424,144
1,079,334	(63,735)	(703,129)	312,470		1,023,227	(62,113)	(669,806)	291,308
28,620	(6,090)	(924)	21,606		29,615	(4,572)	(3,825)	21,218
75,772	(2,055)	(25)	73,692		75,360	(2,669)	(2,994)	69,697
135,746	(19,959)	(8,885)	106,902		135,521	(21,605)	(1,020)	112,896
1,814	(626)	-	1,188		1,847	(661)	-	1,186
15,703	(2,751)	(1,143)	11,809		13,564	(1,088)	(544)	11,932
7,171	(4,418)	-	2,753		9,481	(4,373)	-	5,108
40,407	(631)	(1,365)	38,411		34,531	(1,297)	(744)	32,490
(21,961)	(57)	(35)	(22,053)		(13,823)	6	(72)	(13,889)
1,874,846	(184,723)	(788,152)	901,971		1,840,478	(180,098)	(704,290)	956,090
-	-	-	-		47,283	(1,234)	(45,065)	984
1,874,846	(184,723)	(788,152)	901,971		1,887,761	(181,332)	(749,355)	957,074
151,506	-	-	151,506		124,912	-	-	124,912
124,145	(62,788)	-	61,357	3	130,194	(67,780)	-	62,414
-	(854,718)	(181,131)	(1,035,849)		-	(681,250)	(345,710)	(1,026,960)
2,150,497	(1,102,229)	(969,283)	78,985		2,142,867	(930,362)	(1,095,065)	117,440
			(3)					16
			78,982					117,456
			(180,407)					(84,578)
			1,023					664
			-					(262)
			55,843	3				(137,296)
			(123,541)					(221,472)
			(44,559)					(104,016)

Note:

Prior year comparatives have been restated – see Note 3 to the Group Accounts (which commences on page 126) for details.

## Section Two - Group Accounts

### Group Balance Sheet as at 31st March 2014

1 April 2012 £000	31 March 2013 £000	Note	31 March 2014 £000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,672,150	1,608,850	Land and buildings	1,540,924	
54,957	68,315	Vehicles, plant and equipment	85,383	
650,213	667,957	Infrastructure	772,530	
3,314	3,006	Community assets	2,635	
		<b>Non operational assets</b>		
128,593	141,135	Assets under construction	61,537	
4,838	17,257	Surplus assets held pending disposal	16,056	
		<b>Total Property, Plant and Equipment</b>	2,479,065	
2,514,065	2,506,520	Heritage assets	14,067	
14,312	14,340	Investment property	6,577	
3,831	5,371	Intangible assets	879	
1,942	1,503	Long term investments	7,432	
1,693	4,638	Long term debtors	17,768	
24,342	20,885			
2,560,185	2,553,257	<b>Long term assets</b>		2,525,788
18,665	184,837	Short term investments	146,317	
834	1,402	Inventory	1,361	
	45	Current intangible assets	-	
125,170	108,681	Short term debtors	118,247	
152,622	70,903	Cash and cash equivalents	155,396	
4,328	8,318	Assets held for sale	4,431	
301,619	374,186	<b>Current assets</b>		425,752
(7,039)	(22,372)	Short-term borrowing	(25,338)	
(251,968)	(229,450)	Creditors	(222,663)	
(18,907)	(15,957)	Revenue grant receipts in advance	(24,187)	
(61,147)	(44,337)	Capital grant receipts in advance	(46,930)	
(7,907)	(7,741)	Provisions (current)	(10,572)	
(3,112)	(3,283)	Finance lease obligations - short term	(4,872)	
(350,080)	(323,140)	<b>Current liabilities</b>		(334,562)
-	(222)	Long term creditors	(30)	
(26,380)	(25,560)	Provisions (non-current)	(24,403)	
(360,449)	(342,261)	Long term borrowing	(335,081)	
		Other long term liabilities		
(136,081)	(132,670)	Finance lease obligations - long term	(160,033)	
(17,057)	(16,294)	Deferred credits	(15,558)	
(894,374)	(965,354)	Net Pensions liability	(855,915)	
(1,434,341)	(1,482,361)	<b>Long term liabilities</b>		(1,391,020)
1,077,383	1,121,942	<b>Net Assets</b>		1,225,958
		<b>Usable reserves</b>		
(220,397)	(269,890)	Earmarked reserves	(317,808)	
(63,016)	(85,551)	General Fund Balance	(57,363)	
1,040	(3,278)	Profit and Loss reserve	(3,990)	
543	(384)	Pension reserve	(5,586)	
(3,175)	(3,048)	Usable capital receipts reserve	(21,276)	
(20,600)	(33,309)	Capital grants unapplied	(15,569)	
(305,605)	(395,460)			(421,592)
		<b>Unusable reserves</b>		
(218,739)	(370,904)	Revaluation reserve	(415,094)	
(1,459,916)	(1,331,657)	Capital Adjustments Account	(1,256,726)	
3,301	3,261	Financial Instruments Adjustment Account	3,221	
-	-	Available for Sale Financial Instruments Reserve	(262)	
893,831	965,738	Pension reserve	861,501	
(5,221)	(3,221)	Deferred capital receipts	-	
(2,576)	(6,242)	Collection Fund Adjustment Account	(11,987)	
17,542	16,543	Accumulating Compensated Absences Adjustment Account	14,981	
(771,778)	(726,482)			(804,366)
(1,077,383)	(1,121,942)	<b>Total Reserves</b>		(1,225,958)

## Section Two - Group Accounts

### Group Cash Flow Statement

For the year ended 31 March 2014

2012/13 £000	Notes		2013/14 £000
(120,192)	6	Operating activities	(116,323)
188,317	↓	Investing activities	(19,556)
13,594	↓	Financing activities	51,386
<b>81,719</b>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<b>(84,493)</b>
152,622		Cash and cash equivalents at 1st April	70,903
<b>70,903</b>		Cash and cash equivalents at 31st March	<b>155,396</b>

# Section Two - Group Accounts

---

## Notes to the Group Accounts

### 1. Group boundary

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

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

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

### 2. Accounting policies

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

### 3. Prior period adjustments

#### 3.1 International Accounting Standard (IAS) 19 'Employee Benefits'

Changes have been required to the accounting policy for employee benefits to include two new classes of components of pension costs. These new components have resulted in the reclassification of certain pension income and expenditure balances within the Group Comprehensive Income and Expenditure Statement and Movement in Reserves Statement. Further explanation is provided in paragraph 4.1 of the Council's 'single entity' accounts, which commences on page 45.

Comparative amounts for the prior period have been restated to apply the changes in accounting policy for employee benefits retrospectively. The impact of these changes on the Group Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement for 2012/13 are shown below. These changes have no impact on the Balance Sheet as at 1 April 2012 and 31 March 2013 or on the Cash Flow Statement for 2012/13.

## Section Two - Group Accounts

### 3.2 Restatement of the 2012/13 Group Comprehensive Income and Expenditure Statement

	2012/13 Statement of Accounts	Prior period adjustment (IAS 19)	2012/13 Restated
	£000	£000	£000
<b>Cost of services</b>	901,971	-	901,971
Other Operating Expenditure	151,506	-	151,506
Financing and Investment Income and Expenditure	45,342	16,015	61,357
Taxation and Non-Specific Grant Income	(1,035,849)	-	(1,035,849)
<b>Deficit on Provision of Services</b>	62,970	16,015	78,985
Tax expenses of subsidiary	(3)	-	(3)
<b>Group deficit</b>	62,967	16,015	78,982
Surplus arising on revaluation of non-current assets	(180,407)	-	(180,407)
Impairment losses on non-current assets charged to Revaluation Reserve	1,023	-	1,023
(Surplus) / deficit arising on revaluation of available for sale financial assets	-	-	-
Re-measurements of the net pension liability	71,858	(16,015)	55,843
<b>Other Comprehensive Income and Expenditure</b>	(107,526)	(16,015)	(123,541)
<b>Total Comprehensive Income and Expenditure</b>	(44,559)	-	(44,559)

### 3.3 Restatement of the 2012/13 Group Movement in Reserves Statement

	2012/13 Statement of Accounts	Prior period adjustment (IAS 19)	2012/13 Restated
	£000	£000	£000
<b>Balance at 31 March 2012</b>	(1,077,383)	-	(1,077,383)
<b>Movement in Reserves during 2012/13</b>			
Surplus on Provision of Services	62,967	16,015	78,982
Other Comprehensive Income and Expenditure	(107,526)	(16,015)	(123,541)
<b>Total Comprehensive Income and Expenditure</b>	(44,559)	-	(44,559)
Adjustments between accounting basis and funding under regulations	-	-	-
<b>Net increase / decrease before transfers to earmarked reserves</b>	(44,559)	-	(44,559)
Transfers to Earmarked Reserves	-	-	-
<b>Increase in 2012/13</b>	(44,559)	-	(44,559)
<b>Balance at 31 March 2013</b>	(1,121,942)	-	(1,121,942)

## Section Two - Group Accounts

### 4. Debtors and creditors

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

### 5. Defined Benefit Pension Schemes

Note 32 of the Council's single entity accounts explains the Council's participation in the Local Government Pension Scheme. Essex Cares Ltd also participates in this scheme as an admitted body. The following paragraphs explain the Group transactions relating to retirement benefits, the Group assets and liabilities within the Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2013/14:

2012/13 (restated)			2013/14		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
57,674	1,862	59,536	60,942	1,900	62,842
2,305	167	2,472	2,600	99	2,699
(25,342)	-	(25,342)	(17,826)	-	(17,826)
34,637	2,029	36,666	45,716	1,999	47,715
<b>Financing and Investment Income and Expenditure</b>					
37,612	48	37,660	38,758	(39)	38,719
37,612	48	37,660	38,758	(39)	38,719
72,249	2,077	74,326	84,474	1,960	86,434
<b>Total charge to the Surplus / Deficit on Provision of Services</b>					
<b>Re-measurement of the net pensions liability</b>					
(97,726)	(1,945)	(99,671)	(60,650)	(1,947)	(62,597)
<b>Actuarial (gains) / losses arising from changes in:</b>					
138,092	(118)	137,974	65,414	1,016	66,430
-	-	-	(134,779)	(2,307)	(137,086)
2,353	-	2,353	16,601	(2,503)	14,098
2,776	-	2,776	(15,589)	(349)	(15,938)
45,495	(2,063)	43,432	(129,003)	(6,090)	(135,093)
117,744	14	117,758	(44,529)	(4,130)	(48,659)
<b>Total charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Movement on the Authority's General Fund Balance</b>					
(56,763)	(2,077)	(58,840)	(84,474)	(1,960)	(86,434)
56,582	941	57,523	55,431	1,072	56,503
(181)	(1,136)	(1,317)	(29,043)	(888)	(29,931)

## Section Two - Group Accounts

The amount included within the Group Balance Sheet in respect of its defined benefit pension plan is:

2012/13				2013/14		
Council £000	Subsidiary £000	Total £000		Council £000	Subsidiary £000	Total £000
2,309,937	44,219	2,354,156	Present value of the defined benefit obligation	2,330,568	44,233	2,374,801
(1,391,237)	(44,603)	(1,435,840)	Fair value of plan assets	(1,511,828)	(49,819)	(1,561,647)
918,700	(384)	918,316	<b>Net liability arising from defined benefit obligations</b>	818,740	(5,586)	813,154

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

2012/13 (Restated)				2013/14		
Authority £000	Subsidiary £000	Group £000		Authority £000	Subsidiary £000	Group £000
2,107,230	39,739	2,146,969	<b>Balance as at 1 April</b>	2,309,937	44,219	2,354,156
57,674	1,862	59,536	Current service cost	60,942	1,897	62,839
94,735	1,821	96,556	Interest Cost	99,581	2,045	101,626
16,763	628	17,391	Contributions by scheme participants	16,526	592	17,118
			Actuarial (gains) / losses			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(134,779)	(2,307)	(137,086)
138,092	1,074	139,166	Actuarial (gains) / losses arising from changes in financial assumptions	65,414	1,016	66,430
-	-	-	Experience loss ( gain) on defined benefit obligation	-	(2,503)	(2,503)
2,353	-	2,353	Other	16,601	-	16,601
2,305	167	2,472	Past service costs	2,600	99	2,699
(70,995)	(1,072)	(72,067)	Benefits paid	(74,616)	(825)	(75,441)
(38,220)	-	(38,220)	Liabilities extinguished on settlements	(31,638)	-	(31,638)
2,309,937	44,219	2,354,156	<b>Balance as at 31 March</b>	2,330,568	44,233	2,374,801

## Section Two - Group Accounts

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

2012/13 (Restated)				2013/14		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
1,249,692	39,196	1,288,888	Balance as at 1 April	1,391,237	44,603	1,435,840
57,123	1,773	58,896	Interest income	60,823	2,081	62,904
			Remeasurement gain / (loss)			
97,726	3,137	100,863	Return on plan assets (excl. amount incl in net interest expense)	60,650	1,947	62,597
(2,776)	-	(2,776)	Other	15,589	349	15,938
56,582	941	57,523	Contributions by Employer	55,431	1,072	56,503
16,763	628	17,391	Contributions by scheme participants	16,526	592	17,118
(70,995)	(1,072)	(72,067)	Benefits paid	(74,616)	(825)	(75,441)
(12,878)	-	(12,878)	Settlements	(13,812)	-	(13,812)
1,391,237	44,603	1,435,840	Balance as at 31 March	1,511,828	49,819	1,561,647

The Scheme assets comprised:

31 March 2013			31 March 2014		
£000	%		£000	%	
918,835	64.0%	Equities	1,041,365	67.0%	
100,528	7.0%	Gilts	124,342	8.0%	
114,891	8.0%	Other bonds	124,341	8.0%	
172,335	12.0%	Property	178,342	11.0%	
57,444	4.0%	Cash and cash equivalents	31,085	2.0%	
71,807	5.0%	Alternative Assets	62,172	4.0%	
1,435,840	100.0%	Total assets	1,561,647	100.0%	

Paragraph 32.4 of the Council's 'single entity' accounts, which commences on page 109, set out the significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period. It assumes for each change that the assumption analysed changes, while all other assumptions remain constant.



## Section Two - Group Accounts

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,335,146	2,374,801	2,415,168
Projected Service Cost	59,206	60,525	61,875
<b>Adjustment to long term salary increase</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,378,857	2,374,801	2,370,762
Projected Service Cost	60,525	60,525	60,525
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	2,411,710	2,374,801	2,338,530
Projected Service Cost	61,896	60,525	59,184
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	2,291,565	2,374,801	2,458,789
Projected Service Cost	58,464	60,525	62,608

## Section Two - Group Accounts

### 6. Cash Flow

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

2012/13 £000		2013/14 £000      £000	
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
(851,052)	Taxation	(675,505)	
(876,303)	Grants	(1,011,734)	
(224,561)	Sales of goods and rendering of services	(209,191)	
(2,895)	Interest received	(4,112)	
<u>(1,954,811)</u>			<u>(1,900,542)</u>
<b>Cash outflows</b>			
616,318	Cash paid to and on behalf of employees	572,991	
29,329	Interest paid	31,046	
1,088,077	Cash paid to suppliers of goods and services	1,051,060	
100,895	Other payments for operating activities	129,122	
<u>1,834,619</u>			<u>1,784,219</u>
<u>(120,192)</u>	<b>Net inflow of cash from operating activities</b>		<u>(116,323)</u>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
(12,815)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(19,903)	
-	Proceeds from short and long term investments	(38,000)	
(91,060)	Other receipts from investing activities	(79,610)	
<u>(103,875)</u>			<u>(137,513)</u>
<b>Cash outflows</b>			
96,458	Purchase of property, plant and equipment, investment property and intangible assets	93,448	
168,342	Purchase of short and long term investments	2,500	
27,392	Other payments for investing activities	22,009	
<u>292,192</u>			<u>117,957</u>
<u>188,317</u>	<b>Net (inflow) / outflow of cash from investing activities</b>		<u>(19,556)</u>
<b>Cash flows generated from financing activities</b>			
<b>Cash inflows</b>			
(114)	Other receipts from financing activities	(114)	
<u>(114)</u>			<u>(114)</u>
<b>Cash outflows</b>			
3,136	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	4,203	
2,855	Repayment of short and long term borrowing	4,214	
7,717	Other payments for financing activities	43,083	
<u>13,708</u>			<u>51,500</u>
<u>13,594</u>	<b>Net outflow of cash from financing activities</b>		<u>51,386</u>
<u>81,719</u>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<u>(84,493)</u>

## Section Two - Pension Fund Accounts

---

### Introduction

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

	Page
<b>Fund Account</b>	<b>134</b>
<b>Net Asset Statement</b>	<b>135</b>
<b>Notes to the Pension Fund Accounts</b>	<b>136</b>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Fund Account for the year ended 31 March 2014

2012/13 £000	Note		2013/14 £000	£000
		<b>Contributions and Benefits</b>		
		<b>Income</b>		
		Contributions receivable		
(47,260)	7	Member contributions	(48,843)	
(177,755)	7	Employers' contributions	(164,798)	
(13,217)	7	Transfers in from other Pension Funds	(10,157)	
(132)		Other income	(66)	
<u>(238,364)</u>		<b>Total income</b>		<u>(223,864)</u>
		<b>Expenditure</b>		
		Benefits payable		
154,022	7	Pensions	162,589	
36,138		Commutation of pensions & lump sum retirement benefits	36,518	
4,403		Lump sum death benefits	3,951	
		Payments to and on account of Leavers		
70		Refunds of contributions	29	
6		State scheme premiums	7	
8,851	7	Transfers out to other schemes	9,967	
1,744	9	Administration expenses	2,292	
<u>205,234</u>		<b>Total expenditure</b>		<u>215,353</u>
(33,130)		<b>Net additions from dealings with members</b>		<u>(8,511)</u>
		Returns on investments		
(71,300)	8	Investment income	(63,564)	
(355,171)	11	Profit and losses on disposal of investments and changes in market value of investments	(330,474)	
3,106	14	Taxes on income	3,010	
17,669	10	Investment management expenses	20,638	
<u>(405,696)</u>		<b>Net returns on investments</b>		<u>(370,390)</u>
(438,826)		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		<u>(378,901)</u>
(3,519,647)		<b>Net assets as at 1 April</b>		<u>(3,958,473)</u>
<u>(3,958,473)</u>		<b>Net assets as at 31 March</b>		<u>(4,337,374)</u>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Net Assets Statement as at 31 March 2014

31 March 2013 £000	Note		31 March 2014 £000	£000
	<b>11</b>	<b>Investments at market value</b>		
		Investment assets		
179,980		Fixed interest securities	186,598	
2,427,887		Equities	2,644,294	
264,371		Index linked securities	344,996	
195,665		Property	237,300	
222,930		Property unit trusts	231,664	
196,995		Private Equity	212,033	
113,567		Infrastructure	127,236	
30,972		Timber	34,705	
25,332		Active currency	-	
175,598		Other managed funds	185,029	
1,925		Derivative contracts	4,282	
96,481		Cash/deposits	93,508	
10,570		Other investment balances	10,524	
<u>3,942,273</u>				4,312,169
		Investment liabilities		
(18,010)		Derivative contracts	(390)	
<u>(3,191)</u>		Other investment balances	<u>(1,541)</u>	
<u>(21,201)</u>				<u>(1,931)</u>
<u>3,921,072</u>		<b>Total Investments</b>		<u>4,310,238</u>
		<b>Long term assets</b>		
9,414		Contributions due from employers		7,907
	<b>13</b>	<b>Current assets and liabilities</b>		
		Current Assets		
17,276		Cash		13,638
17,853		Contributions due from employers and other current assets		18,516
<u>3,965,615</u>				<u>4,350,299</u>
		Current liabilities		
(7,142)		Unpaid benefits and other current liabilities		(12,925)
<u>3,958,473</u>		<b>Net assets of the scheme available to fund benefits</b>		<u>4,337,374</u>

# Section Two - Pension Fund Accounts

---

## Notes to the Pension Fund Accounts

### 1. Background

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

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 Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme( LGPS) Benefits, Membership and Contribution Regulations 2007 (as amended);
- LGPS (Administration) Regulations 2008 (as amended);
- LGPS (Management and Investment of Funds) Regulations 2009; and
- LGPS (Miscellaneous Amendments) Regulations 2014.

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. As a result the Fund now contains around **530** employing bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report & Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the Essex Pension Fund Board and Investment Steering Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate Services and Customer Operations 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 Investment Steering Committee (ISC) oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report & Accounts.

## Section Two - Pension Fund Accounts

---

### 2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 2013/14 (SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007). The accounts are prepared on a going concern basis.

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

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2013/14 financial year and its position as at 31 March 2014. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2014 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

### 3. Actuarial valuation

The contributions payable for 2013/14 were determined by the 2010 Actuarial Valuation.

#### 3.1 Actuarial Valuation 2013

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,926m** (on a smoothed basis) represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **7.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.5%** of Pensionable Pay in total.

## Section Two - Pension Fund Accounts

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

The main financial assumptions used were as follows:

	<b>Past and Future liabilities</b> <i>Rate per annum</i>
Rate of discount	<b>5.80%</b>
Retail Price Index (RPI)	<b>3.50%</b>
Consumer Price Index (CPI)	<b>2.70%</b>
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	<b>3.00%</b>
Short term pay increase	<b>In line with CPI assumptions for 2 years to 31 March 2015</b>
Long term pay increase	<b>4.50%</b>

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2017.

### 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 17. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer



## Section Two - Pension Fund Accounts

---

contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

### 3.3 Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used 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 2013.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2014 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond 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 2014 is 18 years which in turn means a discount rate of **4.4%** per annum (31 March 2013: 4.3%). The value of the Fund's promised retirement benefits as at 31 March 2014 was **£6,515m** (31 March 2013: £6,585m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2010, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.6% per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£4,720m**.

## 4. Accounting policies

### 4.1 Fund Account – revenue recognition

#### 4.1.1 Contribution income

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

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

## Section Two - Pension Fund Accounts

---

### 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 7 which commences on page 147).

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 7 which commences on page 147).

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**

This income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Asset Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 14 (page 162).

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

This income is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- **Income from other investments**

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

- **Property related income**

This consists primarily of rental income on property leases, and is recognised on a straight line basis over the term of the leases.

- **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.

## Section Two - Pension Fund Accounts

---

### 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 Asset 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 Administration expenses

Administration expenses are accounted for on an accruals basis. All expenses are recognised net of any recoverable VAT. All relevant staff costs including management, accommodation and other overhead costs has been charged direct to the Fund on the basis of time spent on investment related matters and pension administration. In 2013/14 this totalled **£1.686m** (2012/13: £1.438m).

#### 4.2.4 Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in their mandates governing their appointments. Broadly these are based on the market value of investments under their management and therefore increase or reduce as the value of investments change. In addition, an element of some managers' fees is performance related, subject to them reaching a trigger point. Performance related fees totalled **£401,000** in 2013/14 (2012/13: £1.466m).

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

## Section Two - Pension Fund Accounts

---

### 4.3 Net Asset Statement

#### 4.3.1 Financial Assets

Financial assets are held at fair value, as at each 31 March, and are recognised 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. Acquisition costs are included in the purchase cost of investments.

#### 4.3.2 Valuation of investments

The value of investments is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31<sup>st</sup> March.

- **Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the latest financial statements published by the respective fund managers. In general these are valued as at each 31 March, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. However, in a few cases an estimate of the valuation at 31 March 2014 is made – in such instances, 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.

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

- **Directly held investments**

These include investments in limited partnerships, unlisted companies, trust and bonds.

The valuation of other unquoted securities (typically including pooled investments in property, infrastructure, debt securities and private equity) 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.

## Section Two - Pension Fund Accounts

---

### ▪ Value of fixed interest investments

Fixed interest investments 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 11).

### ▪ Direct Property Investments

Direct property investments have been valued, at open market value as at 31 March 2014, 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.

### 4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from its investments 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 margin and variation margin.

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

### 4.3.4 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.

### 4.3.5 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.

## Section Two - Pension Fund Accounts

---

### 4.3.6 Financial Liabilities

Financial liabilities are recognised on the date the Fund becomes party to the liability at fair value as at each 31 March. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### 4.3.7 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 Council's control.

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

Contingent 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.

### 4.3.8 Financial Instruments

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

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

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

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## Section Two - Pension Fund Accounts

---

### 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 2014 was **£212m** (31 March 2013: £197m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by M&G Investments 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 2014 was **£127.2m** (31 March 2013: £113.6m).

- **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 2014 was **£34.7m** (31 March 2013: £31m).

- **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. This estimate is subject to significant variances, based on changes to the underlying assumptions.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Asset Statement. This is shown in Note 3.3.

## Section Two - Pension Fund Accounts

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

The Fund Accounts contains 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 2014 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	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a <b>0.5%</b> decrease in the discount rate assumption would result in an increase in the pension liability of <b>£415m</b>.</p> <p>A <b>0.5%</b> increase in the long-term rate of salary increase would increase the value of liabilities by approximately <b>£46m</b>.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from <b>1.5%</b> to <b>1.75%</b> per annual would increase the liability by approximately <b>£45m</b>.</p>
Private equity / Infrastructure / Timber	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 investments in the financial statements are <b>£212m</b> . There is a risk that this investment may be under or overstated in the accounts.



## Section Two - Pension Fund Accounts

### 7. Membership activities

#### 7.1 Membership

31 March 2013		31 March 2014 <i>Provisional</i>
45,001	Contributors	49,516
42,092	Deferred pensioners	43,693
33,873	Pensioners	35,254

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

#### 7.2 Pension benefits payable

2012/13 £000		2013/14 £000
57,296	Administering Authority	60,296
81,284	Scheduled Bodies	85,589
7,327	Admitted Bodies	7,681
4,075	Community Admission Bodies	4,354
3,580	Transferee Admission Bodies	4,171
460	Resolution Bodies	498
<u>154,022</u>		<u>162,589</u>

## Section Two - Pension Fund Accounts

### 7.3 Contributions receivable

#### 7.3.1 By category

Contributions receivable from employers are set out below:

2012/13 £000		2013/14 £000
93,082	Normal	97,611
-	Augmentation	4
78,669	Deficit	62,905
6,004	Other	4,278
<b>177,755</b>		<b>164,798</b>

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

#### 7.3.2 By type

2012/13			2013/14	
Member £000	Employer £000		Member £000	Employer £000
15,400	50,062	Administering Authority	15,355	49,821
24,583	87,854	Scheduled Bodies	26,699	92,997
1,006	20,764	Admitted Bodies	848	4,448
3,628	10,633	Community Admission Bodies	3,340	9,467
2,422	7,794	Transferee Admission Bodies	2,371	7,367
221	648	Resolution Bodies	230	698
<b>47,260</b>	<b>177,755</b>		<b>48,843</b>	<b>164,798</b>

During 2013/14 Greenfields paid a total of **£815,000** (2012/13: £689,000) towards the Actuarial deficiency.

The 2013 Actuarial Valuation took place during 2013/14. A number of employers opted to pay in 2013/14 sums based on the emerging results. These were:

- Orchestras Live - **£5,000**;
- Local Valuation Service - **£13,000**;
- Open College Network Eastern Region - **£52,000**;
- Inclusion Trust - **£14,000**; and
- Social Care Institute for Excellence - **£148,000**.

## Section Two - Pension Fund Accounts

All employers made these payments prior to 31 March 2014.

In 2013/14 Final termination amounts were received from Westminster Drugs Project (£58,000), Sodexo Ltd (£31,000) and from RM Education (£60,000).

In 2012/13 Final termination amounts were received from General Social Care Council (£13.4m), Thurrock Thames Gateway Development Corporation (£2.5m) and Serco Solutions (£30,000).

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

2012/13			2013/14	
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000
336	-	Group transfers	-	-
12,881	8,851	Individual transfers	10,157	9,967
<b>13,217</b>	<b>8,851</b>	<b>Total</b>	<b>10,157</b>	<b>9,967</b>

## 8. Investment income

### 8.1 By Type

2012/13 £000		2013/14 £000
37,863	Dividends from equities	36,299
2,558	Income from index linked securities	2,732
7,547	Income from pooled property investments	7,448
13,131	Net rent from properties	14,386
587	Interest from cash deposits	56
8,660	Other	788
<b>70,346</b>	<b>Total investment income showing net property rent</b>	<b>61,709</b>
	Add back:	
954	Property operating expenses	1,855
<b>71,300</b>	<b>Total investment income showing gross property rent</b>	<b>63,564</b>

The above table shows rent from properties net of related expenses, but the Fund Account shows rent from properties on a 'gross' basis.

## Section Two - Pension Fund Accounts

### 8.2 Investment property net rental

2012/13 £000		2013/14 £000
13,783	Rental Income from investment property	15,735
(661)	Direct operating expenses arising from investment property	(1,250)
<b>13,122</b>	<b>Total</b>	<b>14,485</b>

### 8.3 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
<b>Fair value at 1 April 2012</b>	<b>153,260</b>	<b>42,780</b>	<b>196,040</b>
Additions	416	7,541	7,957
Disposals	(100)	(21)	(121)
Net gain/loss on fair value	(7,236)	(975)	(8,211)
<b>Fair value at 31 March 2013</b>	<b>146,340</b>	<b>49,325</b>	<b>195,665</b>
Additions	30,272	9,539	39,811
Disposals	(9,854)	-	(9,854)
Net gain/loss on fair value	7,572	4,106	11,678
<b>Fair value at 31 March 2014</b>	<b>174,330</b>	<b>62,970</b>	<b>237,300</b>

## 9. Administrative expenses

2012/13 £000		2013/14 £000
1,438	Administration and Processing	1,686
114	Actuarial Fees	194
51	Audit fees	64
134	Legal fees	348
7	Other professional fees	-
<b>1,744</b>		<b>2,292</b>

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

## Section Two - Pension Fund Accounts

### 10. Investment management expenses

2012/13 £000		2013/14 £000
15,841	Management fees	17,800
357	Custody fees	527
29	Performance monitoring services	4
459	Advisory fees	407
983	Other	1,900
<b>17,669</b>	<b>Total</b>	<b>20,638</b>

### 11. Investments

#### 11.1 Value of investments held by managers

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

2013			2014		
£m	%		£m	%	
465	11.9	Aviva Investors	510	11.8	
320	8.2	Baillie Gifford and Co	383	8.9	
281	7.2	FIL Pensions Management	-	-	
232	5.9	First State Investments (UK) Ltd	217	5.0	
180	4.6	Goldman Sachs Asset Management International	186	4.3	
3	0.1	Hermes UK Smaller Companies Focus Fund	4	0.1	
1,598	40.7	Legal and General Investment Management	1,531	35.5	
(16)	-0.4	Legal and General Investment Management (Currency)	4	0.1	
-	-	Longview Partners	290	6.7	
301	7.7	Marathon Asset Management Ltd	325	7.6	
25	0.6	Mellon Capital Management	-	-	
-	-	M&G Investments	277	6.4	
156	4.0	M&G Investments Alpha Opportunities	166	3.9	
72	1.8	M&G Investments Infracapital	68	1.6	
16	0.4	M&G Investments Financing Fund	15	0.3	
43	1.1	Partners Group Management II S.à r.l	60	1.4	
214	5.4	Private Equity/Other	239	5.6	
31	0.8	Stafford Timberland Limited	35	0.8	
<b>3,921</b>	<b>100.0</b>		<b>4,310</b>	<b>100.0</b>	

## Section Two - Pension Fund Accounts

### 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:

2012/13	Value at 1 April 2012	2012/13 Movement					Value at 31 March 2013
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK quoted	170,600	-	-	-	9,380	-	179,980
<b>Equities</b>							
UK quoted	77,437	54,811	(31,027)	(23,923)	12,065	-	89,363
Overseas quoted	1,114,687	419,231	(194,123)	(457,019)	123,030	-	1,005,806
UK unit trusts	291,304	-	30,617	(19,100)	49,086	-	351,907
Overseas unit trusts	702,179	-	190,020	(56,309)	144,921	-	980,811
Global unit trusts	-	-	-	-	-	-	-
<b>Index linked securities (UK public sector quoted)</b>	<b>127,446</b>	<b>81,105</b>	<b>47,789</b>	<b>(17,295)</b>	<b>25,326</b>	<b>-</b>	<b>264,371</b>
<b>Property</b>							
UK properties (freehold)	153,260	416	-	(100)	(7,236)	-	146,340
UK properties (leasehold)	42,780	7,541	-	(21)	(975)	-	49,325
Property unit trusts	237,865	1,702	-	(4,570)	(12,067)	-	222,930
<b>Private equity</b>							
UK unquoted	251	-	-	(38)	169	-	382
Overseas unquoted	154,173	52,040	-	(35,402)	25,802	-	196,613
<b>Infrastructure</b>							
UK unquoted	66,762	2,208	-	(4,157)	6,781	-	71,594
overseas unquoted	36,240	6,759	-	(2,024)	998	-	41,973
<b>Timber (Overseas unquoted)</b>	<b>28,181</b>	<b>2,161</b>	<b>-</b>	<b>-</b>	<b>630</b>	<b>-</b>	<b>30,972</b>
<b>Active currency (UK unquoted)</b>	<b>25,676</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(344)</b>	<b>-</b>	<b>25,332</b>
<b>Other managed funds</b>							
UK unquoted	162,687	6,955	-	(721)	6,677	-	175,598
Overseas unquoted	723	-	-	(631)	(92)	-	-
<b>Derivative future contracts</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>-</b>
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	40,951	-	7,017	-	-	20,471	68,439
Foreign currency	27,588	-	-	28,630	(28,630)	454	28,042
Cash deposits held in the margin account at GSAM							
Sterling	276	-	-	-	-	(276)	-
Foreign currency	53	-	-	329	(329)	(53)	-
	<b>3,461,140</b>	<b>634,929</b>	<b>50,293</b>	<b>(592,351)</b>	<b>355,171</b>	<b>20,596</b>	<b>3,929,778</b>
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	2,591						4,156
Investment income due	5,494						6,414
Liabilities							
Amounts payable for purchase of investments	(4,484)						(2,990)
Investment withholding tax payable	(127)						(201)
<b>Derivative pending foreign currency contracts</b>							
Assets	21,632						1,925
Liabilities	(45)						(18,010)
	<b>3,486,201</b>						<b>3,921,072</b>

## Section Two - Pension Fund Accounts

2013/14	Value at 1 April 2013	2013/14 Movement					Value at 31 March 2014
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK quoted	179,980	-	-	-	6,618	-	186,598
<b>Equities</b>							
UK quoted	89,363	22,180	33,073	(13,678)	(2,305)	-	128,633
Overseas quoted	1,005,806	304,909	(20,700)	(316,123)	79,437	-	1,053,329
UK unit trusts	351,907	48,559	(104,981)	(98,113)	31,395	-	228,767
Overseas unit trusts	980,811	480,613	(479,084)	(372,057)	75,697	-	685,980
Global unit trusts	-	28,972	506,491	-	12,122	-	547,585
<b>Index linked securities (UK public sector quoted)</b>	<b>264,371</b>	<b>60,626</b>	<b>65,114</b>	<b>(27,828)</b>	<b>(17,287)</b>	<b>-</b>	<b>344,996</b>
<b>Properties</b>							
UK properties (freehold)	146,340	30,272	-	(9,854)	7,572	-	174,330
UK properties (leasehold)	49,325	9,539	-	-	4,106	-	62,970
Property unit trusts	222,930	22,304	-	(22,532)	8,962	-	231,664
<b>Private equity</b>							
UK unquoted	382	-	-	-	40	-	422
Overseas unquoted	196,613	34,284	-	(39,912)	20,626	-	211,611
<b>Infrastructure</b>							
UK unquoted	71,594	1,525	-	(7,301)	1,942	-	67,760
overseas unquoted	41,973	22,084	-	(2,829)	(1,752)	-	59,476
<b>Timber (Overseas unquoted)</b>	<b>30,972</b>	<b>5,931</b>	<b>-</b>	<b>(627)</b>	<b>(1,571)</b>	<b>-</b>	<b>34,705</b>
<b>Active currency (UK unquoted)</b>	<b>25,332</b>	<b>-</b>	<b>(23,509)</b>	<b>-</b>	<b>(1,823)</b>	<b>-</b>	<b>-</b>
<b>Other managed funds</b>							
UK unquoted	175,598	4,720	-	(2,383)	7,094	-	185,029
Overseas unquoted	-	-	-	-	-	-	-
<b>Derivative future contracts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	68,439	-	-	-	-	(23,727)	44,712
Foreign currency	28,042	-	-	(99,601)	99,601	20,754	48,796
Cash deposits held in the margin account							
Sterling	-	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-	-
	<b>3,929,778</b>	<b>1,076,518</b>	<b>(23,596)</b>	<b>(1,012,838)</b>	<b>330,474</b>	<b>(2,973)</b>	<b>4,297,363</b>
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	4,156						3,787
Investment income due	6,414						6,737
Liabilities							
Amounts payable for purchase of investments	(2,990)						(1,428)
Investment withholding tax payable	(201)						(113)
<b>Derivative pending foreign currency contracts</b>							
Assets	1,925						4,282
Liabilities	(18,010)						(390)
	<b>3,921,072</b>						<b>4,310,238</b>

For 2013/14, the total transaction costs were **£1.081m** (2012/13: £1.5m).

## Section Two - Pension Fund Accounts

31 March 2013 £000		31 March 2014 £000
	<b>Fixed interest securities</b>	
179,980	UK quoted	186,598
	<b>Equities</b>	
89,363	UK quoted	128,633
1,005,806	Overseas quoted	1,053,329
351,907	UK unit trusts	228,767
980,811	Overseas unit trusts	685,980
-	Global Unit trusts	547,585
264,371	<b>Index linked securities:</b> UK public sector quoted	344,996
	<b>Property</b>	
146,340	UK properties (freehold)	174,330
49,325	UK properties (leasehold)	62,970
222,930	Property unit trusts	231,664
	<b>Private equity</b>	
382	UK unquoted	422
196,613	Overseas unquoted	211,611
	<b>Infrastructure</b>	
71,594	UK unquoted	67,760
41,973	Overseas unquoted	59,476
30,972	<b>Timber:</b> Overseas unquoted	34,705
25,332	<b>Currency:</b> Overseas unquoted	-
175,598	<b>Other managed funds:</b> UK unquoted	185,029
	<b>Derivative contracts</b>	
1,925	<b>Assets:</b> Derivative pending foreign currency contracts	4,282
(18,010)	<b>Liabilities:</b> Derivative pending foreign currency contracts	(390)
	<b>Cash deposits</b>	
	<b>Cash deposits held at custodian/other</b>	
68,439	Sterling	44,712
28,042	Foreign currency	48,796
3,913,693		4,301,255
	<b>Other investment balances</b>	
	<b>Assets</b>	
4,156	Amounts receivable for sales of investments	3,787
6,414	Investment income due	6,737
	<b>Liabilities</b>	
(2,990)	Amounts payable for purchase of investments	(1,428)
(201)	Investment withholding tax payable	(113)
3,921,072	<b>Value at 31 March</b>	4,310,238



## Section Two - Pension Fund Accounts

### 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 2013			31 March 2014		
£000	%		£000	%	
373,996	9.4	Legal & General North America Equity Index	302,277	7.0	
-	-	M&G Global Dividend Fund	276,855	6.4	
-	-	Legal & General FTSE RAFI AW 3000 Index	270,730	6.2	
298,158	7.5	Legal & General Europe (Ex UK) Equity Index	223,027	5.1	
351,907	8.9	Legal & General UK Equity Index	121,015	2.8	
204,579	5.2	Legal & General Japan Equity Index	100,496	2.3	

### 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 2013		Asset type / Asset name	31 March 2014	
£000	%		£000	%
UK QUOTED EQUITIES				
13,959	15.6%	Unilever plc Ord GBP0.031	14,820	11.5%
1,882	2.1%	WPP Plc Ord GBP0.10	12,355	9.6%
1,069	1.2%	Compass Group Ord GBP0.10	12,007	9.3%
1,035	1.2%	Lloyds Banking GP Ord GBP0.1	10,564	8.2%
9,511	10.6%	Sabmiller plc Ord USD0.10	8,969	7.0%
-	-	Pearson Ord GBP0.25	8,956	7.0%
2,981	3.3%	Arm Holdings Ord GBP0.0005	7,455	5.8%
5,962	6.7%	Aggreko	2,998	2.3%
UK INDEX LINKED BONDS				
18,997	7.2%	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	19,684	5.7%
18,709	7.1%	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	19,250	5.6%
18,168	6.9%	UK(Govt) Treasury IL Stock 2.5% 17 July 2024	18,436	5.3%
17,465	6.6%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	17,845	5.2%
15,539	5.9%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	16,960	4.9%
14,951	5.7%	UK (Govt) Treasury IL Stock 1.125% 22 Nov 2037	15,704	4.6%
14,625	5.5%	UK (Govt) Treasury IL Stock 2.0% 26 Jan 2035	15,095	4.4%
14,534	5.5%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2032	14,950	4.3%
PROPERTY				
15,575	8.0%	48-49 Chancery Lane, London	17,400	7.3%
13,425	6.9%	55-57 Dean Street, London	13,900	5.9%
11,200	5.7%	734-736 Seven Sisters Road, London	11,500	4.8%
11,060	5.7%	971 Great West Road, Brentford	11,300	4.8%
10,450	5.3%	74-82 Western Road, Brighton	10,400	4.4%

## Section Two - Pension Fund Accounts

31 March 2013		Asset type / Asset name	31 March 2014	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
24,891	11.2%	Aviva Investors Property Fund	27,681	11.9%
15,165	6.8%	Blackrock UK Property Fund	16,156	7.0%
20,959	9.4%	Lothbury Property Fund	12,836	5.5%
6,372	2.9%	Industrial Property Investment Fund	12,802	5.5%
11,244	5.0%	Standard Life Property Fund Closed	12,651	5.5%
11,706	5.3%	Standard Life UK Shopping Centre	12,154	5.2%
PRIVATE EQUITY				
11,969	6.1%	New Mountain Partners	11,658	5.5%
8,225	4.2%	Avenue Europe Special Situations Fund II (Euro)	10,967	5.2%
11,140	5.7%	Providence Debt Opportunity Fund	10,477	4.9%
11,454	5.8%	Apollo Overseas Partners VII	7,578	3.6%
9,853	5.0%	Warburg Pincus Private Equity VIII	7,491	3.5%
INFRASTRUCTURE				
71,594	63.0%	Infracapital Partners	67,760	53.3%
37,905	33.4%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	42,875	33.7%
-	-	Partners Group Global Infrastructure 2012 LP	10,117	7.9%
4,069	3.6%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	6,484	5.1%
TIMBER				
30,972	100.0%	Stafford Timberland	34,705	100.0%
ACTIVE CURRENCY				
25,332	100.0%	Mellon Offshore Currency Opp Enhanced UK Equitized Fund	-	-
OTHER MANAGED FUNDS				
156,070	88.9%	M&G Alpha Opportunities Fund	166,007	89.7%
16,213	9.2%	M&G UK Companies Financing Fund	14,529	7.9%
CASH				
41,422	42.9%	BNP Paribas Investment Partners GBP	34,260	36.6%
16,645	17.3%	Northern Trust Liquidity Fund US\$	29,635	31.7%
24,007	24.9%	Northern Trust Liquidity Fund GBP	18,876	20.2%
5,695	5.9%	BNP Paribas Investment Partners EURO	2,744	2.9%

### 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.

## Section Two - Pension Fund Accounts

---

### 11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2014 and 31 March 2013.

### 11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **53.1%** of the Fund's portfolio is in overseas stock markets as at 31 March 2014 (31 March 2013: 50.6%).

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

## Section Two - Pension Fund Accounts

### 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	(81)	DKK	(6)	-	-	-
Up to one month	AUD	27,451	GBP	15,233	29	-	29
Up to one month	AUD	11	HKD	6	-	-	-
Up to one month	CAD	19,260	GBP	10,439	28	-	28
Up to one month	CHF	28,893	GBP	19,595	24	-	24
Up to one month	EUR	(194)	DKK	-	-	-	-
Up to one month	EUR	78,824	GBP	65,204	-	(40)	(40)
Up to one month	GBP	14,938	AUD	27,451	-	(323)	(323)
Up to one month	GBP	11,020	CAD	19,260	553	-	553
Up to one month	GBP	19,527	CHF	28,893	-	(92)	(92)
Up to one month	GBP	94,352	EUR	113,407	593	-	593
Up to one month	GBP	37	HKD	478	-	-	-
Up to one month	GBP	65,114	JPY	11,158,357	123	-	123
Up to one month	GBP	8,647	SEK	92,351	103	-	103
Up to one month	GBP	83	TRY	297	-	(1)	(1)
Up to one month	GBP	179,472	USD	294,317	2,933	-	2,933
Up to one month	GBP	144	ZAR	2,540	-	(1)	(1)
Up to one month	HKD	498	SGD	-	-	-	-
Up to one month	JPY	11,158,357	GBP	65,525	-	(535)	(535)
Up to one month	SEK	92,351	GBP	8,569	-	(25)	(25)
Up to one month	USD	(1)	AUD	-	-	-	-
Up to one month	USD	294,317	GBP	176,936	-	(397)	(397)
One to six months	GBP	44,692	AUD	83,132	-	(1,332)	(1,332)
One to six months	GBP	32,535	CAD	60,207	-	(147)	(147)
One to six months	GBP	58,382	CHF	86,349	-	(315)	(315)
One to six months	GBP	206,733	EUR	250,459	-	(411)	(411)
One to six months	GBP	183,764	JPY	31,277,962	1,421	-	1,421
One to six months	GBP	25,618	SEK	276,186	81	-	81
One to six months	GBP	527,543	USD	876,327	1,623	-	1,623
<b>Open forward currency contracts at 31 March 2014</b>					<b>7,511</b>	<b>(3,619)</b>	<b>3,892</b>
<b>Open forward currency contracts at 31 March 2013</b>					<b>5,696</b>	<b>(21,781)</b>	<b>(16,085)</b>

## 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

## Section Two - Pension Fund Accounts

each receive an annual statement confirming the amounts held in their account and the movements in the year.

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

2012/13 £000		2013/14 £000
5,809	Value of AVC fund at beginning of year	5,840
364	Employees contributions	413
509	Investment income and change in market value	320
(842)	Benefits paid and transfers out	(918)
<u>5,840</u>		<u>5,655</u>

### 13. Current assets and liabilities

#### 13.1 Analysis of current assets

31 March 2013 £000		31 March 2014 £000	£000
	<b>Cash Balances</b>		
5,742	Cash at bank	2,659	
11,534	Cash on short term deposits within 3 months	10,979	
<u>17,276</u>			13,638
	<b>Debtors and payments in advance</b>		
5,142	Contributions due – employees	4,027	
11,787	Contributions due – employers	11,073	
924	Sundry debtors	3,416	
<u>17,853</u>			18,516
<u>35,129</u>	<b>Total</b>		<u>32,154</u>

## Section Two - Pension Fund Accounts

### 13.2 Analysis of debtors

31 March 2013			31 March 2014	
Short term	Long term		Short term	Long term
£000	£000		£000	£000
1,381	8,868	Central Government	1,789	7,622
13,877	483	Other Local Authorities	11,275	235
-	-	NHS Bodies	52	-
646	63	Public Funded Bodies	1,826	50
1,949	-	Other	3,574	-
17,853	9,414	<b>Total</b>	18,516	7,907

### 13.3 Analysis of long term debtors

31 March 2013 £000		31 March 2014 £000
625	Financial strain instalments due	374
8,789	Other employer contributions due	7,533
9,414	<b>Total</b>	7,907

### 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.

## Section Two - Pension Fund Accounts

### 13.5 Analysis of current liabilities

31 March 2013 £000		31 March 2014 £000
	<b>Unpaid benefits and other current liabilities</b>	
(485)	Contributions due – employers	(2,570)
(3,415)	Investment manager fees payable	(4,176)
(3,090)	Benefits payable	(5,746)
(152)	Other	(433)
<u>(7,142)</u>	<b>Total</b>	<u>(12,925)</u>

### 13.6 Analysis of creditors

31 March 2013 £000		31 March 2014 £000
	<b>Creditors and receipts in advance</b>	
(276)	Central Government	(921)
(1,276)	Other Local Authorities	(6,501)
-	NHS Bodies	(20)
(276)	Public Funded Bodies	(361)
(5,314)	Other	(5,122)
<u>(7,142)</u>	<b>Total</b>	<u>(12,925)</u>

### 13.7 Contingent liabilities and contractual commitments

As at 31 March 2014, the Fund had a commitment to contribute a further **£299.6m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber and financing (31 March 2013: £201m). 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.

## Section Two - Pension Fund Accounts

### 14. Taxes on income

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

2012/13 £000		2013/14 £000
472	UK withholding tax	552
2,623	Overseas withholding tax	2,404
11	Payment to HMRC in respect of returned contributions	54
<u>3,106</u>		<u>3,010</u>

### 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.

#### 15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.686m** in 2013/14 (2012/13: £1.438m) 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 **£49.821m** to the Fund in 2013/14 (2012/13: **£50.062m**). 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 Board on **6 March 2013**. This service is provided to the Fund at a cost of **£26,000** (2012/13: £25,000).

During the year to 31 March 2014, the Pension Fund had an average investment balance of **£15.119m** (2012/13: £16.990m) earning **£98,000** interest (2012/13: £135,000).

#### 15.2 Governance

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



## Section Two - Pension Fund Accounts

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 new legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2013/14, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
<ul style="list-style-type: none"> <li>K. Blackburn</li> </ul>	<ul style="list-style-type: none"> <li>Cllr D. M. Finch *</li> </ul>
Representative of small employing bodies	<ul style="list-style-type: none"> <li>Cllr N. J. Hume</li> </ul>
<ul style="list-style-type: none"> <li>J. Moore</li> </ul>	<ul style="list-style-type: none"> <li>Cllr S. Barker</li> </ul>
Representatives for Essex Police and Crime Commissioner	<ul style="list-style-type: none"> <li>Cllr M. C. Lager *</li> </ul>
<ul style="list-style-type: none"> <li>Cllr S. Walsh *</li> </ul>	
<ul style="list-style-type: none"> <li>C. Garbett</li> </ul>	

*\* Membership of the Essex Pension Fund Board and Investment Steering Committee ceased on 13 May 2013.*

As at 31 March 2014 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2013/14 were the Executive Director for Corporate Services and Customer Operations, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2013/14 approximately **3%** (2012/13: 3%) of the Executive Director for Corporate Service and Customer Operation's time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2013/14 was **£141,000** (2012/13: £169,000). The 2013/14 current service cost in respect of these personnel was **£82,000** (2012/13: £81,000). 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.

## Section Two - Pension Fund Accounts

### 16. Financial Instruments

#### 16.1 Classification of financial instruments

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

31 March 2013			Asset type	31 March 2014		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets						
179,980	-	-	Fixed interest securities	186,598	-	-
2,427,887	-	-	Equities	2,644,294	-	-
264,371	-	-	Index linked securities	344,996	-	-
222,930	-	-	Pooled unit trusts	231,664	-	-
196,995	-	-	Private equity	212,033	-	-
109,498	-	-	Infrastructure	120,752	-	-
30,972	-	-	Timber	34,705	-	-
25,332	-	-	Active currency	-	-	-
175,598	-	-	Other managed funds	185,029	-	-
1,925	-	-	Derivative contracts	4,282	-	-
-	113,757	-	Cash deposits	-	107,146	-
10,570	-	-	Other investment balances	10,524	-	-
-	27,267	-	Debtors	-	26,423	-
3,646,058	141,024	-		3,974,877	133,569	-
Financial liabilities						
(18,010)	-	-	Derivative contracts	(390)	-	-
(3,191)	-	-	Other investments balances	(1,541)	-	-
-	-	(7,142)	Creditors	-	-	(12,925)
-	-	-	Borrowing	-	-	-
(21,201)	-	(7,142)		(1,931)	-	(12,925)
3,624,857	141,024	(7,142)	Balance at the end of the year	3,972,946	133,569	(12,925)
3,758,739			Total	4,093,590		

## Section Two - Pension Fund Accounts

### 16.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2013 £000		Asset value as at 31 Mar 2014 £000
	<b>Financial assets</b>	
392,897	Fair value through profit and loss	219,266
(28,959)	Loans and receivables	99,601
<u>363,938</u>	<b>Total</b>	<u>318,867</u>

### 16.3 Fair value of financial instruments and liabilities

31 March 2013			31 March 2014	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		<b>Financial assets</b>		
3,646,058	3,646,058	Fair value through profit and loss	3,974,877	3,974,877
141,024	141,024	Loans and receivables	133,569	133,569
<u>3,787,082</u>	<u>3,787,082</u>		<u>4,108,446</u>	<u>4,108,446</u>
		<b>Financial liabilities</b>		
(21,201)	(21,201)	Fair value through profit and loss	(1,931)	(1,931)
(7,142)	(7,142)	Financial liabilities measured at amortised cost	(12,925)	(12,925)
<u>(28,343)</u>	<u>(28,343)</u>		<u>(14,856)</u>	<u>(14,856)</u>
<u>3,758,739</u>	<u>3,758,739</u>	<b>Total net financial assets</b>	<u>4,093,590</u>	<u>4,093,590</u>

### 16.4 Valuation of financial instruments carried at fair value

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

- **Level 1** – Financial instruments 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.

## Section Two - Pension Fund Accounts

- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

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

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

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

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

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

Values as at 31 March 2013				Values as at 31 March 2014		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			<b>Financial assets</b>			
2,884,733	423,860	337,465	Fair value through profit and loss	3,190,694	416,693	367,490
141,024	-	-	Loans and receivables	133,569	-	-
3,025,757	423,860	337,465		3,324,263	416,693	367,490
			<b>Financial liabilities</b>			
(21,201)	-	-	Fair value through profit and loss	(1,931)	-	-
(7,142)	-	-	Financial liabilities measured at amortised cost	(12,925)	-	-
(28,343)	-	-		(14,856)	-	-
2,997,414	423,860	337,465	<b>Total net assets per level</b>	3,309,407	416,693	367,490
		3,758,739	<b>Total Net Assets</b>			4,093,590

## 17. Nature and Extent of Risks arising

### 17.1 Risk and risk management

The Fund's primarily long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to 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

## Section Two - Pension Fund Accounts

---

forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

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

### 17.2 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 Statement of Investment Principles which is available from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk). Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

### 17.3 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.

### 17.4 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 2013/14.

## Section Two - Pension Fund Accounts

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

31st March 2013 Potential Market movement %	Asset type	31st March 2014 Potential Market movement %
10.0%	UK bonds	8.7%
15.5%	UK equities	16.1%
19.4%	Overseas equities	19.4%
7.9%	UK index linked bonds	6.5%
14.5%	Pooled property unit trusts	14.7%
27.5%	Private equity	28.0%
14.5%	Infrastructure funds	14.7%
14.5%	Timber	14.7%
14.5%	Property	14.7%
0.8%	Cash	0.6%
19.4%	Currency active	19.4%

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 2013 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2014 £000	Percentage change %	Value increase £000	Value decrease £000
96,481	0.8%	97,253	95,709	Cash and equivalents	93,508	0.6%	94,069	92,947
				Investment portfolio assets				
179,980	10.0%	197,978	161,982	UK bonds	186,598	8.7%	202,832	170,364
89,363	15.5%	103,214	75,512	UK equities	128,633	16.1%	149,343	107,923
1,005,806	19.4%	1,200,932	810,680	Overseas equities	1,053,329	19.4%	1,257,675	848,983
351,907	15.5%	406,453	297,361	UK equities unit trusts	228,767	16.1%	265,598	191,936
980,811	19.4%	1,171,088	790,534	Overseas equities unit trusts	685,980	19.4%	819,060	552,900
-	19.4%	-	-	Global unit trusts	547,585	19.4%	653,816	441,354
264,371	7.9%	285,256	243,486	UK index linked bonds	344,996	6.5%	367,421	322,571
222,930	14.5%	255,255	190,605	Pooled property unit trusts	231,664	14.7%	265,719	197,609
196,995	27.5%	251,169	142,821	Private equity	212,033	28.0%	271,402	152,664
113,567	14.5%	130,034	97,100	Infrastructure	127,236	14.7%	145,940	108,532
30,972	14.5%	35,463	26,481	Timber	34,705	14.7%	39,807	29,603
25,332	19.4%	30,246	20,418	Active currency	-	19.4%	-	-
175,598	14.5%	201,060	150,136	Other managed funds	185,029	14.7%	212,228	157,830
195,665	14.5%	224,036	167,294	Property	237,300	14.7%	272,183	202,417
(16,085)	-	(16,085)	(16,085)	Net derivative assets	3,892	-	3,892	3,892
6,414	-	6,414	6,414	Investment income due	6,737	-	6,737	6,737
(2,990)	-	(2,990)	(2,990)	Amounts payable for purchases	(1,428)	-	(1,428)	(1,428)
4,156	-	4,156	4,156	Amounts receivable for sales	3,787	-	3,787	3,787
(201)	-	(201)	(201)	WHT payable	(113)	-	(113)	(113)
<b>3,921,072</b>		<b>4,580,731</b>	<b>3,261,413</b>	<b>Total assets available to pay benefits</b>	<b>4,310,238</b>		<b>5,029,968</b>	<b>3,590,508</b>

## Section Two - Pension Fund Accounts

### 17.5 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 2013 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 2013 to 30 June 2013. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2013 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

### 17.6 Interest rate risk

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

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

<b>Asset value as at 31 Mar 2013 £000</b>	<b>Asset type</b>	<b>Asset value as at 31 Mar 2014 £000</b>
96,481	Cash and cash equivalents	93,508
17,276	Cash balances	13,638
179,980	Fixed interest securities	186,598
264,371	Index-linked securities	344,996
<b>558,108</b>	<b>Total assets</b>	<b>638,740</b>

## Section Two - Pension Fund Accounts

### 17.7 Interest rate risk sensitivity analysis

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

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

Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2014 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
96,481	965	(965)	Cash and cash equivalents	93,508	935	(935)
17,276	173	(173)	Cash balances	13,638	136	(136)
179,980	1,800	(1,800)	Fixed interest securities	186,598	1,866	(1,866)
264,371	2,644	(2,644)	Index-linked securities	344,996	3,450	(3,450)
558,108	5,582	(5,582)	<b>Total change in assets available</b>	638,740	6,387	(6,387)

### 17.8 Currency risk

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



## Section Two - Pension Fund Accounts

The following table summarises the Fund's currency exposure as at 31 March 2014 and prior year:

31 Mar 2013 £000	Asset type	31 Mar 2014 £000
1,005,806	Overseas equities quoted	1,053,329
980,811	Overseas unit trusts	685,980
-	Global unit trusts	547,585
196,613	Overseas private equity	211,611
41,973	Overseas infrastructure	59,476
30,972	Overseas timber	34,705
<b>2,256,175</b>	<b>Total overseas assets</b>	<b>2,592,686</b>

### 17.9 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%** (2012/13: 12%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2012/13: 12%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2014 £000	Change in year in the net assets to pay benefits	
	+12% £000	-12% £000			+13% £000	-13% £000
1,005,806	1,126,503	885,109	Overseas equities quoted	1,053,329	1,190,262	916,396
980,811	1,098,508	863,114	Overseas unit trusts	685,980	775,157	596,803
-	-	-	Global unit trusts	547,585	618,771	476,399
196,613	220,207	173,019	Overseas private equity	211,611	239,120	184,102
41,973	47,010	36,936	Overseas infrastructure	59,476	67,208	51,744
30,972	34,689	27,255	Overseas timber	34,705	39,217	30,193
<b>2,256,175</b>	<b>2,526,917</b>	<b>1,985,433</b>	<b>Total change in assets available</b>	<b>2,592,686</b>	<b>2,929,735</b>	<b>2,255,637</b>

### 17.10 Credit Risk

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

## Section Two - Pension Fund Accounts

---

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

### 17.11 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 2014 is provided in Note 13.

### 17.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2014 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

## Section Two - Pension Fund Accounts

Exposure at 31 March 2013		Counterparty	Exposure at 31 March 2014	
£000	%		£000	%
148,850	8.7%	Barclays Capital	210,137	11.6%
225,711	13.3%	BNP Paribas Capital Markets	66,410	3.7%
-	-	Citigroup	266,650	14.8%
133,072	7.8%	Australian Commonwealth Bank	-	-
201,007	11.8%	Credit Suisse AG	198,546	11.0%
187,096	11.0%	Deutsche Bank AG	179,669	9.9%
181,720	10.7%	J P Morgan Securities	234,581	13.0%
82,881	4.9%	Lloyds	26,148	1.4%
-	-	Merrill Lynch	59,057	3.3%
140,605	8.3%	RBC Europe	90,418	5.0%
-	-	RBS	118,333	6.6%
4,349	0.3%	SEB	-	-
194,796	11.5%	SG Securities	100,508	5.6%
184,288	10.8%	UBS	40,831	2.3%
16,162	0.9%	Westpac Bank Corp	213,637	11.8%
1,700,537	100.0%	<b>Total</b>	1,804,925	100.0%

### 17.13 Futures

There were no open future contracts as at 31<sup>st</sup> March 2013 or 31<sup>st</sup> March 2014.

### 17.14 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 & General, the Fund has two active bond managers M&G and GSAM the former also manage a financing fund.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2014, the average credit quality of the M&G bond mandate was **BBB+** rated (**A** rated as at 31 March 2013) and the portfolio had suffered four defaults since inception, none have been experienced in the financial year ended 31 March 2014. The average credit rating of the financing fund was **BB+** rated as at 31 March 2014 (**BB** rated as at 31 March 2013), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2014 had an average credit quality of **AA+** (**AA** rated as at 31 March 2013) and has suffered two defaults since inception, both occurring 2011/12.

## Section Two - Pension Fund Accounts

---

### 17.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The bank holds an **A-** (A in 2012/13) long term credit rating with Standard and Poor. Cash is invested with Lloyds TSB 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 Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2014 **£13.638m** (31 March 2013: £17.276m) 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. The historical experience of default from AAA rated entities detailed in the table below is nil. As at 31 March 2014, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£85.515m** with a smaller balance of **£7.748m** held in the custodian current account (31 March 2013: £87.769m and £8.342m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

## Section Two - Pension Fund Accounts

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

31 March 2013			31 March 2014		
Rating	£000		Rating	£000	
<b>Cash managed externally</b>					
Cash held on deposit					
AAA	47,117	BNP Paribas Investment Partners	AAA	37,004	
AAA	40,652	Northern Trust	AAA	48,511	
Cash held in Current Account					
AA	4	The Bank of New York Mellon	AA	-	
AA-	8,342	Northern Trust	AA-	7,748	
A+	366	Barclays plc	A	245	
	<b>96,481</b>	<b>Total cash managed externally</b>		<b>93,508</b>	
<b>Cash managed internally</b>					
Cash held on deposit					
A+	3	Barclays Bank	A	2	
AA-	6,510	HSBC	AA-	7,473	
AAA	-	IGNIS	AAA	1,502	
A	5,019	Royal Bank of Scotland Group	BBB	2,001	
Cash held in Current Account					
A	5,744	Lloyds TSB Bank plc	A-	2,660	
	<b>17,276</b>	<b>Total cash managed internally</b>		<b>13,638</b>	
	<b>113,757</b>	<b>Total</b>		<b>107,146</b>	

## Section Two - Pension Fund Accounts

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

31 March 2013		31 March 2014	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
<b>Cash managed externally</b>					
Deposit with bank and other financial institutions					
87,769	AAA Rated	85,515	60,000	-	-
8,346	AA Rated	7,748	-	0.02%	2
366	A Rated	245	-	0.09%	-
96,481	<b>Total cash managed externally</b>	93,508			2
<b>Cash managed internally</b>					
Deposit with bank and other financial institutions					
-	AAA Rated	1,502	10,000	-	-
6,510	AA Rated	7,473	10,000	0.02%	1
10,766	A Rated	2,662	5,000	0.09%	2
-	BBB Rated	2,001	5,000	0.20%	4
17,276	<b>Total cash managed internally</b>	13,638			7
113,757	<b>Total cash</b>	107,146			9

### 17.16 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 **26 February 2014, 24.5%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2014 had immediate access to its pension fund cash holdings held internally and externally of **£107.146m** (31 March 2013: £113.757m). These monies are primarily invested on an overnight basis on the money market.

## Section Two - Pension Fund Accounts

---

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

### 17.17 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.

### 17.18 Custody

In 2012 the Fund appointed Northern Trust as a global custodian, replacing the Bank of New York Mellon, with responsibility for safeguarding the assets of the Fund. As at 31 March 2014 Northern Trust had **\$5.58 trillion** of assets under custody (31 March 2013: \$5.02 trillion) and had a credit rating of **AA-** (31 March 2013: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

### 17.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of 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.

### 17.20 Post Balance Sheet Event

#### Probation Transfer

As at 31 March 2014 the transfer of probation services from Probations Trusts to Community Rehabilitation Companies and National Probation Services is due to take place on 1 June 2014. As part of the transfer probation services liabilities will transfer to the Greater Manchester Pension Fund for administration by Tameside Metropolitan Borough Council.

All membership will transfer as with effect from the transfer date the liability to pay benefits or a refund of contributions under the Scheme to and in respect of these members will transfer to the

## Section Two - Pension Fund Accounts

---

Greater Manchester Pension Fund. Early calculations estimate that approximately £55m will be transferred.

### New Local Government Pension Scheme

From the 1st April 2014, a new scheme has been introduced for the LGPS which governs benefits to staff and their contributions into the Pension Fund. The main features of this scheme are as follows:

- The new LGPS 2014 scheme design is based on career average pay and pensions will accrue at a rate of  $\frac{1}{49}^{\text{th}}$  of actual pay received in each scheme year, which runs from 1st April to 31st March.
- The definition of pensionable pay has been amended and now includes voluntary overtime as a pensionable element. There has also been a change in the way pay lost during periods of sickness and Ordinary maternity, paternity or adoption leave is added. The pay for the scheme year is now increased by Assumed Pensionable Pay (APP) if there is a reduction of pay received during any of these periods. The annual rate of APP is also used to calculate the pension for additional years of service awarded for death in service or ill health retirement.
- The pension revaluation is in line with a specified price index, currently this is CPI. Normal pension age (NPA) for both active members and members with deferred pension entitlements is linked to the State Pension Age (SPA) so that if a person's SPA rises, then NPA under the scheme will also rise for all LGPS 2014 service. A pension entitlement is available after 2 years membership (as opposed to 3 months in the LGPS 2008).
- The Government expects average member contribution yield to be **6.5%** (*about the same yield as available under the LGPS 2008*) with tiered contribution bands ranging from **5.5%** of pay to **12.5%** of pay rather than **5.5%** to **7.5%** under the LGPS 2008. Despite the widening of rates the overall yield stays the same because part-time employees will make contributions based on actual pay rather than full time equivalent pay in the LGPS 2008.

## 18. Further information

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

Director of Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 01245 431301

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



## Section Two - 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.
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.
Accrued benefits valuation method	<p>A valuation method in which the Pension scheme's liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"> <li>▪ The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and</li> <li>▪ The accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</li> </ul>
Accumulating Absences	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.
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.
Billing authority	City, district and borough councils are responsible for the billing and collection of Council Tax. They calculate the amount to be raised from Council Tax after taking into consideration their needs and those of the County Council and the Police and Fire Authorities.
Cabinet	The Cabinet comprises the Leader of the Council, who is its chairman, and nine other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader annually and are reported to the Council.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> <li>▪ Amounts set aside from revenue resources to repay external loans;</li> <li>▪ The financing of capital payments from capital receipts and revenue reserves; and</li> <li>▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.</li> </ul>
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.

## Section Two - Glossary

Term	Explanation
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.
Chartered Institute of Public Finance and Accountancy	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and business rates.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Contingent liability	Contingent liabilities are possible or present obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities are not recognised in the accounts as an item of expenditure but details are disclosed, where applicable, in the notes to the Accounts.
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.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence

## Section Two - Glossary

Term	Explanation
	through technical or other changes.
Discount (PWLb)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLb) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is above the rate of interest payable on the loan being repaid, the Council is compensated by the PWLB for the interest rate differential. This differential is referred to as a 'discount' arising from early settlement of the loan.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers.
Dormant company	The term 'dormant' applies to a company that, in legal terms, has no significant accounting transactions during a financial year. Companies can be dormant in order to hold an asset, or to protect the company name. Whilst the company is dormant, various returns and the annual company Balance Sheet must nevertheless be prepared and filed with Companies House.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
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.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Investments	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.  Investments, other than those related to the pensions fund that do not meet the above

## Section Two - Glossary

Term	Explanation
	criteria, are classified as current assets.
Leasing	A method of acquiring the use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.
National Non Domestic Rates	These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are collected by the billing authorities and are distributed in accordance government regulations.
Operating lease	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).
Precept	The amount the County Council requires the 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 (PWLb)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLb) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is below the rate of interest payable on the loan being repaid, the Council is required to recompense the PWLB for the interest rate differential. This differential is referred to as a 'premium' arising from early settlement of the loan.
Private Finance Initiative	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership	An arrangement where the private sector partner agrees to provide a service to a public sector organisation. The PFI is one form of a PPP.
Public Works Loans Board	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government's own borrowing rate.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.
Reserves	<p>The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.</p> <p>Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.</p>

## Section Two - Glossary

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.
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific government grant	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Termination benefits	Termination benefits are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

# **Annual Governance Statement**

# Section Three – Governance Statement

---

## 1. Our Annual Governance Statement

This Annual Governance Statement summarises the outcome of our review of the Governance Framework that has been in place over the last year (i.e. during 2013/14). 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 itself a critical component of our overall governance arrangements.

## 2. Scope and Responsibility

We are responsible for ensuring that our business is conducted in accordance with the law and proper standards, and for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper arrangements for overseeing what we do (this is what we mean by 'governance'). These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in good time, and in a fair, open, honest and accountable way.

## 3. The purpose of the Governance Framework

Our **Governance Framework** comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which the authority is controlled and governed, and also the activities through which it answers to, gets involved with and leads its communities. This framework allows us to monitor how we are achieving our strategic aims and to consider whether those aims have helped us deliver appropriate services that are good value for money.

Our **Governance Framework** includes a system of internal control designed to enable us to manage risk to a reasonable level. Whilst it cannot eliminate all risks arising out of a failure to achieve policies, aims and objectives, it is designed to enable us to manage all risks to a reasonable level, thereby providing reasonable assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- identify and prioritise the risks that could prevent us from achieving our policies and aims;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

The **Code of Governance** is a set of six core principles, developed by the Chartered Institute of Public Finance and Accountability (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in their paper [\*Delivering Good Governance in Local Government\*](#), which we have adopted in line with good practice. The contents of our Governance Framework together meet

## Section Three – Governance Statement

---

the requirements of those six core principles. The Code, and key supporting documents from the Framework, can be found on the Council's website at:

[www.essex.gov.uk/your-council/strategies-policies/code-of-governance](http://www.essex.gov.uk/your-council/strategies-policies/code-of-governance).

As part of our on-going arrangements, the governance framework has been in place at the Council throughout 2013/14, and remains in place on the date of approval of the Statement of Accounts (i.e. on **18th September 2014**).

### 4. The Governance Framework

Our Governance Framework is made up of the many systems and processes we have in place, including those to do the following, under points 1-21:

- (i) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**
- (ii) Reviewing the authority's vision and its implications for the authority's governance arrangements**
- (iii) Translating the vision into objectives for the authority and its partnerships**

At the meeting of the Full Council on **11<sup>th</sup> February 2014** the Council discussed and approved the following documents that outline how the Council will manage its resources for services in the coming year and how it intends to spend its money:

[Revenue Budget 2014/15 and Capital Programme 2014/15-2016/17](#)

[Budget Report 2014/2015](#)

In July 2013 the Council's new Cabinet outlined their Vision for Essex – a vision of a County where innovation brings prosperity. In support of this vision, the Corporate Outcomes Framework (see links below) was presented to Full Council on 11 February 2014, detailing the specific 'outcomes' that ECC will work towards; this supersedes the [Corporate Plan 2012-17](#). Securing these outcomes will make Essex a more prosperous county – one where people can flourish, live well and achieve their ambitions. The document also sets out the 'indicators' that the Council will use to assess our progress towards securing these outcomes. The actions we will take to secure progress are set out in a suite of commissioning strategies that were published in 2014.

Taken together, these outcomes and indicators make up ECC's Corporate Outcomes Framework for 2014-2018. The seven outcomes are:

- Children in Essex get the best start in life;
- People in Essex enjoy good health and wellbeing;



## Section Three – Governance Statement

---

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

These are supported by a series of indicators which provide the basis for measuring progress towards our outcomes. Commissioning strategies have been developed to articulate the strategic actions that ECC will undertake to deliver progress towards each outcome. The Framework provides a consistent set of aspirations that we will use to inform our future decisions, and a benchmark by which we can clearly see the difference that we are making to people's lives.

To achieve this vision it is recognised that there is a need to work in new ways with partners in the public and private sectors, the voluntary and community sector, and with individuals, families and communities. The focus of the Outcomes Framework is on what works best, rather than who delivers particular services. The Council will also undertake consistent evaluation to ensure the decisions we take have meaningful impact on improving lives across Essex communities. The Corporate Outcomes Framework has been developed to support this way of working.

[Corporate Outcomes Framework Overview 2014/2018](#)

[Corporate Outcomes Framework 2014/2018](#)

- (iv) Measuring the quality of services for users, to ensure they are delivered in accordance with the authority's objectives and ensure that they represent the best use of resources and value for money;**

We continue to use a performance management framework which 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 and Functional Leadership Teams. Each of these plays a key role in ensuring that progress is reviewed and acted upon and, in particular, Scrutiny continues to play a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of the Council's objectives and holding Cabinet to account for delivery. A review of Scrutiny has taken place in 2013/14 to ensure that Scrutiny remains as effective as possible, and the review's recommendations were agreed at Full Council on 14 May 2013 (see item (x)).

The [2012/13 Annual Performance Report](#) is a public facing report using accessible language to demonstrate where tax payers' money was spent, progress in delivering our

## Section Three – Governance Statement

---

priorities, the impact of our achievements and where further focus on improvement was needed.

Following inspection in January and February 2014, Ofsted rated the Council's Children's Services as good. This means the local authority leads effective services that help, protect and care for children and young people. Also, those who are looked after or leaving care have their welfare safeguarded and promoted.

The Council's employees continue to be supported by a comprehensive individual performance management process. This includes 'My Performance' contracts in 2013/14 which define the outcomes required from each employee and is linked to the overarching principles and priorities of the Corporate Plan, and is essential in enabling the Council to successfully deliver its Corporate Plan. This performance management process will be known as 'Supporting Success' in 2014/15.

- (v) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements**

[The Constitution](#) clearly defines the roles and responsibilities of:

- |                                    |                         |                           |
|------------------------------------|-------------------------|---------------------------|
| ▪ Cabinet members                  | ▪ Council Committees    | ▪ Monitoring Officer      |
| ▪ Council members                  | ▪ Chief Officers        | ▪ Section 151 Officer     |
| ▪ Overview and Scrutiny Committees | ▪ Head of Paid Service  | ▪ Scrutiny Officer        |
|                                    | ▪ Leader of the Council | ▪ Chairman of the Council |

Part 3 of the [Constitution](#) sets out how Councillors' authority is delegated to Cabinet Members and Officers, and this is reviewed and updated in response to any changes in Cabinet or Officer responsibilities or structures. Chief Officers are in turn responsible for authorising delegations to their officers and these delegations are also recorded and updated when structures change. The protocol on Member/Officer relations contained within Part 5 of the [Constitution](#) further defines the day-to-day roles and responsibilities of Officers and Members.

The Council has [financial regulations](#) in place which provide a framework to identify the financial responsibilities of the Council and the financial limits assigned to Officers. These also set out the responsibilities in relation to partnerships and commissioning arrangements.

- (vi) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;**

## Section Three – Governance Statement

---

All our employees and Members of the Council must conduct themselves in accordance with the terms of the [Officer Code of Conduct](#) and [Member Code of Conduct](#). All Members were signed up to a national Member Code of Conduct until this was abolished by the Localism Act 2011, along with the national body, Standards for England, and its oversight of local authorities. Nonetheless, ECC has a duty to maintain high standards of conduct and we have therefore proactively developed a local code in consultation with local authorities across Essex and all of ECC's Councillors.

The 2013 elections saw 36 new councillors to the council, including a number of members who had not been a councillor at Essex County Council or elsewhere previously. All Councillors are required to register their disclosable Personal and Pecuniary Interests. A comprehensive induction programme is in place to support councillors in understanding their role and the key functions of the council. The programme includes sessions on ethical standards, declarations of interests, member/officer protocol, local authority publicity and gifts and hospitality; information governance and information security, freedom of information, data protection, member allowances, expenses, ePayroll; local government finance and the ECC budget; diversity and equality, procurement and EU Regulations, audit and risk, health and safety. The programme was comprehensive and information from the sessions and generic information was circulated to members.

The Essex County Council 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 Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available via the [Council's website](#). No complaints were referred to the Standards Committee during 2013/14.

Our 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 (see reference (xviii), on page 195).

**(vii) Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships 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. They include the definition of key decisions and provide additional guidance to that definition in Part 4.

See section 5 for delegation arrangements.

A review of [Cabinet Portfolios](#) was undertaken following the elections and presented to Full Council in May 2013. This is due to be reviewed again, periodically, by the Leader of the Council.

## Section Three – Governance Statement

---

All agendas, minutes and decisions taken by Cabinet members are available to the public through the [Council'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. The suite of documentation and guidance to support executive decision making has been drawn together and made available on line.

The Council's public engagement strategy aims to involve the public in the Council's decision making. Involvement occurs in many different ways: through surveys, online tools, focus groups of the citizens' panel, deliberative workshops, stakeholder forums, service user groups, through Healthwatch Essex, giving evidence to scrutiny committees, and formal consultation documents.

The Overview and Scrutiny Committees play a key role in developing and maintaining effective scrutiny of decisions carried out within each directorate and encourages constructive challenge and effective mechanisms for decisions and recording the criteria, rationale and considerations on which each decision is based. A review of scrutiny was undertaken and the recommended actions were presented to Full Council in May 2013 [Scrutiny Full Council Report](#).

Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#). There were 16 decisions called-in between May 2013 and April 2014. Of these, six were withdrawn at the informal stage and for nine it was agreed to uphold the decision. One was referred to Cabinet and the original decision was upheld.

The Corporate Governance Steering Board was chaired by Cllr David Finch throughout 2013/14 – as Deputy Leader before the May 2013 election and as Leader after that. The Board is tasked with considering Corporate Governance matters at the highest level. It is made up of Councillors including the Chairmen of the Audit Committee and the Standards Committee, an opposition leader, as well as senior officers including the Executive Director for Corporate Services and the Monitoring Officer.

The Information Policy Development Group is attended by Information Champions from across the Council among others from Information Services. It deals with Information Policy to maintain an effective information governance framework and escalates items to the Corporate Governance Steering Board as necessary.

The Council's 'How We Get Things Done' intranet channel provides officers and councillors with access to information about how the Council deals with particular issues across the organisation and enabling easy access to guidance and policies relevant to those areas.

The Council's framework of corporate governance policies, guides and protocols is reviewed on a rolling basis with responsibility for the reviews distributed to the relevant key senior personnel to promote a culture of governance awareness and responsibility.

## Section Three – Governance Statement

---

### **(viii) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability**

An Internal Audit review of risk management arrangements produced a 'Substantial Assurance' opinion; this is a positive direction of travel from a 'Limited Assurance' opinion in 2012/13.

A revised Risk Strategy was approved by Cabinet in February 2014 and presented to the Audit Committee in March 2014 ([Risk Management Strategy 2014](#)).

In 2014/15, a Risk Assurance Statement on the 2013/14 year was included in the Head of Internal Audit Annual Report (presented to the Audit Committee in June 2014) which states:

*'The Council is committed to adopting best practice in its management of risk to ensure retained risk is of an acceptable and tolerable level in order to maximise opportunities and demonstrate it has made full consideration of the implications of risk to the delivery and achievement of outcomes.'*

*The organisation continues to have a healthy appetite for risk but exercises caution by closely monitoring the risk profile of the organisation and regularly reviewing and debating its strategic risks to ensure the balance is not upended. This year the Council has faced and managed increased exposure to risk through the challenges of remodelling the organisation, managing austerity and adapting delivery methods in light of significant changes in legislation. With its heightened awareness and application of effective risk management the Council continues to be risk enabled and integrated.'*

### **(ix) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained**

In our Internal Audit service we have a dedicated Counter Fraud Team made up of the Counter Fraud Manager and two Investigators. The Counter Fraud Team delivers services to both Essex County Council and also external clients. The Counter Fraud Team is responsible for conducting investigations and supporting our services in providing evidence for any criminal investigations. 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 results from the NFI biennial data matching exercise have been reported to the Audit Committee during 2013/14.

The mandatory Corporate Governance e-learning pack includes an 'Anti-fraud and Corruption module (see reference (xviii), on page 195).

The Audit Committee received six-monthly updates in respect of Counter-Fraud and a summary of Counter-Fraud activity is included in the Internal Audit Annual Report.

## Section Three – Governance Statement

---

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

The Council's Counter Fraud and Anti-Bribery Strategy was reviewed in September 2014.

### **(x) Ensuring effective management of change and transformation**

During 2013/14 the Council has been through significant structural change, moving to an outcomes-led commissioning organisation. This involved a restructure and realignment of services in November 2013, and a split between commissioning and operations activity. This presented a significant challenge to the Council in terms of delivering the change with minimal impairment to the internal control environment. Prior to the implementation of the new structure each director completed an assessment of their internal control and governance arrangements, highlighting any potential areas for improvement; this was reported to the Corporate Management Board. A further final assessment was made by each director at the year-end 2013/14; this was approved by the relevant Executive Director.

The Transformation Support Unit (TSU) is a service in the Council tasked with co-ordinating and supporting our Transformation process. During 2013/14 there have been a number of projects to deliver efficiencies to meet savings targets. Progress is closely monitored by the Corporate Management Board and the Outcomes Board, which is a transformation-focused board chaired by the Deputy Leader. All business cases must undergo legal and financial scrutiny before they are received by the Outcomes Board, which robustly challenges and filters business cases before they are taken to the relevant Cabinet Member in the usual decision-making process. The TSU Delivery Assurance team oversees the delivery cycle of projects and reports progress to the Corporate Management Board.

- (xi) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact**
- (xii) Ensuring the authority's assurance arrangements conform to 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**
- (xiii) Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function**

## Section Three – Governance Statement

---

### **(xiv) Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function**

Our financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). In addition, our assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) (see reference (xvi) for more information).

Our Head of Paid Service is the Chief Executive, our Chief Financial Officer is the Executive Director for Corporate Services and Customer Operations and our Monitoring Officer is the Director - Corporate Law and Assurance. All these and the Head of Internal Audit were in post throughout this period and were supported by the organisation to discharge their full roles effectively and proactively.

### **(xv) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities**

Following the election in May 2013 the membership of the Audit Committee changed. Training was provided to Audit Committee members (in addition to the induction programme), focussing on the role of the committee. This provided an overview of:

- Role of internal audit
- Counter fraud arrangements
- Role of the external auditors
- Accounting arrangements

The Audit Committee has undertaken the key functions required of it by CIPFA's document The Operation of Audit Committees in Local Authorities and Police Bodies. Its role and purpose is set out in Article 8 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 in points (viii) and (ix) above.

In September 2013, the Audit Committee approved the Council's 2012/13 Statement of Accounts. In March it approved the 2014/15 audit plan with 2,706 audit days (excluding external clients).

The Audit Committee have met four times during the 2013/14 financial year. Their work has included receiving audit progress reports, including detail of all limited assurance reviews from the Head of Internal Audit and the extent to which remedial recommendations have been implemented.

The Committee's public agendas and papers are available on [our website](#).



## Section Three – Governance Statement

---

### **(xvi) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Director for Corporate Law and Assurance, as Monitoring Officer, is responsible for ensuring lawfulness and fairness in decision making. The Executive Director for Corporate Services and Customer Operations, as Section 151 Officer, is responsible for financial administration and financial probity and prudence in decision making. Both roles are defined within Part 2 of the [Constitution](#). The Section 151 Officer is a member of our Corporate Management Board.

The Head of Internal Audit and Counter Fraud is responsible for providing assurance on internal controls, ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud, as well as evaluating that the Risk Management Framework is robust. The Head of Internal Audit and Counter Fraud reports to the Monitoring Officer.

Each Executive Director is required to complete an evidence-based Service Assurance Statement (SAS), accompanied by a plan setting out actions to be taken to strengthen any areas of weakness. These were completed in October 2013 and March 2014. These Statements are formally signed off by the Executive Director for each service area at the end of the year. The organisation's 2013/14 Service Assurance Statements returned a satisfactory overall assessment. Where necessary improvements were identified the relevant directors are responsible for securing remedial action in these areas.

We have a strong corporate legal team led by the Monitoring Officer and sitting at the heart of the organisation which provides advice to officers from all areas. The team work closely with the traded legal team who provide advice on the full range of council functions from education to employment. All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet and CLT must incorporate the comments of both the Section 151 Officer and Monitoring Officer before they are submitted for consideration. The system of delegations outlined above (see section 5) ensures compliance with the *ultra vires* doctrine whilst allowing the Council to fully utilise its powers.

Accordingly, 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.

### **(xvii) Whistleblowing and for receiving and investigating complaints from the public**

The Council has in place arrangements for employees, consultants or contractors to raise any concerns they have in the workplace. Concerns might include bullying or any illegal, improper or unethical conduct. Our Whistle-Blowing Policy continues to be available for



## Section Three – Governance Statement

---

employees through the 'Working Here' intranet site, and provides them with 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 corporate governance e-learning training (How We Behave and Anti-Fraud & Corruption – see section (xviii)).

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. Arrangements for referrals to the team are also articulated in the corporate governance e-learning training. The team continues to work closely with external agencies including our external auditors, the Police and the Department of Work and Pensions.

We take complaints, comments and compliments received from our customers seriously and the feedback obtained is used within our planning processes to help develop our services. We have a comprehensive complaints procedure which is accessible by the public [through our website](#). In addition, we have a corporate policy called 'Responding to complaints, comments and compliments' which sets out for employees the expectations and timescales to be applied in responding to our customers. Response performance is reported and monitored via the Corporate Governance Scorecard as well as being included in our wider performance reporting framework (see point (iv)). This scorecard is also one of the routes by which we monitor the frequency and type of issues which go through the Local Government Ombudsman (LGO).

### **(xviii) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training;**

There was a comprehensive induction programme for new members (see section 6) and specific training for the Audit Committee (see section (xv)).

All new employees are required to complete our comprehensive corporate governance e-learning programme - it is mandatory for employees and strongly recommended to Members. The modules are called:

- Good decision making
- How we behave
- Information Governance
- Anti-fraud and Corruption
- Equality and Diversity
- Health and safety

## Section Three – Governance Statement

---

Our employees' annual training and development needs are identified through the individual's performance management process, called 'My Performance' in 2013/14. Each individual's objectives are linked via team and service plans to the Council's overarching priorities in a 'golden thread'. In addition to our comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues. A schedule of forthcoming corporate training events is available through the 'Working Here' intranet page.

**(xix) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation;**

We continue to develop clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Our [website](#) is accessible to a wide audience, with relevant and regularly-updated news articles on our homepage and space for an on-line poll which allows us to consult members of the public on topical issues.

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.

We are committed to being open and transparent about how we spend money in order that we can be held fully accountable for this by our citizens. Accordingly we publish details of all items of spend, regardless of value. This includes monthly payment transactions made via p-card, employee expenses and accounts payable. All of this can be downloaded from [our website](#). We also have a Pay Policy Statement which is approved by the Council every year at the budget setting meeting.

We have a page on our website called '[Your right to know](#)', which provides guidance for the public about what information is available to them and how they can access it.

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. This facility is widely publicised and applies to both printed materials and our website.

We have developed increased use of social media to communicate with our residents, including an active presence on Twitter and Facebook. We have a framework around officers' use of social media for work purposes, and the Monitoring Officer has published a social media guidance note for Councillors.

## Section Three – Governance Statement

---

Our internal communications team work to make sure that our employees are kept updated. They use regular e-mail newsletters, the Chief Executive's blog, regular Employee Road Shows hosted by the Leader of the Council and the Chief Executive and more to provide employees with an opportunity to hear the latest news from across the organisation, ask questions and give feedback about issues important to their service areas.

Annually the Council issues its 'Your Voice Employee Engagement Survey' which provides every employee with a chance to take part so that valuable feedback on a range of topics can be captured. The Your Voice survey provides feedback on areas of strength, and identifies areas of genuine employee concern. It is a completely confidential channel for upward communication, and gives the Council the ability to measure trends in employee engagement over time, and evaluate the effect of changes and initiatives. The results of the Your Voice survey are used to drive real improvements, and in 2013/14 the Corporate Management Board took time to analyse the results and ensure that action plans were implemented where necessary.

**(xx) Enhancing the accountability for service delivery and effectiveness of other public service providers (In England this includes powers granted to local authorities under the Health and Social Care Act 2012 and the Police Reform and Social Responsibility Act 2011)**

We have established the Essex Health and Wellbeing Board in accordance with the Health and Social Care Act 2012, and the Essex Police and Crime Panel in accordance with the Police Reform and Social Responsibility Act 2011. Information about both, including a calendar of meetings and all past agendas and papers, is available on [our website](#). Arrangements for handling complaints about the Police Commissioner need to be agreed.

Information is also available on [our website](#) about the Health Overview and Scrutiny Committee.

**(xxi) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap (Audit Commission, 2005)), and reflecting these in the authority's overall governance arrangements**

**Partnership Working In Essex**

Our new operating model (outcomes-led commissioning organisation) – particularly the appointment of integrated commissioners aligned to Clinical Commissioning Groups – recognises the need to place the interface with partners at the heart of what we do.

The Council is actively engaged with hundreds of partners and dozens of partnerships and further strengthening the rigour of our approach to partnership working will enable us to

## Section Three – Governance Statement

---

put our limited resources to best use, ensure we engage with partners in a joined-up way and are systematic about sharing insight and intelligence across the organisation.

In order to prioritise our investment and support key partnerships and partner relationships, work is underway to develop a more systematic approach that will ensure consistency across the board.

It is anticipated that this will introduce a health-check of relations with ‘mission critical’ partners in the form of a quarterly update paper to Strategic Commissioning Board and introduction of ‘Relationship Manager’ roles to assist our work with partners.

### Essex Partnership

The Essex Partnership is a working relationship between representatives of organisations who deliver services to the public across Essex. It directs and oversees progress on partnership work through the Essex Partnership Board.

The Essex Partnership Board provides leadership to help shape the strategic direction of local public services based on ‘whole-systems’ approaches and supports the delivery of public sector reforms.

Essex Partnership Board, Essex Chief Executives Association and Essex Leaders and Chief Executives’ Group are being supported by the Public Service Reform Unit (PSRU) to develop their thinking about ‘rewiring public services’ and the vision and implications for transformation across partners in line with our emerging views for a ‘One Essex route map’.

### Companies

Section 95 of the Local Government Act 2003 provides powers to Local Authorities in England to trade in function-related activities through a company. The Council has set up Local Trading Authority Companies for this purpose. The Council also has interests in other companies or limited liability partnerships that have been established by other bodies.

The ECC published guidance on how to create a company also provides direction in the areas of good governance, legal and financial compliance arrangements. This is due to be reviewed in December 2014.

A register of Local Authority Trading Companies is maintained by Essex Legal Services (ELS) and nominated officers are appointed who report updates to ELS and the Financial Compliance team of company activities.

## Section Three – Governance Statement

---

### 5. Review of effectiveness

We have a responsibility to conduct, at least annually, a review of the effectiveness of our governance framework, including the system of internal control. 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's annual report, our own Service Assurance Statements (completed by all Tier 3 Directors) and from comments received from external auditors and other review agencies and inspectorates.

In the Annual Audit Report the Head of Internal Audit and Counter Fraud can give an opinion of either 'adequate' or 'inadequate' assurance. His opinion for 2013/14 is that we have '**adequate assurance**' overall for our systems of internal control. This means that there is a sound system of internal control, adequately designed to meet the Council's objectives, and controls are generally being applied consistently.

In 2013/14 we carried out 116 audits (including schools) across our full range of functions, services and directorates. 83% of our reviews received 'Full' or 'Substantial' assurance. Particularly strong or improved areas included:

- Pensions Investment – 'Full Assurance';
- Pensions Administration – 'Full Assurance';
- Treasury Management – 'Full Assurance'; and
- Risk Management - moved from 'Limited' to 'Substantial Assurance'.

Of the audits completed in 2013/14, 15 reviews received 'Limited Assurance' and none received a 'No Assurance' opinion. Remedial recommendations have been agreed with the relevant service areas to effect the necessary control improvements for all of these reviews. Automated recommendation tracking and reporting software has been put in place this year to increase the robustness of our follow-up of audit recommendations, and all limited assurance reports are reviewed by Audit Committee.

Internal Audit reviews found all key fundamental systems to offer 'Substantial' or 'Full Assurance'. Governance related Internal Audit reviews received 'Substantial Assurance'. This includes:

- Gifts and Hospitality
- Declarations of Interest (Members and Officers)
- Members' Expenses
- Use of Chauffeured Vehicle
- Foreign Travel (Members and Officers)
- Procurement Cards
- Information Security Monitoring follow up review

## Section Three – Governance Statement

---

Internal Audit visits to schools are prioritised based on a risk assessment of all schools, and 38 reports on schools were issued in 2013/14. The assurance outcomes were proportionately consistent with the previous year with 82% receiving 'Substantial Assurance' and 18% 'Limited Assurance' opinion. We also undertake an annual analytical review of School Year-End Balances which is an important assurance tool encompassing the whole school population. The School Year-End Balances review returned an opinion of 'Substantial Assurance' in 2013/14.

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.

Counter Fraud activity is reported regularly to the Audit Committee. Referrals have increased in volume by around 9%, however this relates to social care referrals arising from a specific large scale review exercise undertaken during the year by Adult Operations in relation to social care payments (personal budgets). 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.

All recommendations arising from Internal Audit and Counter Fraud activity are tracked with monthly automated emails being 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. This provides good accountability and visibility of Internal Audit recommendations across the Council. All reviews with a 'No' or 'Limited' assurance opinion are also subject to a follow-up audit review.

In 2013/14 two referrals were made to the Information Commissioners Office (ICO) in respect of information breaches. We have proactively undertaken a review of these incidents and reviewed our policies and procedures where necessary. All incidents reported to the ICO (current and previous years) have now been closed by the ICO who will be undertaking an independent review of our information governance arrangements in 2015.

### 6. Governance issues

The following issues have been identified throughout the year and have either been resolved or are still subject to on-going action or review.

- **Lord Hanningfield:** The Council had to take a decision on whether to issue legal proceedings against Lord Hanningfield in relation to historical expense claims. The issues had been reported to the Audit Committee on numerous occasions and the committee had asked to be informed of the intended decision ahead of it being made by the Leader or the Cabinet. Leading Counsel has been advising on the matter. A decision was taken by the Leader of the Council in July 2014 not to issue legal proceedings.

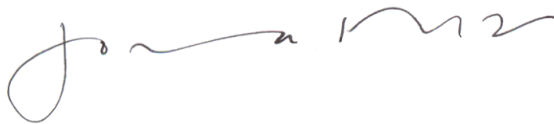
## Section Three – Governance Statement

---

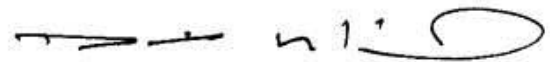
- **Essex Cares:** Discussions are underway with Essex Cares around their business plan and the existing and potential governance structure for the company.
- **Decision making:** New decision making guidance has been issued and training provided to a wide group of staff involved in project development and commissioning strategies. Further guidance is being developed to ensure appropriate ownership of decisions and to further improve content and clarity of reports.
- **Leadership:** A programme for management development for senior leaders is being developed to ensure that our leaders have the right skills, values and behaviours in order to take the organisation forward. The Member Training and Development Programme will also be re-accredited this coming year.
- **South East Locality Enterprise Partnership (SELEP):** the Council has reinforced the need for good governance in its role as Accountable Body. Discussions are taking place with the Managing Director of the SELEP to deliver improvements in governance and to ensure that, for example, contracts are let in accordance with the EU rules, appointments are properly made and financial approvals are subject to rigorous challenge.
- **Partnership governance** arrangements will need to remain under review throughout the coming year, in recognition of the changing partnership arena.
- **Health Integration:** The Council is keen to see greater integration between health and social care and the governance of those arrangements will require review.

As we face the reality of the local government financial landscape it is important that we continue to ensure good governance in the face of increasing demand for services and diminishing resources. The Council will need to ensure that all managers and members understand the significance of good governance and that it is built into their roles and responsibilities, thereby ensuring that good governance is embedded in the organisation throughout this period of change.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



**Joanna Killian**  
**Chief Executive**



**Cllr David Finch**  
**Leader of the Council**

## Review of 2013/14 Action Plan

*Issues identified in the 2012/13 Annual Governance Statement*

Findings	Action	Lead Officer	Action delivered
<p><b>1. Health &amp; Safety:</b> In August the Health and Safety Executive (HSE) raised a number of concerns with us with respect to ECC's health and safety management control and management culture. Action was taken immediately to develop and implement an improvement action plan to ensure that the Council improved its record and credibility in this area.</p>	<p>Complete and embed actions to ensure our Health and Safety arrangements are fit for purpose, including:</p> <ul style="list-style-type: none"> <li>Recruit Health and Safety Manager</li> <li>Put in place new staffing structure</li> <li>Deliver all actions in the Health and Safety Action/Improvement Plan</li> <li>Give final assurance to the Health and Safety Executive that our arrangements are suitable</li> </ul>	Director for Corporate Law and Assurance	<ul style="list-style-type: none"> <li>Health and Safety Manager appointed in 2013/14 but has since left ECC, further recruitment is currently in process.</li> <li>New structure in place and being recruited to.</li> <li>H&amp;S Action Plan for 2013/14 delivered.</li> <li>Assurance provided to HSE and intervention of ECC removed officially by HSE at end of January 2014.</li> </ul>
<p><b>2. Information Security:</b> In 2011/2012 five referrals were made to the Information Commissioners Office (ICO) in respect of information breaches. Two of these await a response from the ICO at the time of printing and one is still under</p>	<p>We have proactively undertaken a review of these incidents and reviewed our policies where necessary – continue to monitor those referrals which currently remain open and identify whether any further areas of practise need to be improved to reduce risk in future.</p>	Chief Information Officer	<ul style="list-style-type: none"> <li><b>DPA complaints:</b> The ICO to date, have supported ECC's management of requests that have reached them as complaints, recognising that an organisation of our size will undoubtedly be effected by human error. We continue to utilise the identification of errors in order to further educate the organisation around Data Protection and the management of personally identifiable information, focussing on areas or issues of compliance and understanding in order to maintain best practice.</li> </ul>



Findings	Action	Lead Officer	Action delivered
<p>investigation. No further action has been required by the ICO in regard to the other two referrals. Nonetheless we have proactively undertaken a review of these incidents and reviewed our policies where necessary.</p>			<ul style="list-style-type: none"> <li>▪ <b>FOI/EIR complaints:</b> ICO have supported ECC's management of requests that have reached them as complaints. This reflects well on the maturity of the processes in place and the IMIS team's co-ordination and quality assessment of responses with the rest of the organisation. Through the EOLP partnership, ECC is contributing to knowledge sharing of ICO decision notices with partners to maintain best practice.</li> <li>▪ <b>Security Breaches:</b> There has been proactive work undertaken on all to prevent future occurrences. We have the appropriate governance and communication channels in place to implement recommendations that the ICO may make.</li> </ul>
<p><b>3.</b> Governance and Transformation: The governance work stream of the Transformation programme is currently reviewing the Council's governance arrangements to ensure they adequately reflect the new officer and political management structure delivered as part of Transformation programme. This work is ongoing and will ensure that our officer and</p>	<ul style="list-style-type: none"> <li>▪ Continue to review our governance arrangements and implement any necessary changes to ensure they remain effective and reflect the new structures and roles and responsibilities being created under Transformation 2.</li> <li>▪ Ensure our delegations of authority remain effective throughout the change period.</li> <li>▪ Continue to review our</li> </ul>	<p>Director for Corporate Law &amp; Assurance</p>	<ul style="list-style-type: none"> <li>▪ The constitution has been updated to reflect legislative changes and the 'new operating model'. Procurement rules are being reviewed.</li> <li>▪ The scheme of delegation to officers and the authorised officer lists have been completely re-written.</li> <li>▪ Guidance and protocols relating to companies and SELEP have been drafted.</li> </ul>

Findings	Action	Lead Officer	Action delivered
<p>member delegations remain appropriate and effective throughout the change period.</p> <p>Linked to this, partnership governance arrangements will need to remain under review throughout the coming year, in recognition of the changing partnership arena.</p>	<p>partnership governance arrangements and develop clear guidance and protocols relating to the establishment of new companies, partnerships and trading vehicles.</p>		
<p><b>4. Defining Outcomes and KPMs:</b> As we move towards an outcomes based, commissioning led organisation the Council will need to develop and seek member approval for a range of high level outcomes which the Council want to achieve for its residents and others.</p>	<ul style="list-style-type: none"> <li>▪ Develop clear set of corporate outcomes</li> <li>▪ Create new corporate plan</li> <li>▪ Develop a supporting set of outcome indicators and key performance measures</li> <li>▪ Work with commissioners and others to determine how these will be achieved and monitored</li> <li>▪ Develop appropriate mechanisms for monitoring success and performance</li> </ul>	<p>Director for Strategy and Communications</p>	<ul style="list-style-type: none"> <li>▪ As part of a new 'outcomes' focused approach to strategic planning, ECC has developed a new Corporate Outcomes Framework. This was adopted by Full Council in February 2014.</li> <li>▪ The Outcomes Framework sets out seven clear outcomes that the council will work to secure, and a suite of supporting indicators that will be used to track progress.</li> <li>▪ This new framework fulfils the role previously played by ECC's Corporate Plan, removing the need for a separate Corporate Plan to be prepared.</li> <li>▪ Commissioning strategies (one per outcome) have been approved, setting out the strategic actions that ECC will undertake to secure progress.</li> <li>▪ A system of quarterly reporting has been established to ensure that decision-makers and senior managers can monitor progress made</li> </ul>

Findings	Action	Lead Officer	Action delivered
			towards securing ECC's seven outcomes, and manage operational performance.
<p><b>5. Risk Management:</b> The Internal Audit review of Risk Management arrangements produced a 'Limited Assurance' opinion. The Risk Assurance Statement 2012/2013 recognises this, commenting that the key issues reported (i.e. monitoring of risk and definition of corporate risk appetite) had already been identified by the Strategic Risk Manager as areas of priority focus within both the Improvement Plan and the annual work stream plan for next year.</p>	<p>Complete and embed actions to ensure our Risk Management arrangements are fit for purpose, including:</p> <ul style="list-style-type: none"> <li>Recruit Head of Organisational Risk Services</li> <li>Put in place new staffing structure</li> <li>Complete all actions from the Risk Management Improvement Plan which includes all internal audit recommendations relating to Risk Management.</li> <li>Agree Risk Assurance Statement</li> <li>Agree risk management strategy</li> <li>Implement new risk reporting mechanism in light of T2 changes</li> </ul>	Director for Corporate Law and Assurance	<ul style="list-style-type: none"> <li>Head of Organisational Risk permanently in post.</li> <li>New staffing structure agreed and being recruited to.</li> <li>Actions from Improvement Plan and Audit recommendations delivered. <b>Subsequent Internal Audit in 2013/14 returned a 'Substantial Assurance' opinion.</b></li> <li>Risk Assurance Statement has been completed.</li> <li>New Risk Management Strategy agreed through appropriate governance processes including final approval by Cabinet in February 2014.</li> <li>Risk reporting is in place.</li> </ul>
<p><b>6. Embedding good governance:</b> As we face the reality of the local government financial situation it is important that we continue to</p>	<ul style="list-style-type: none"> <li>Design and launch an additional six module of Governance e-learning on Health &amp; Safety. Target audience all employees.</li> <li>Agree dates for refresh of</li> </ul>	Director for Human Resources	A new Health and Safety module was launched to the organisation, supported by coordinated communications campaign. It has been incorporated into induction arrangements. Completion among appropriate officers was at 71% in April 2014 and climbing.

Findings	Action	Lead Officer	Action delivered
<p>ensure good governance in the face of increasing demand for services and diminishing resources. The Council will need to ensure that all managers and members understand the significance of good governance and that it is built into their roles and responsibilities, thereby ensuring that good governance is embedded in the organisation throughout this period of change.</p>	<p>the corporate governance e-learning course to officers and members under a two year cycle ( with exception if legislation or policy changes dictate)</p> <ul style="list-style-type: none"> <li>▪ Ensure responsibility for ensuring good governance such as H&amp;S, equalities, financial management and budgetary control, risk management, etc. is incorporated into job profiles, training and development programmes, My Performance objectives, values and behaviours and/or elsewhere within our HR documentation and policy framework.</li> <li>▪ Ensure ownership of key governance policies and other documents are allocated to senior managers, as appropriate</li> <li>▪ Ensure good progress is made in the on-going review of the documents comprised in our corporate governance</li> </ul>		<p>Work is in progress with SME's to refresh the Corporate Governance e-learning course.</p> <p>An additional sixth module of Governance e-learning on Health &amp; Safety has been designed and launched. All Tier 3 and 4 senior leaders have received governance training and financial training as part of Leading our New Organisation Training. All budget holders have been tested for their competency and have had coaching from finance team where necessary. Financial management and budgetary control and routinely part of 'Supporting Success' measures. Employee responsibilities with respect to Health and Safety and Governance are set out in their written particulars and form part of their contract of employment</p> <p>Key governance policies are allocated to the relevant senior officer rather than there being a single team responsible for updating our governance framework. The Intranet project has commenced and will deliver an advanced document management system with benefits around accountability, monitoring of updates and version control.</p> <p>Policies continue to be updated to ensure they stay abreast of legislative changes. Intranet developments have got underway, as above, to ensure this is supported by automation in future</p> <p>Following the May 2013 election a comprehensive induction programme was implemented for members, with duplicate sessions to encourage attendance and including a focus on the ways in which members are empowered to seek and obtain</p>

Findings	Action	Lead Officer	Action delivered
	<p>framework</p> <ul style="list-style-type: none"> <li>Ensure elected members are appropriately trained and have the right information to enable them to fulfil their roles properly and in accordance with principles of good governance</li> </ul>		information.
<p><b>7. Lord Hanningfield:</b> During 2012/13 the police announced that they would be taking no further action with regards to a criminal investigation into Lord Hanningfield relating to his ECC expenditure. We are looking at the possibility of taking legal proceedings against Lord Hanningfield and this is on-going.</p>	<p>Proceed openly and transparently with the decision around whether to take legal proceedings against Lord Hanningfield.</p>	<p>Director for Corporate Law and Assurance</p>	<p>This has now been completed and the Leader took a decision not to pursue further legal action.</p>

# **Independent Auditor's Report**

# Section Four - Independent Auditor's Report

---

## Independent Auditors Report to the Members of Essex County Council

### 1. Opinion on the Authority's financial statements

#### 1.1 Opinion on the Authority's financial statements

We have audited the financial statements of Essex County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, and the related notes 1 to 38 and Group Account notes 1 to 6. 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 2013/14.

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

#### 1.2 Respective responsibilities of the Executive Director for Corporate Services and Customer Operations and the Auditor

As explained more fully in the Statement of the Executive Director for Corporate Services and Customer Operations Responsibilities set out on page 16, the Executive Director for Corporate Services and Customer Operations 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 2013/14, 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.

#### 1.3 Scope of the audit of the financial statements

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

## Section Four - Independent Auditor's Report

---

Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate Services and Customer Operations; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report 2013/14 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.

### 1.4 Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the financial position of Essex County Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- Give a true and fair view of the financial position of the Group as at 31 March 2014 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 2013/14.

### 1.5 Opinion on other matters

In our opinion, the information given in Annual Financial Report 2013/14 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 1.6 Matters on which we report by exception

We report to you if:

- In our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- We issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- We designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- We exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.



## Section Four - Independent Auditor's Report

---

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

#### Respective responsibilities of the Executive Director for Corporate Services and Customer Operations and the Auditor

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

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for 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 2014.

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

## Section Four - Independent Auditor's Report

---

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, 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 2014.

### **1.8 Delay in certificate 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 (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. 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.

**Andy Clewer**

**For and on behalf of Ernst & Young LLP, Appointed Auditor**

**Luton**

**24<sup>th</sup> September 2014**

# Section Four - Independent Auditor's Report

---

## 2. Opinion on the Pension Fund financial statements

### 2.1 Opinion on the Pension Fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 17. 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 2013/14.

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

### 2.2 Respective responsibilities of the Executive Director for Corporate Services and Customer Operations and the Auditor

As explained more fully in the Statement of the Executive Director for Corporate Services and Customer Operations Responsibilities set out on page 16, the Executive Director for Corporate Services and Customer Operations is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, 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.

### 2.3 Scope of the audit of the financial statements

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

## Section Four - Independent Auditor's Report

---

financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report 2013/14 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.

### 2.4 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### 2.5 Opinion on other matters

In our opinion, the information given in the Annual Financial Report 2013/14 for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Baldeep Singh**  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Reading  
24<sup>th</sup> September 2014