



Essex County Council

# **Audit, Governance and Standards Committee**

<b>10:00</b>	<b>Monday, 29 July 2019</b>	<b>Committee Room 1, County Hall, Chelmsford, CM1 1QH</b>
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**For information about the meeting please ask for:**

Andy Gribben, Senior Democratic Services Officer

**Telephone:** 033301 34565

**Email:** [democratic.services@essex.gov.uk](mailto:democratic.services@essex.gov.uk)

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| <b>5</b> | <b>To Approve the Statement of Accounts 2018/2019 and the Annual Governance Statement</b><br>To receive a report (AGS/38/19 and appendix) from Margaret Lee, Executive Director for Corporate and Customer Services and Christine Golding, Chief Accountant                                 | <b>16 - 248</b>  |
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| <b>9</b> | <b>Dates of Forthcoming Meetings</b><br>To note that the next meeting will be held on Monday 29 July 2019 at 10:00am in Committee Room 1.<br>The subsequent meetings will be 16 September and 9 December 2019; 23 March, 1 June, 27 July, 14 September, 7 December 2020; and 21 March 2021. |                  |

### **Exempt Items**

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

**That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.**

## **10            item 3a Confidential Appendix A to Technology Services Update**

- Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of a crime.

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## **Agenda item 1**

**Committee:** Audit, Governance and Standards Committee

**Enquiries to:** Andy Gribben, Senior Democratic Services Officer

### **Membership, Apologies, Substitutions and Declarations of Interest**

#### **Recommendations:**

To note

1. The membership of the committee as shown below
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

#### **Membership**

(Quorum: 3)

Councillor T Cutmore  
Councillor P Channer  
Councillor A Davies  
Councillor A Erskine  
Councillor T Hedley  
Councillor R Mitchell  
Councillor R Moore  
Councillor M Platt  
Councillor K Smith  
Councillor A Turrell

Chairman

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**Minutes of the meeting of the Audit, Governance and Standards Committee, held in Committee Room 1, County Hall, Chelmsford, CM1 1QH on Monday, 3 June 2019****Present:****Members:**

Councillor P Channer	
Councillor T Cutmore	Chairman
Councillor A Davies	
Councillor M Mackrory	(substitute for Councillor A Turrell)
Councillor M Maddocks	(substitute for Councillor A Erskine)
Councillor R Mitchell	
Councillor Dr R Moore	
Councillor M Platt	

**Also Present:**

Barry Pryke	BDO LLP (external auditors)
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**ECC Officers:**

Sam Andrews	Essex Pensions
Paula Clowes	Head of Assurance
Christine Golding	Chief Accountant
Andy Gribben	Senior Democratic Services Officer (clerk to the meeting)
Margaret Lee	Executive Director, Corporate and Customer Services
Paul Turner	Director, Legal and Assurance (Monitoring Officer)

**1 Welcome and Introduction**

The Chairman welcomed members of the committee, officers in attendance, the representative from Essex Pensions and BDO LLP, the external auditors.

He reminded members that the meeting was being broadcast live over the internet and that the full discussion would be publicly available on the County Council's website after the meeting.

**2 Membership, Apologies, Substitutions and Declarations of Interest.**

The report of Membership, Apologies and Declarations was received, and it was noted that:

1. The membership of the Audit, Governance and Standards Committee was as shown in the report, the Council's members and Councillor Cutmore as Chairman having been appointed at the Annual meeting of Council on 14 May 2019.

2. Apologies for absence had been received from Councillor Erskine who was substituted by Councillor Maddocks, Councillor Hedley, Councillor Smith and Councillor Turrell who was substituted by Councillor Mackrory.
3. With respect to items on the agenda:
  - Councillor Channer declared an interest in respect of item 4 that she was a member of the Board of Essex Cares Ltd and was an elected member of Maldon District Council who benefit from the Essex Pension Fund. There was also a reference to Vision of Essex to which Maldon District Council was a signatory. She also declared in respect of item 7 that she had made a declaration that appeared on the register of Gifts and Hospitality,
  - Councillor Platt declared an interest in respect of item 4 that he was Vice-Chairman of the Essex Pension Fund,
  - Councillor Davies declared an interest in respect of item 4 that he was in receipt of an LGPS Deferred Pension and
  - Councillor Maddocks declared an interest in respect of item 4 as he was in receipt of an Essex Pension.

The Chairman reminded members that any interests must be declared during the meeting if the need to do so arose.

### **3 Appointment of Vice-Chairman**

It having been moved by Councillor Channer and seconded by Councillor Maddocks, and there being no other nominations, it was

#### **Resolved**

That Councillor Hedley be appointed as Vice-Chairman of the Committee.

### **4 Minutes and Matters Arising**

The minutes of the meeting held on 25 March 2019 were approved as a correct record and signed by the Chairman.

It was noted that at the meeting held on 25 March, members of the committee had expressed concern about the owners of recommendations repeatedly failing to provide updates to the Internal Audit service. The Committee had agreed that a letter from the Chairman be sent requesting updates. This had been done and the results of that undertaking were presented to members as item 6 on the agenda.

## **5 To Approve the Draft Statement of Accounts 2018/2019 and the Draft Annual Governance Statement**

The members of the committee received a report (AGS/32/19 and appendix) from Margaret Lee, Executive Director for Corporate and Customer Services and presented by Christine Golding, Chief Accountant.

The presentation, subsequently circulated to members, outlined the principle aspects of the Draft Statement of Accounts 2018/19 including:

- The timetable for the approval and publication of the Statement of Accounts 2018/19 and the role of the Audit, Governance and Standards Committee.
- An overview of the content of the Statement of Accounts for 2018/19.
- The purpose and content of the main financial statements including:
  - Income and Expenditure Statement,
  - Movement in reserves Statement
  - Balance Sheet and
  - Cash Flow Statement.
- Some of the other information presented in the Accounts.

The Chairman invited the Monitoring Officer, Paul Turner to introduce the Annual Governance Statement, that reviewed the Council's governance arrangements. The report outlined the six principles of good governance addressed by 20 questions that sought to check and improve compliance. The results were to be taken to the Corporate Governance Committee.

The members of the committee asked questions and considered both the Draft Statement of Accounts and the Annual Governance Statement. The discussion may be [heard published online on our website](#).

It having been moved by Councillor Mitchell and seconded by Councillor Maddocks it was

### **Resolved**

- 1 That the Committee note the arrangements for approval and publication of the Council's Accounts for 2018/19 and
- 2 the Committee receive the draft Annual Governance Statement 2018/2019, as appended to the report.

**6 Internal Audit and Counter Fraud Annual Report 2018/19**

The members of the committee received a report (AGS/33/19 and appendix) from Paula Clowes, Head of Assurance.

Members were advised that the Accounts and Audit Regulations 2015 required that the Council maintain an adequate and effective internal audit service and annually the Head of Assurance must deliver an internal audit opinion and report that can be used by the council to inform its Annual Governance Statement (AGS).

The report before members included an opinion on the overall adequacy and effectiveness of the organisation's control environment (framework of governance, risk management and control).

It was requested by members that future reports to the committee be accompanied by simpler graphics. Committee asked when the reports that were currently draft would be reported on to committee, in particular Cyber Security. Members were advised that these reports would be presented at the September meeting as part of the next Internal Audit progress report. The discussion may be [heard published online on our website](#).

It having been moved by Councillor Maddocks and seconded by Councillor Moore it was

**Resolved**

That the Internal Audit and Counter Fraud Annual Report and the opinion on the overall adequacy and effectiveness of the organisation's internal control environment be noted.

**7 Update on Internal Audit Recommendations**

The members of the committee received a report (AGS/34/19 and appendix) from Paula Clowes, Head of Assurance.

Members were advised that the Accounts and Audit Regulations 2015 required the Council to maintain an adequate and effective internal audit service in accordance with proper practices and make recommendations for the improvement of the control environment, risk management or governance arrangements.

The report provided members of the committee with the updates received from recommendation owners since the Audit, Governance and Standards Committee

(AGS) Chairman wrote to them requesting updates. The discussion may be [heard published online on our website](#).

It was suggested by the Chairman that some recommendation owners should be requested to attend the committee to explain the progress (or lack thereof) in implementing the internal audit recommendations by the agreed date.

It having been moved by Councillor Maddocks and seconded by Councillor Moore it was

### **Resolved**

That the report be noted and that the following persons be invited to attend the next meeting of the committee to provide updates on outstanding recommendations:

- Interim Director of Technology Services and
- Director, Safeguarding & Quality Assurance (Adult Social Care)

## **8 Review of Register of Gifts and Hospitality Register**

The members of the committee received a report (AGS/35/19 and appendix) from Paul Turner, Director, Legal and Assurance that informed them of the outcome of the review of the 2018-19 Member Gifts and Hospitality register.

The members of the committee discussed the report and had no further recommendations to make. The discussion may be [heard published online on our website](#).

It having been moved by Councillor Platt and seconded by Councillor Maddocks it was

### **Resolved**

That the findings of the review be noted.

## **9 Work Programme**

The members of the committee received a report (AGS/36/19) from Paul Turner, Director, Legal and Assurance

The Chairman brought to the attention of Members that at the meeting scheduled for 29 July members would receive for approval the *Statement of Accounts and the Annual Governance Statement*.

Additionally, it was noted that the *Update on the Level of Assurance (Health and Safety)* that had been scheduled for the meeting in June had been rescheduled to be brought to the September meeting instead together with the *Risk Management*

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*Strategy* and the commissioned audit undertaken by PwC on the Council's *Risk Management*.

Members of the committee noted that the Work Programme was subject to regular revisions and change and members were encouraged to suggest to the Chairman or to officers should they wish a matter to be included in the programme.

## **12 Date of Next Meeting**

Members noted that the next meeting of the committee was scheduled to be on Monday 29 July 2019 at 10.00am in Committee Room 1

The meeting closed at 11.15am.

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**Chairman**  
**3 June 2019**

<b>Report title:</b> Technology Services Audits Update	
<b>Report to:</b> Audit, Governance and Standards Committee	
<b>Report author:</b> John Tyreman, Director, Technology Services	
<b>Date:</b> 29 July 2019	<b>For:</b> Discussion
<b>Enquiries to:</b> John Tyreman, Director, Technology Services, email john.tyreman@essex.gov.uk	
<b>County Divisions affected:</b> All Essex	

**Confidential Appendix**

This report has a confidential appendix which is not for publication as it includes exempt information falling within paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

**1. Purpose of Report**

1.1 The purpose of this report is to provide and update to the Committee regarding outstanding audit actions related to Technology Services, specifically:

- What has been done since the Internal Audit reports were issued in 2016/17 and 2017/18 in mitigating the risks identified and implementing the recommendations?
- Why were the original target dates for implementing the recommendations missed by such a large timeframe?
- What residual risks are we, as a Council, exposing ourselves to in particular in relation to IT disaster recovery?

**2. Recommendations**

2.1 That the Audit Governance and Standards Committee considers whether it is content with the situation with respect to the implementation of internal audit recommendations and whether it wishes to make any comment, suggestion or recommendation to any person.

**3. Summary of issue**

3.1 Recommendations from successive Technology Services audits completed since 2017 are still outstanding, however, action is in hand to resolve all outstanding actions by embedding the recently completed Technology Services Organisational Design and completion of the Modernising Technology, End User Computing and Office 365 Programmes.

## **Technology Services Update to Audit, Governance and Standards Committee**

- 3.2 The actions will improve the management and delivery of all systems and services provided by Technology Services and relate to all Council Strategic Objectives.
- 3.3 It is expected that the all significant risks relating to outstanding recommendations will be addressed by December 2019.

### **4. Specific Questions to be Answered**

#### **4.1 What has been done since the Internal Audit reports were issued in 2016/17 and 2017/18 in mitigating the risks identified and implementing the recommendations?**

##### **Organisational Design and Engagement**

Technology Services have been subject to ongoing reorganisation and consultation which is now complete and specifically addresses a key weakness through the establishment of the Business Engagement Team that will provide a Business Partnering Service with a Senior and Business Partner for each of Place, People and Corporate supported by Business Analysts to address the audit issues related to integration and alignment of Technology Services to Council business needs.

In addition to the Business Engagement Team the Chief Technology Officer's team is being expanded to strengthen the development of standardised technical architecture and establish a new role, Technology Policy and Assurance Manager with responsibility for Security, ITDR, Risk and Audit leading an expanded Security Team with development to create new skills to cover the Risk, ITDR and Audit elements of the team's role.

To support this development:

- The TS Leadership Team has been adjusted to include regular updates on Security, ITDR, Risk and Audit
- A specific monthly review meeting covering Security, ITDR, Risk and Audit has been established
- Regular meetings have been established with Internal Audit.

##### **IT Disaster Recovery**

The ITDR Policy, Plan and Processes have been updated to reflect the likely disaster scenarios, including third party plans where appropriate, these will be further revised during the delivery of the Modernising Technology, End User Computing and Office 365 Programmes.

##### **Strategy**

A decision was taken to work to IT strategic principles by the previous Executive Director of Corporate Development. These principles are referenced at the start of the Team Charter and will continue to apply. However, in

## **Technology Services Update to Audit, Governance and Standards Committee**

discussion with the Chief Executive it has been agreed that this leaves the Council exposed and that a formal IT Strategy, designed to meet Council strategic priorities is in development to be completed following the arrival of the new Technology Services Director in September 2019. Development of the Strategy will be facilitated by the new level of engagement being achieved by the Business Engagement Team.

### **Progress on Technology Initiatives**

Specific technology issues are being addressed as follows:

- ITDR and Security - via the Modernising Technology and Office 365 Programmes that deliver a new resilient technical architecture, based on migrating services to Microsoft Azure Cloud Services, with more comprehensive and automated security controls. Implementation has started and is scheduled to be complete by December 2019. The first service to go live on Microsoft Azure was the new Essex website
- Asset Management - via the End User Computing Programme which replaces the current Service Management Tool, Support Works, which has been out of support for a considerable period inhibiting the development needed to resolve asset management issues. Implementation of the new tool, Axios Assist, has started and is due to be completed by September 2019 which will allow asset management to be redesigned and resolved by December 2019

#### **4.2 Why were the original target dates for implementing the recommendations missed by such a large timeframe?**

The prime reason for targets being missed by such a large timeframe is the impact of reorganisation through Organisational Design and the restructuring of the original Digital Foundations Programme which, if implemented successfully, would have addressed the audit actions in a more appropriate timeframe.

The Digital Foundations Programme has been replaced by the End User Computing, Modernising Technology and Office 365 Programmes which are referenced in the report.

These Programmes are currently on track to be delivered to completion to the dates detailed in Section 4.1.

#### **4.3 What residual risks are we, as a Council, exposing ourselves to in particular in relation to IT disaster recovery?**

The residual risk exposure to the Council is addressed at Appendix A.

### **5. Next steps**

The next steps are for the Audit Committee to accept the recommendations of this report related to completion of the outstanding audit actions.

## **Technology Services Update to Audit, Governance and Standards Committee**

Decisions have already been agreed for the supporting programmes by the Investment Board and the Organisational Design Authority.

### **6. Issues for consideration**

#### **6.1 Financial implications**

This report has no financial implications.

#### **6.2 Legal implications**

6.2.1 Failure to implement internal audit recommendations gives rise to weakness in internal controls and could lead to poor external audit outcomes. Failure to have effective IT systems could give rise to legal claims against the Council as a result of failing to discharge statutory duties.

### **7. Equality and Diversity implications**

- 7.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3 This report relates to internal audit reports on IT systems and does not have a direct equality impact.

### **8. List of appendices**

Appendix A – Confidential Information

### **9. List of Background papers**

Internal audit reports to the extent that they do not include exempt information.

## Agenda item 5

AGS / 38 / 19	
<b>Report title:</b> 2018/19 Statement of Accounts	
<b>Report to Audit, Governance and Standards Committee</b>	
<b>Report author:</b> Margaret Lee – Executive Director for Corporate and Customer Services	
<b>Date of meeting:</b> 29 July 2019	<b>For:</b> Approval
<b>Enquiries to</b> <i>Margaret Lee, Executive Director for Corporate and Customer Services</i>	
<b>Tel. No:</b> 03330 134558	
<b>Divisions affected:</b> All Essex	

### 1. Purpose of report

#### 1.1 The purpose of this report is to:

- i. Explain the role of the Audit, Governance and Standards Committee in relation to approval of the 2018/19 Statement of Accounts.
- ii. Consider the matters raised in the External Auditor's 'Audit Completion Reports' (presented elsewhere on the Agenda) in relation to the audit of the Council's accounts for 2018/19 and those for the Essex Pension Fund.
- iii. Present an updated draft of the Council's 2018/19 Statement of Accounts, which has been amended to address matters arising during the 'final accounts audit' carried out by BDO.
- iv. Present an updated draft of the Council's 2018/19 Annual Governance Statement.

### 2. Recommendations

#### 2.1 It is recommended that the Committee:

- i. Notes the matters raised in the External Auditor's 'Audit Completion Reports' (*presented elsewhere on the Agenda*);
- ii. Approves the draft of the 2018/19 Annual Governance Statement, which is included in the Statement of Accounts document (*pages 203 to 224 of **Appendix A***); and
- iii. Approves the updated draft of the 2018/19 Statement of Accounts (*attached as **Appendix A** to this report*);
- iv. Notes the representations that the Executive Director for Corporate and Customer Services and Chairman of the Committee will make on behalf of the Council and the Essex Pension Fund (*as set out within the Letters of Representation appended to the Audit Completion Reports for the Council*

*and the Essex Pension Fund, which are presented elsewhere on the Agenda).*

### 3. Background and proposals

#### **Background**

- 3.1** In accordance with the requirements of the **Accounts and Audit Regulations 2015**, the draft 2018/19 Statement of Accounts was certified by the Executive Director for Corporate and Customer Services on **31st May 2019**.
- 3.2** The Accounts have subsequently been subject to external audit review, the outcome of which is summarised in the **Audit Completion Reports** for Essex County Council and for the Essex Pension Fund, which are presented elsewhere on the agenda. The Accounts have also been made available (via the Council's website) for public inspection.
- 3.3** The Accounts must now be formally approved by this Committee in order for the Council to meet the statutory deadline of **31st July 2019** for publication of its Statement of Accounts for 2018/19.

#### **Responsibilities and timeframes relating to the Statement of Accounts**

- 3.4** The respective responsibilities, and timeframe, for the approval and publication of the 2018/19 Statement of Accounts are as follows:

Deadline	Actions
<b>31st May 2019</b>	<ul style="list-style-type: none"> <li>The Executive Director for Corporate and Customer Services, as the Council's Responsible Financial Officer, must sign and date the Statement of Accounts and release the draft Accounts for external audit and public inspection.</li> </ul> <p><b>This requirement was met.</b></p>
<b>31st July 2019</b>	<ul style="list-style-type: none"> <li>The Statement of Accounts must be re-certified by the Executive Director for Corporate and Customer Services and, following approval by the Audit, Governance and Standards Committee, by the Chairman of the Committee.</li> <li>The Executive Director for Corporate and Customer Services and Chairman of the Committee must also sign letters of representation for the Council and for the Essex Pension Fund, addressed to the external auditor, confirming their opinion that the financial statements present fairly the financial position of the Council and the Essex Pension Fund, and of their income and expenditure for the year ended 31 March 2019.</li> <li>The External Audit Partner will certify his opinion on the accounts upon conclusion of the audit.</li> </ul>

Deadline	Actions
<b>31st July 2019</b>	<ul style="list-style-type: none"> <li>The Statement of Accounts will be published on the Council's website.</li> </ul>

### **Financial statements**

**3.5** The Statement of Accounts was presented to the Committee, in draft, on **3rd June 2019**. Amendments have been made to the Accounts since then. The following paragraphs provide an overview of these changes.

### **3.6 Local Government Pension Scheme liabilities**

**3.6.1** The Council is required to reflect its share of the liabilities of the Local Government Pension Scheme in its Balance Sheet on an actuarial basis, and its share of the assets of the Scheme at their fair value. It does this based on information provided by the Pensions Actuary.

**3.6.2** The information provided by the Pensions Actuary, and used for preparing the draft accounts for 2018/19, initially made no allowance for Court of Appeal judgements in relation to the McCloud and Sargeant cases, which relate to age discrimination within the Judicial and Fire Pension Schemes respectively, due to uncertainty about how these Court of Appeal judgements may affect LGPS members' past or future service benefits.

**3.6.3** The LGPS Scheme Advisory Board, with the consent of the Ministry of Housing, Communities and Local Government, commissioned the Government Actuary's Department (GAD) to prepare an assessment of the potential overall financial impact on the LGPS. GAD published their assessment on **10th June 2019**.

**3.6.4** On **27th June 2019** it was confirmed that the Supreme Court would not give the Government permission to challenge the McCloud / Sargeant judgements.

**3.6.5** Therefore, using the information published by GAD, which was based on a 'worst case scenario', the Pensions Actuary provided an estimate of the potential impact of the Court of Appeal judgements on the pension liabilities to be included in the Council's accounts for 2018/19.

**3.6.6** The Actuary estimated the impact on the Council's share of the Pension liabilities at 31 March 2019 would be **£22.340m**.

**3.6.7** The Council has updated its accounts to reflect this additional liability. The increase in the liability has been recognised as a past service cost in the Comprehensive Income and Expenditure Statement (thereby increasing the deficit on the provision of services), with an offsetting adjustment in the Movement in Reserves Statement to mitigate the impact on the General Fund.

- 3.6.8 The Net Pensions Liability and Pension Reserve have both been correspondingly increased too.

### **3.7 Debtors and creditors**

Invoices to the value of **£3.034m** were raised in March 2019 for services to be provided in 2019/20, together with an accrual in the 2018/19 Accounts to mitigate the impact on the Revenue Account of invoicing early. However, because the invoices were unpaid at 31st March 2019, the Balance Sheet included a Debtor and an offsetting Creditor (receipt in advance). Both balances have now been removed from the Balance Sheet.

### **3.8 Disclosure note changes**

- 3.8.1 The Council has also made amendments to various disclosure notes, the most significant of which are detailed below.

3.8.2 **Assumptions made about the future and other major sources of estimation uncertainty** (Note 3)

This note has been updated to ensure that it focusses only on those significant accounting estimates where actual results could be materially different from the assumptions and estimates used in preparing the 2018/19 Accounts.

3.8.3 **Property, Plant and Equipment – Revaluations** (Note 14.5)

The Council re-values all Property, Plant and Equipment assets required to be measured at current value under a rolling five-year programme and discloses the timing and amounts of valuations in a note to the Accounts. This note has been updated as the timings of some valuations were shown incorrectly.

3.8.4 **Financial Instruments** (note 18)

Additional commentary has been added to explain how credit risk is assessed for contractual debtors.

3.8.5 **Pension schemes accounted for as Defined Contribution Schemes** (Note 29)

The Council has two pension schemes which are accounted for as defined contribution schemes (Teachers and NHS Pension Schemes). The note on these schemes has been updated to include an estimate of the contributions expected to be paid by the Council in 2019/20.

3.8.6 **Related parties** (note 36)

Various minor updates have been made to this note, including to the disclosure of interests in the Rural Community Council of Essex and the Stow Maries Great War Aerodrome.

### **3.9 Group Account changes**

The Group Accounts have been updated as a consequence of changes to the Council's own accounts. Some changes have also been made to figures in the Group Statements for pensions (affecting the split between the Authority shares of the Profit and Loss and Pension Reserves of the Subsidiary). Related disclosure notes have also been updated.

**3.10** The 2018/19 Statement of Accounts, which is attached to this report at **Appendix A**, incorporates all these amendments.

**3.11** At the time of writing this report, the external audit work was ongoing, with matters outstanding both in relation to the Council's accounts and those of the Essex Pension Fund (as detailed within the Audit Completion Reports presented elsewhere on the agenda). Should it be necessary to make further amendments to the Statement of Accounts as the audit work is concluded, an update will be provided at the Audit, Governance and Standards Committee meeting.

### **Audit Completion Reports**

**3.12** The Audit Completion Reports for the Council and the Essex Pension Fund, which are presented elsewhere on the agenda, summarise the findings from the 2018/19 audit, although it should be noted that the audit work was incomplete at the time of writing these reports.

**3.13** The reports include messages arising from the audit of the Council's financial statements and those of the Essex Pension Fund, and the results of the work undertaken to assess the Council's arrangements to secure value for money in our use of resources.

**3.14** The reports states that the External Auditor expects to issue **unmodified** opinions on both the financial statements and the Council's arrangements to secure economy, efficiency and effectiveness in our use of resources. The unmodified opinion on the Council's arrangements to secure economy, efficiency and effectiveness is particularly significant, as the Council's previous external auditor had issued an 'except for' opinion in each of the previous three years' due to concerns about the Council's financial resilience to pressure from the economic environment.

**3.15** The Committee must consider the matters raised in the Audit Completion Reports before approving the 2018/19 Statement of Accounts.

### **Representation letters**

**3.16** Before the audit opinion for 2018/19 can be issued, the External Auditor requires the Executive Director for Corporate and Customer Services and Chairman of the Audit, Governance and Standards Committee to provide management representation letters for the Council, and for the Essex Pension

Fund. These letters are appended to the Audit Completion Reports, which are presented elsewhere on the Agenda.

- 3.17** The Committee is asked to note the representations that the Executive Director for Corporate and Customer Services and Chairman of the Committee will be making on behalf of the Council and the Essex Pension Fund.

### **Annual Governance Statement**

- 3.18** The Statement of Accounts document also includes the Annual Governance Statement (pages 203 to 224 of **Appendix A**). This is a statutory document which must be approved before the Committee approves the Council's Statement of Accounts. The Statement was considered by the Committee in June. The Committee are now asked to approve the Annual Governance Statement.

## **4. Policy context and Outcomes Framework**

- 4.1** This report presents the Council's 2018/19 Statement of Accounts for approval, which summarise the financial performance and financial position for the Council for the 2018/19 financial year. As such, it provides a financial representation of activities during 2018/19 against the Organisation Strategy.

## **5. Financial Implications**

- 5.1** All actions proposed within this report are considered by the Section 151 Officer as appropriate for approval of the Statement of Accounts.

## **6. Legal Implications**

- 6.1** There are no legal implications associated with this report, beyond the fact that the Council has a statutory duty to publish its Statement of Accounts for the year just ended by **31st July 2019**.

## **7. Staffing and other resource implications**

- 7.1** There are no staffing or other resource implications associated with this report.

## **8. Equality and Diversity implications**

- 8.1** There are no equality and diversity or other resource implications associated with this report.

**9. List of appendices**

**9.1 Appendix A: 2018/19 Statement of Accounts**

**10. List of Background Papers**

**10.1** Not applicable for this report.

APPENDIX A

# Essex County Council Statement of Accounts 2018/19

Audit, Governance and Standards  
Committee – 29th July 2019



Essex County Council

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# Narrative Report 2018/19



Essex County Council

# Narrative Report

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

Contents	Page
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Capital investment	12
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# Narrative Report

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## Introduction

### *About Essex County Council*

Essex County Council (ECC) is one of the largest of the **26** county councils in England, covering an area of around **346,000** hectares, with a population of around **1.4m** people and comprising **70** electoral divisions. The Council forms the upper tier of local government within Essex (excluding Southend and Thurrock).

### *Our Services*

The following core services are provided by the Council:

- **Children and Families** *(including the safeguarding of children, looked after children, services to vulnerable children and young people and their families and adoption and fostering services);*
- **Culture and Communities** *(including heritage, culture and the arts, tourism, community engagement and community resilience);*
- **Customer and Corporate** *(including libraries and community hubs, registration services, coroner and customer services);*
- **Economic Development** *(including enterprise and inward investment, employability and skills, strategic spatial planning, minerals and waste planning, housing growth and housing strategy, development and investment);*
- **Education and skills** *(including early years and pre-school, mainstream schools and education, special educational needs provision, school improvement, raising the participation age, youth services and careers advice and school crossing patrols);*
- **Environment and Waste** *(including waste minimisation, disposal and recycling, built and historic environment, country parks and green spaces, flood management and rural affairs);*
- **Health and Adult Social Care** *(including services for older people, people with physical or learning disabilities and the homeless, public health, mental health services, child health related matters and drug and alcohol action);*
- **Infrastructure** *(including highways maintenance, street lighting, traffic regulation and road safety, parking, cycling and public rights of way); and*
- **Finance, Commercial and Traded Services** *(including financial administration and management, comprising preparation and management of the revenue and capital budgets, funding and investment, traded services and strategic commercial partnerships).*

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

# Narrative Report

## Our leadership and workforce

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

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

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

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

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

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

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

Our workforce is aligned to our Corporate Leadership Team.

Overall, our workforce comprises **12,187** 'full time equivalent' employees. Of this total, **6,483** are employed within our locally maintained schools. Our non-schools' workforce therefore comprises **5,704** 'full time equivalent' employees as at 31st March 2019.

2017/18	Workforce numbers (full time equivalents)	2018/19
1,032	Adult Social Care	976
1,198	Children and Families	1,273
1,547	Corporate and Customer Services	1,408
600	Corporate Development	510
803	Place and Public Health	857
558	Education	555
103	Organisation Development and People	125
<b>5,841</b>	<b>Sub total - non schools</b>	<b>5,704</b>
7,840	Schools	6,483
<b>13,681</b>	<b>Total</b>	<b>12,187</b>

# Narrative Report

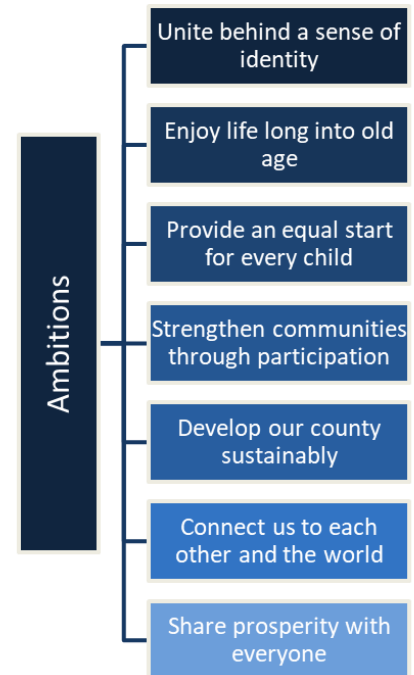
## Vision for Essex

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

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

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

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



## Organisation Strategy

### Strategic aims

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

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



Information on our performance against these priorities is provided in the Essex Annual Report for 2018/19 which is available on the Council's website.

# Narrative Report

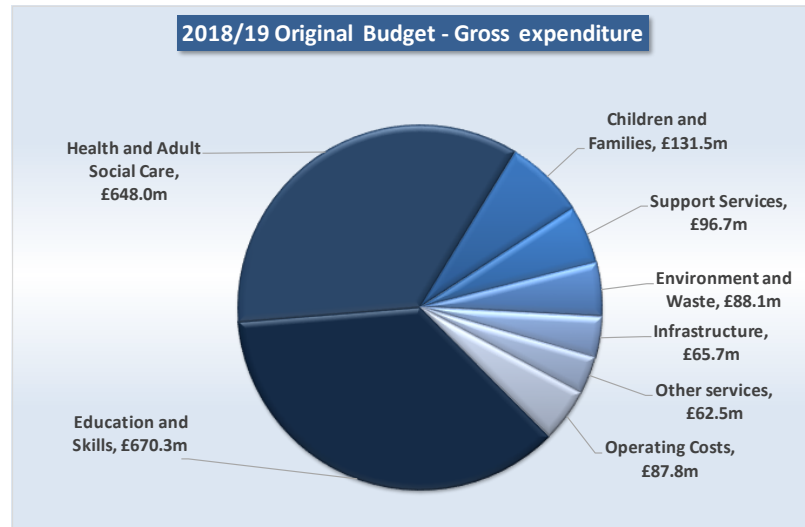
## Revenue spending

### Revenue spending plans for 2018/19

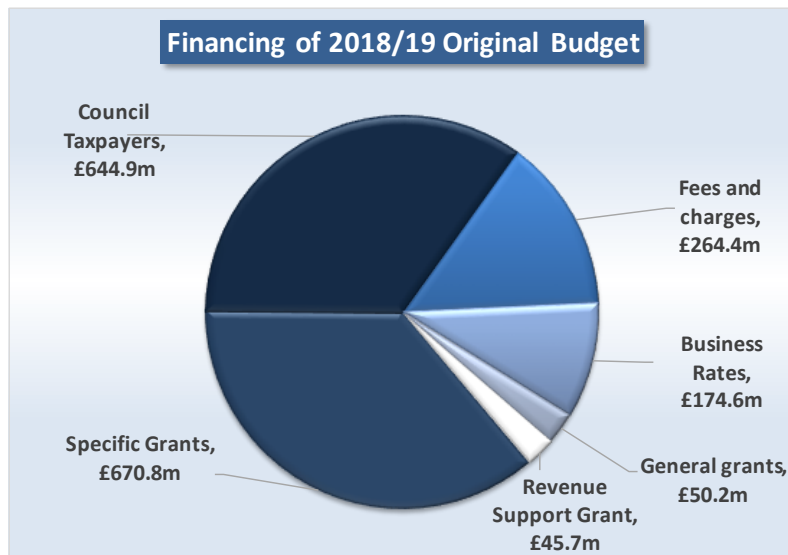
Our budget for the provision of services in 2018/19 was set against a backdrop of considerable financial challenge, due to the Government's on-going austerity programme of national reductions in public sector spending, compounded by inflationary pressures and an increasing demand for our services.

In total, we planned to spend some **£1,850.6m** (gross) on commissioning services this year.

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



We intended to finance **£985.4m** of our spending from income from fees and charges (**£264.4m**) and from specific (**£670.8m**) and general (**£50.2m**) government grants. The net budget, after allowing for specific and general government grants and income from fees and charges, originally amounted to **£865.2m**.



The net budget was financed from:

- Revenue Support Grant (**£45.7m**);
- Business rates (*including business rates 'top up' grant*) (**£174.6m**); and
- Local taxpayers (**£644.9m**).

The Council Tax for a band D property was set at **£1,221.75** (compared with £1,163.70 in 2017/18), which equated to an increase of under **65p** per household per week.

The Council levied the Government's social care precept of **2%** in 2018/19, which must be spent on the provision of adult social care; this is included in the Council Tax figure of **£1,221.75**.

# Narrative Report

## Year-end position

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

Through careful financial planning and appropriate management action, the Council delivered a moderate under spend of **£8.9m (1%)** against a very challenging backdrop; this includes the **£4m** emergency contingency, unspent due in part to mild winter conditions. At the first quarter stage, the financial position was a forecast over spend of **£7.1m**, primarily driven by pressures in Adult Social Care and Home to School transport, but targeted management action to manage risk and reduce over spends enabled the recovery of that position.

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

	Budget		Actual net expenditure £000	Over / (under) spend against final estimate £000
	Original £000	Final Estimate £000		
Children and Families	115,667	116,477	116,200	(277)
Customer and Corporate	14,706	13,219	13,067	(152)
Economic Development	5,007	5,762	5,449	(313)
Education and Skills				
Dedicated Schools Budget	(3,063)	2,159	5,782	3,623
Non Dedicated Schools Budget	79,381	74,329	75,485	1,156
Environment and Waste	81,516	86,237	86,903	666
Health and Adult Social Care	411,107	409,260	399,310	(9,950)
Infrastructure	47,236	50,531	54,295	3,764
Culture and Communities	2,877	3,664	4,489	825
Leader	7,809	7,603	6,934	(669)
Finance and Commercial	16,195	14,488	13,225	(1,263)
Recharged strategic support services	74,746	90,215	84,863	(5,352)
<b>Net expenditure by Portfolios</b>	<b>853,184</b>	<b>873,944</b>	<b>866,002</b>	<b>(7,942)</b>
Other operating costs				
Emergency Contingency	4,000	4,000	-	(4,000)
Interest, capital financing and dividends	46,802	41,979	41,181	(798)
Appropriations to / (from) earmarked reserves and restricted funds:				
Proposed appropriations	11,427	(5,107)	2,896	8,003
Underlying under spend	-	-	6,500	6,500
<b>Total net expenditure</b>	<b>915,413</b>	<b>914,816</b>	<b>916,579</b>	<b>1,763</b>
General government grants (excl. RSG)	(50,162)	(50,162)	(53,438)	(3,276)
General Balance - contribution / (withdrawal)	-	597	2,972	2,375
<b>Net Total</b>	<b>865,251</b>	<b>865,251</b>	<b>866,113</b>	<b>862</b>
<b>Financed by</b>				
Revenue Support Grant (RSG)	(45,739)	(45,739)	(45,739)	-
Business rates (incl. business rates top up grant)	(174,488)	(174,488)	(175,350)	(862)
Council taxpayers	(645,024)	(645,024)	(645,024)	-
<b>Total Financing</b>	<b>(865,251)</b>	<b>(865,251)</b>	<b>(866,113)</b>	<b>(862)</b>

# Narrative Report

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The net under spend of **£8.9m** reflects:

- A net under spend by services of **£7.9m**. This is concentrated in the Health and Adult Social Care portfolio, due to lower domiciliary and respite care placements, and higher than budgeted income on non-residential care.
- The Emergency Contingency of **£4m** not being needed.
- A net under spend of **£0.8m** on interest, capital financing and dividends, largely resulting from not securing further external loans during 2018/19.
- The receipt of more income from general government grants, council tax and non-domestic rates than budgeted (**£4.1m**).
- Appropriations of **£8.0m** (net) into earmarked revenue reserves (including **£8.9m** into the Carry Forwards reserve, representing unspent budget that will be used to support service expenditure in 2019/20, some of which was planned, and the re-profiling endorsed in advance of the year end).

**£6.5m** of the under spend was appropriated into the Transformation Reserve and the remainder (**£2.4m**) was transferred to the General Balance.

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

- Home to School Transport, where there is a cost pressure of circa **£2.1m** from 2020/21, driven by increased numbers and complexity of clients, specifically Special Educational Needs and Disabilities. This position is consistent with the national trend.
- A significant pressure within the high needs and early years' block within Education, funded by the Dedicated Schools Grant, which is over spent by **£3.0m** (see Note 13 of our Statement of Accounts, on page 71). A recovery plan is being prepared and will be reviewed by the Schools' Forum.

## *Revenue spending plans for 2019/20 and beyond*

The 2019/20 budget is underpinned by a financial strategy to ensure the financial sustainability of the Council and to deliver essential services to residents, whilst keeping council tax as low as possible.

The Council accepted the government's offer of a multi-year settlement in 2016/17, in return for an efficiency plan. This settlement has provided the Council with certainty over some central government funding streams until 2019/20.

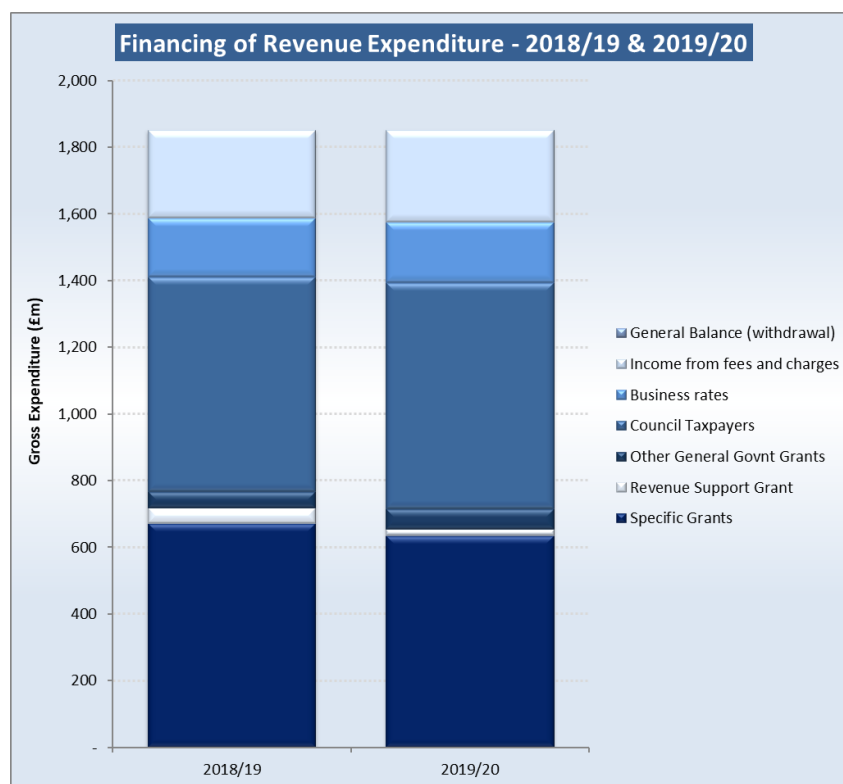
Revenue Support Grant funding from central government has reduced significantly over this period and falls to zero by 2020/21. Revenue Support Grant in 2019/20 will be **£18m** – this is equivalent to **2%** of the net cost of our services.

# Narrative Report

At **£1,850.6m**, budgeted expenditure in 2019/20 is consistent with that originally planned for 2018/19.

The Council implemented a **2.99%** increase in core council tax in 2019/20 (in addition to a **1%** social care precept).

The Council Tax for a band D property is **£1,270.44** (compared with **£1,221.75** in 2018/19); this is an increase of **£0.94** per household per week.



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

Looking ahead, total savings of **£100m** are required over the medium-term period, of which **£72m** must be found in 2020/21. Over the last 4 years, the Council has generated savings to taxpayers of **£311m** and has budgeted to deliver a further **£60m** of savings in 2019/20 (**6%** of the net budget). The Council has an outstanding track record, both in terms of delivering savings, generating income and delivering value to our residents, with a constant focus on strategic outcomes and financial prudence. Significant work is underway to align our plans for delivery to the Organisation Strategy with our financial position to ensure we deliver both a balanced budget for future years, as well as our ambitions for Essex and its residents.

The Council will continue to focus on commercialism, effective contract management and working with partners to secure value for money in delivering our strategic aims and priorities. The Council is redesigning its services where appropriate too, to ensure they remain modern and fit for purpose. The Capital Programme will also have elements which result in cash savings or reduced costs, thus reducing the burden on taxpayers.

# Narrative Report

Further details of the Council's revenue investment plans are included in the [Essex County Council Organisation Plan 2019/20](#), which is available on the Council's website.

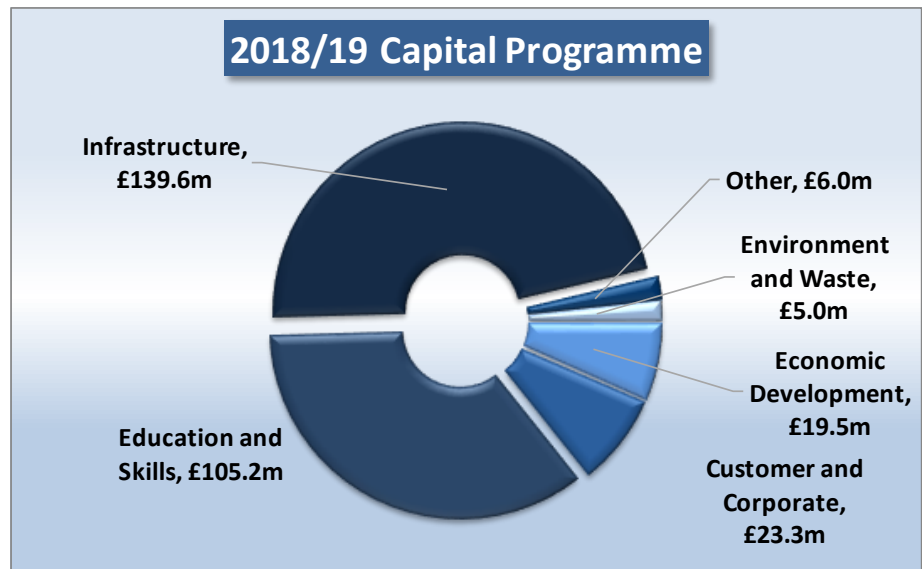
## Capital investment

### *Background to the 2018/19 Capital Programme*

Capital investment is essential to transform our capacity to meet future needs, generate additional income and deliver revenue savings. Our approach to setting the Capital Investment Programme for 2018/19 was to maximise and make the best use of the available funding to deliver projects that represent the key priorities of the Council and enable us to respond to residents' needs.

Overall, the Capital Programme for 2018/19 was originally set at **£298.6m** and comprised a diverse portfolio of activity, with elements that generate income and growth, drive savings and ensure the quality of infrastructure, for the benefit of Essex residents:

- **Invest to Grow (£148m)** – including economic growth schemes in infrastructure and highways, and the creation of new school places to meet additional demand from demographic changes and new housing developments;
- **Invest to maintain (£97m)** – projects intended to maintain but extend the life of our assets, including highways maintenance schemes countywide; and
- **Invest to save / generate return (£54m)** – schemes that generate a return or saving, including accommodation for older people and people with disabilities, LED street lighting and the Essex Housing Programme.



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

# Narrative Report

## Financing of Original 2018/19 Capital Programme



It was intended to finance the 2018/19 Capital Programme from a combination of borrowing (**£175.6m**) and from grants, contributions, capital receipts and reserves (**£123.0m**).

The grants for 2018/19 included funding from the Local Growth Fund (LGF) and National Productivity Investment Fund.

We submitted bids for the Housing Infrastructure Fund and continue to work closely with the Department for Transport and Highways England to secure improvements for the A120, A12 and M25 (junction 28).

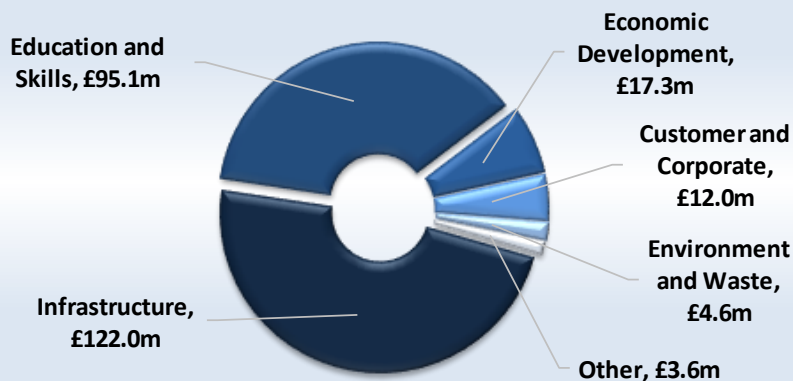
## 2018/19 Outturn position

The final approved capital payments budget amounted to **£263.4m**. In comparison, actual expenditure amounted to **£254.6m**. This was **£8.8m (3%)** lower than budgeted.

During 2018/19, over **500** schemes were undertaken, including:

- Treating over **180** miles of road length across the County, to rectify carriageway and structural defects.
- Creating **4,000** new school places through school expansions and the build of the Beaulieu Park and Newhall Schools, which each created **420** new school places);
- **90** BT Cabinets, giving **8,905** premises access to Superfast speeds for the first time, and **120** full fibre projects, giving **3,240** properties access to speeds of over 300mb.
- Deploying the Gigaclear, who started build work to provide a full fibre 1,000mb service to **8,500** homes and business in the Uttlesford, Braintree and Colchester areas; and

## Actual Capital Expenditure 2018/19



# Narrative Report

- A flood programme, which has contributed towards projects that have enabled **383** residential properties to benefit from reduced surface water flood risk.

The end of year position is set out in the following table:

	Original approved expenditure	Final approved expenditure	Actual Capital Payments	Variance from approved expenditure over / (under)
	£000	£000	£000	£000
<b>Capital payments</b>				
Children and Families	590	690	515	(175)
Culture and Communities	1,910	1,799	943	(856)
Customer and Corporate	23,339	12,868	12,006	(862)
Economic Development	19,452	19,651	17,341	(2,310)
Education and Skills	105,251	95,922	95,064	(858)
Environment and Waste	4,950	5,093	4,604	(489)
Health and Adult Social Care	3,169	1,925	1,870	(55)
Infrastructure	139,591	125,047	121,972	(3,075)
Finance and Commercial	343	414	281	(133)
<b>Total of capital payments financed</b>	<b>298,595</b>	<b>263,409</b>	<b>254,596</b>	<b>(8,813)</b>
<b>Financed by</b>				
Borrowing	(175,634)	(117,239)	(101,133)	16,106
Government grants and contributions	(104,118)	(136,596)	(143,890)	(7,294)
Capital receipts	(10,000)	(4,520)	(4,535)	(15)
Earmarked reserves applied	(8,843)	(5,054)	(5,038)	16
<b>Total financing</b>	<b>(298,595)</b>	<b>(263,409)</b>	<b>(254,596)</b>	<b>8,813</b>

During 2018/19, we disposed of some of our land and buildings – the sale proceeds were used to partly fund our capital investment programme. The most significant asset disposals during 2018/19 were as follows:

Significant disposals	Capital receipts (£000)
▪ Goldlay Gardens (Chelmsford)	<b>4,623</b>
▪ 24 Norton Road – Family Centre (Brentwood)	<b>1,075</b>
▪ Kingswood Day Care Centre (Maldon)	<b>825</b>
▪ Haron Close (Castle Point)	<b>677</b>
▪ Great Baddow Youth Centre (Chelmsford)	<b>315</b>

At 31st March 2019, we have **£6.1m** of properties held for sale, with sales expected to take place within the next twelve months, and a further **£55.1m** of surplus assets where disposal is anticipated but the timeframe for completion of the sales is less certain.

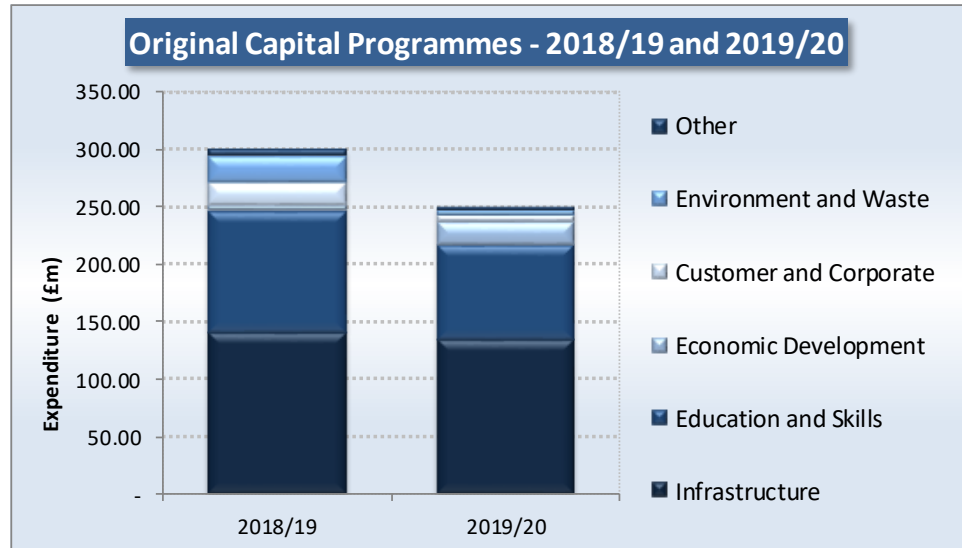
# Narrative Report

## Capital investment plans for 2019/20

Overall, the Capital Programme for 2019/20 has been set at **£249.0m**.

The Council recognises that investment is essential to meet future needs, generate income and deliver revenue savings and reductions in cost.

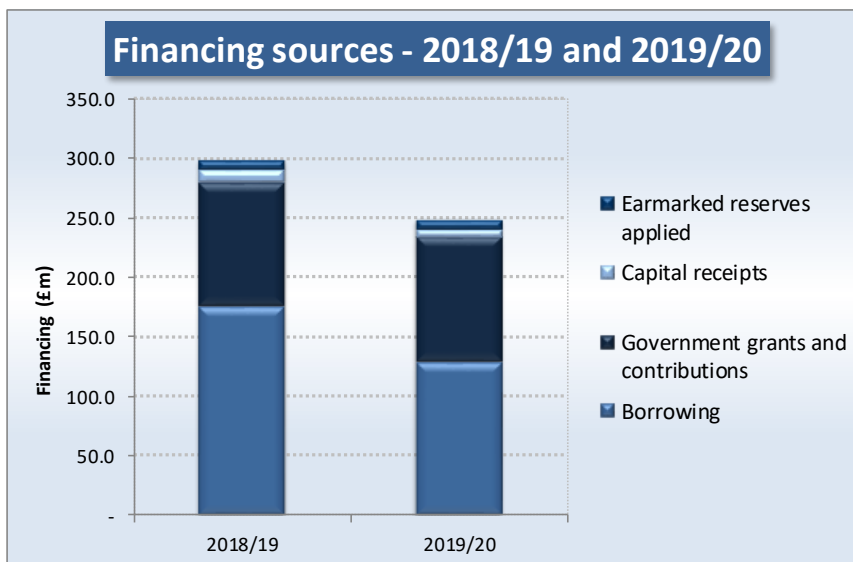
Over the next three years, delivery will continue on significant packages of work to reduce traffic congestion.



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

The Council's collaboration with Essex Schools will enable **£64m** investment for expanding special school places over the next three years. This is on top of **£144m** being spent on mainstream education.

The Council will also deliver a range of schemes to enhance, maintain and deliver new assets; schemes such as superfast broadband.



The 2019/20 Capital Programme will be financed from a combination of borrowing (**£128.2m**) and from grants, contributions, capital receipts and reserves (**£120.7m**).

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

# Narrative Report

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

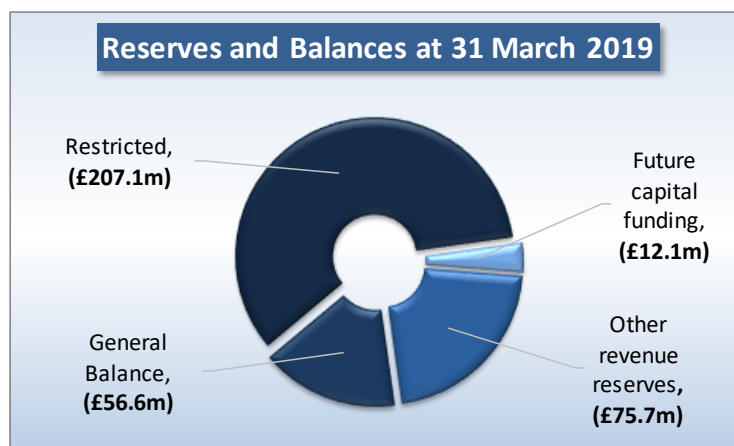
Further details of the Council's capital investment plans are included in the [Essex County Council Organisation Plan 2019/20](#), which is available on the Council's website.

## Revenue Reserves and Balances

Our revenue reserves play an essential part in the financial strategy of the Council, by ensuring we have some resilience to cope with unpredictable financial pressures and long-term contractual commitments. The Council has built specific reserves to manage known financial liabilities and possible risks.

A substantial amount of the Council's reserves are 'restricted' in use (**£207.1m**).

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



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

A further **£75.7m** of our reserves provide a cushion against the significant risks the Council faces and a source of funding to change the way the Council provides services and achieves future efficiencies. A further **£12.1m** has been earmarked for funding future capital investment.

The remainder (**£56.6m**) is the General Balance, which is not ring-fenced and provides a working balance to protect the Council against unexpected cost pressures. This is particularly critical during volatile economic times. With further major funding reductions expected in the year to 2020/21, coupled with economic uncertainty and increasing demand for services, this will remain under close review. The current balance is enough to fund **22** days of operational expenditure.

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

Further details on the reserves held by the Council are provided within the Statement of Accounts (see page 63).

# Narrative Report

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## Cash Flow management

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

Some short-term loans were secured during 2018/19, primarily in accordance with the Council's agreement to temporarily borrow the surplus cash balances of Essex Cares Ltd (which is a wholly owned subsidiary of the Council). In addition, longer term loans were secured during the year from Salix Finance Ltd (£0.7m) as part of its energy efficiency loans programme (related to upgrade to LED street lighting) and from the South East Local Enterprise Partnership (£0.6m). No other long-term borrowing was necessary in 2018/19, despite a significant increase in the Council's Capital Financing Requirement in 2018/19 (*see page 76 for further details*).

Any cash balances the Council held during 2018/19 were invested until they were required to meet outgoings. This meant that funds were mainly invested for periods of less than 1 year, but some funds were invested for longer periods. Funds were invested with other local authorities, money market funds and bodies with high credit ratings. Further details are provided in the Statement of Accounts (*see page 82*).

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

## Statement of Accounts

The Council is required by statute to prepare a Statement of Accounts in accordance with proper practices in relation to accounts, defined to include the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (i.e. the 'Code of Practice'). The Statement of Accounts for 2018/19 is presented within this publication, commencing on page 20.

The key aim of the Statement of Accounts is to provide a 'true and fair' view of the Council's financial position at 31st March 2019 and of its income and expenditure for the 2018/19 financial year. The Statement of Accounts is therefore an essential feature of public accountability, reporting on the Council's use of funds raised from the public and provided by central government and confirming the availability of balances and reserves for future use.

The primary Financial Statements (shown on pages 26 to 31) summarise the financial effects of transactions and events that occurred during 2018/19. All other information included within the Statement of Accounts is intended to aid interpretation of the financial statements and/or to provide further information on the financial performance of the Council during 2018/19.

# Narrative Report

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The primary financial statements comprise:

- **Comprehensive Income and Expenditure Statement** – presents information on resources generated and consumed during the year, based on generally accepted accounting practice;
- **Movement in Reserves Statement** – presents the financial resources available to the Council to support future service delivery and cope with unexpected events;
- **Balance Sheet** – summarises the financial position of the Council at 31st March 2019 including the net assets it has available after settling its liabilities, and its reserves; and
- **Cash Flow Statement** – shows the changes in cash and cash equivalents during 2018/19.

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

The accounting cost in the year of providing services (as presented in the Comprehensive Income and Expenditure Statement) differs from the amount to be funded from taxation. For this reason, the Expenditure and Funding Analysis (shown in Note 4 of the Statement of Accounts, on page 55) provides a reconciliation between the accounting cost of service provision and the amounts spent under the Council's rules for monitoring expenditure against the funding in the annual budget. The reasons for the differences between the two sets of figures are also explained in Note 4.

Accounting policies (see pages 34 to 49) explain how the financial effects of transactions and other events are reflected in the financial statements. The Council must make certain judgements about complex transactions or those involving uncertainty about future events when applying its accounting policies. Explanations are provided (see page 49) of the judgements made in 2018/19.

The Council has implemented changes in accounting policy in 2018/19 related to Financial Instruments (the new policies are explained in accounting policy note 1.21 on page 46), as a consequence of a change to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The changes in accounting policy are designed to provide more transparency for gains and losses arising from financial assets and to require more pessimism about potential credit losses. The impacts of the changes in accounting policy are that the Council:

- Now makes allowance for credit losses on its financial assets (trade debtors and investments) using an expected credit losses model (previously loss allowances were only made when financial assets were deemed to be impaired);
- Classifies and accounts for financial assets according to the business model under which they are held and managed. This means that a small proportion of the Council's investments are now carried at 'fair value', with gains and losses in value being recognised in the Surplus or Deficit on the Provision of Services; and

# Narrative Report

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- Has recalculated the carrying value of loans that were previously refinanced and deemed to be modified by discounting the new cash flows by the original effective interest rate.

The impacts of these changes in accounting policy are explained within Note 18, which commences on page 82.

Other notes to the accounts (see pages 53 to 127) provide further information on the Council's financial performance and, where relevant, detailed analysis of the amounts provided in the primary financial statements. Information relating to transactions and events is included in these notes if it is material to the Council's financial statements. Information is considered material if omitting it or misstating it could influence decisions made based on the information presented.

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

## Annual Governance Statement

Our Annual Governance Statement (which commences on page 203 of this publication) summarises the outcome of our review of the Governance Framework that has been in place during 2018/19. The statement demonstrates that we have in place effective arrangements for the governance of our organisation and that we are satisfied that we have a robust system of internal control, which is a critical component of our overall governance arrangements.

## Conclusion

Through careful planning and management, Essex County Council has been able to close its 2018/19 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2019/20 and beyond. Whilst a balanced budget has been set for 2019/20, the projections for future years currently indicate a gap between the Council's expected funding streams and the Council's expenditure. It is therefore essential that the Council continues with its Transformation and Efficiency programme to identify further savings opportunities to ensure future balanced budgets can be set.

**Margaret Lee**  
**Executive Director, Corporate and Customer Services**  
**31st July 2019**

# Statement of Accounts 2018/19



Essex County Council

# Statement of Accounts

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# Statement of Accounts - Introduction

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## Financial Statements

The Council's financial statements for 2018/19 are set out on pages 26 to 31, and comprise:

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

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

## Notes to the Accounts

Supplementary information is set out within the notes to the accounts (see pages 32 to 127) to provide further detail on the financial performance of the Council during 2018/19.

The notes to the accounts include the Council's accounting policies. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. All the accounting policies adopted, that are material in the context of the Council's 2018/19 financial statements, are described in the Statement of Accounting Policies. The Statement of Accounting Policies is set out in **Note 1** to the Accounts, which commences on page 34.

The notes to the accounts also include an **Expenditure and Funding Analysis** (see *Note 4, commencing on page 55*). The Expenditure and Funding Analysis provides a reconciliation between how annual expenditure is funded from resources and the accounting cost of providing services in the year.

## Group Accounts

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

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

# Statement of Accounts - Introduction

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These statements, together with explanatory notes and accounting policies, are set out on page 128 to 142.

## Pension Fund

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

The Essex Pension Fund accounts comprise:

- **Fund Account**

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

- **Net Assets Statement**

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

The Pension Fund accounts are set out on pages 143 to 196.

## Glossary of terms

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

# Statement of Accounts - Statement of Responsibilities

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## Council's responsibilities

The Council is required to:

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

## Executive Director, Corporate and Customer Services' responsibilities

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

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

The Executive Director, Corporate and Customer Services has also:

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

## Executive Director, Corporate and Customer Services' certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices and presents a true and fair view of the financial position of the Council at 31st March 2019 and its expenditure and income for the year then ended.

**Margaret Lee**

**Executive Director, Corporate and Customer Services**

**31st July 2019**

# Statement of Accounts - Statement of Responsibilities

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

I confirm that this Statement of Accounts was considered and approved by the Audit, Governance and Standards Committee at its meeting on **29th July 2019**.

**Cllr Terry Cutmore**

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

**29th July 2019**

# Statement of Accounts - Financial Statements

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## Introduction

The financial statements comprise:

- **Comprehensive Income and Expenditure Statement**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **Movement in Reserves Statement**

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

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

The 'Net (increase) / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

- **Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Council.

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

- **Usable reserves** - those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- **Unusable reserves** - those that the Council is not able to use to provide services. These include reserves that hold unrealised gains and losses that would only become available to provide services if assets are sold; and reserves that hold adjustments between accounting and funding certain transactions which are permitted under regulations.

- **Cash Flow Statement**

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

- **Notes to the financial statements**

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

The Expenditure and Funding Analysis, which is presented in Note 4 to the Accounts, provides a reconciliation between the accounting cost of providing services in accordance with generally accepted accounting practices (as presented in the Comprehensive Income and Expenditure Statement), and the amounts to be funded from taxation.

# Comprehensive Income and Expenditure Statement

For year ended 31st March 2019

2017/18				Note	2018/19			
Gross expenditure	Government grants	Other income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
139,703	(11,678)	(6,738)	121,287		142,828	(13,301)	(7,940)	121,587
24,976	(148)	(6,876)	17,952		23,462	(33)	(7,830)	15,599
9,506	(2,504)	(1,230)	5,772		13,402	(2,403)	(827)	10,172
581,423	(550,668)	(38,987)	(8,232)		553,013	(512,170)	(40,311)	532
204,907	(46,184)	(39,296)	119,427		218,536	(59,592)	(44,959)	113,985
92,079	(1,238)	(5,008)	85,833		99,457	(2,269)	(5,329)	91,859
642,363	(87,551)	(138,930)	415,882		656,109	(105,732)	(143,355)	407,022
89,497	(16,343)	(15,559)	57,595		98,961	(12,718)	(17,079)	69,164
7,583	(179)	(1,452)	5,952		8,046	(91)	(1,585)	6,370
(945)	(170)	(559)	(1,674)		12,279	(1,437)	(201)	10,641
17,927	(275)	(4,552)	13,100		20,040	(247)	(4,983)	14,810
75,050	-	-	75,050		75,652	-	-	75,652
26,007	-	-	26,007		20,020	-	-	20,020
11,546	-	-	11,546		9,492	-	-	9,492
1,921,622	(716,938)	(259,187)	945,497		1,951,297	(709,993)	(274,399)	966,905
115,786	-	-	115,786	8	218,596	-	-	218,596
125,923	-	(58,781)	67,142	9	128,530	-	(60,282)	68,248
-	(340,152)	(649,638)	(989,790)	11	-	(303,737)	(685,461)	(989,198)
2,163,331	(1,057,090)	(967,606)	138,635		2,298,423	(1,013,730)	(1,020,142)	264,551
			(100,136)	26.2				(91,993)
			(492)	26.5				-
			(246,371)	26.7				(157,016)
			(346,999)					(249,009)
			(208,364)					15,542

Note: The service groupings shown above reflect the alignment of spending to Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet during 2018/19; comparative figures for 2017/18 have been restated on a consistent basis.

## Movement in Reserves Statement

For the years ended 31st March 2018 and 31st March 2019

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2017</b>		(279,524)	(55,299)	-	(2,735)	(337,558)	(647,343)	(984,901)
<b>Movement in Reserves during 2017/18</b>								
Total Comprehensive Income and Expenditure		-	138,635	-	-	138,635	(346,999)	(208,364)
Adjustments between accounting basis and funding under regulations	6	-	(144,021)	-	178	(143,843)	143,843	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>		-	(5,386)	-	178	(5,208)	(203,156)	(208,364)
Transfers to Earmarked Reserves	7	(5,473)	5,473	-	-	-	-	-
<b>(Increase) / decrease in 2017/18</b>		(5,473)	87	-	178	(5,208)	(203,156)	(208,364)
<b>Balance at 31 March 2018</b>		(284,997)	(55,212)	-	(2,557)	(342,766)	(850,499)	(1,193,265)
<b>Restatement of opening balances</b>								
Reclassification of financial assets	18	-	-	-	-	-	-	-
Adjustment for credit loss allowances		-	2,812	-	-	2,812	-	2,812
Adjustment for modified loans		-	(1,238)	-	-	(1,238)	-	(1,238)
<b>Adjusted Balance at 1 April 2018</b>		(284,997)	(53,638)	-	(2,557)	(341,192)	(850,499)	(1,191,691)
<b>Movement in Reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure		-	264,551	-	-	264,551	(249,009)	15,542
Adjustments between accounting basis and funding under regulations	6	-	(277,404)	-	(1,663)	(279,067)	279,067	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>		-	(12,853)	-	(1,663)	(14,516)	30,058	15,542
Transfers to Earmarked Reserves	7	(9,881)	9,881	-	-	-	-	-
<b>(Increase) / decrease in 2018/19</b>		(9,881)	(2,972)	-	(1,663)	(14,516)	30,058	15,542
<b>Balance at 31 March 2019</b>		(294,878)	(56,610)	-	(4,220)	(355,708)	(820,441)	(1,176,149)

Note: The Council has implemented changes to its accounting policies for financial instruments this year. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, prior year comparative figures have not been restated. Instead, the new policies have been adopted in 2018/19, by restating opening balances for the year. Further details are provided in Note 18, commencing on page 82.

# Statement of Accounts - Financial Statements

## Balance Sheet as at 31st March 2019

31 March 2018	Note		31 March 2019	
£000			£000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,571,218		Land and buildings	1,407,668	
16,197		Vehicles, plant and equipment	11,030	
1,075,953		Infrastructure	1,141,369	
3,117		Community assets	3,130	
		<b>Non operational assets</b>		
135,115		Assets under construction	168,935	
45,003		Surplus assets held pending disposal	55,124	
<b>2,846,603</b>	<b>14</b>	<b>Total Property, Plant and Equipment</b>	<b>2,787,256</b>	
14,501	<b>14</b>	Heritage assets	14,572	
39,920	<b>14</b>	Investment property	38,337	
9,396	<b>14</b>	Intangible assets	7,329	
12,746	<b>18</b>	Long term investments	13,115	
17,971	<b>20</b>	Long term debtors	17,389	
<b>2,941,137</b>		<b>Long term assets</b>		<b>2,877,998</b>
211,561	<b>18</b>	Short term investments	90,209	
3,795	<b>14</b>	Assets held for sale	6,124	
7,165	<b>19</b>	Inventories	9,896	
166,256	<b>20</b>	Short term debtors	146,091	
40,567	<b>21</b>	Cash and cash equivalents	157,578	
<b>429,344</b>		<b>Current Assets</b>		<b>409,898</b>
(7,382)	<b>18</b>	Short-term borrowing	(8,572)	
(298,240)	<b>22</b>	Creditors	(310,937)	
(12,649)	<b>24</b>	Provisions (current)	(11,547)	
(13,507)	<b>23</b>	Revenue grant receipts in advance	(14,270)	
(54,528)	<b>23</b>	Capital grant receipts in advance	(75,075)	
(8,028)	<b>16</b>	Finance Lease obligations (short term)	(7,951)	
<b>(394,334)</b>		<b>Current liabilities</b>		<b>(428,352)</b>
(124)	<b>22</b>	Long term creditors	(1,113)	
(30,240)	<b>24</b>	Provisions (non-current)	(35,365)	
(514,914)	<b>18</b>	Long term borrowing	(511,798)	
		Other long term liabilities		
(138,945)	<b>16</b>	Finance lease obligations	(130,957)	
(12,982)		Deferred credits	(12,285)	
(1,085,677)	<b>30</b>	Net Pensions Liability	(991,877)	
<b>(1,782,882)</b>		<b>Long term liabilities</b>		<b>(1,683,395)</b>
<b>1,193,265</b>		<b>Net Assets</b>		<b>1,176,149</b>

# Statement of Accounts - Financial Statements

## Balance Sheet as at 31st March 2019

31 March 2018			31 March 2019	
£000			£000	£000
(284,997)	7	<b>Usable reserves</b>	(294,878)	
(55,212)		Earmarked reserves	(56,610)	
-		General Fund Balance	-	
(2,557)		Usable capital receipts reserve	(4,220)	
<b>(342,766)</b>		Capital grants unapplied		(355,708)
	26	<b>Unusable reserves</b>		
(616,624)		Revaluation reserve	(601,983)	
(1,316,405)		Capital Adjustments Account	(1,208,599)	
3,061		Financial Instruments Adjustment Account	3,003	
(861)		Available for Sale Financial Instruments Reserve	-	
-		Pooled Investment Funds Adjustment Account	(1,030)	
1,085,677		Pension reserve	991,877	
(2,535)		Deferred capital receipts	(2,519)	
(15,696)		Collection Fund Adjustment Account	(11,723)	
12,884		Accumulated Absences Account	10,533	
<b>(850,499)</b>				(820,441)
<b>(1,193,265)</b>		<b>Total Reserves</b>		<b>(1,176,149)</b>

*These statements replace the unaudited draft financial statements I certified on 31st May 2019:*

**Margaret Lee - Executive Director, Corporate and Customer Services - 31st July 2019**

# Statement of Accounts - Financial Statements

## Cash Flow Statement

For year ended 31st March 2019

2017/18 £000	Notes		2018/19 £000
(81,610)	27	Operating activities	(63,711)
107,261	↓	Investing activities	(61,843)
5,036		Financing activities	8,541
<b>30,687</b>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<b>(117,013)</b>
71,254		<b>Cash and cash equivalents at 1st April</b>	<b>40,567</b>
-		Adjustment for credit loss allowances (cash and cash equivalents)	(2)
<b>71,254</b>		<b>Restated cash and cash equivalents at 1st April</b>	<b>40,565</b>
<b>40,567</b>		<b>Cash and cash equivalents at 31st March</b>	<b>157,580</b>

*Note: The Council has implemented changes to its accounting policies for financial instruments this year. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, prior year comparative figures have not been restated. Instead, the new policies have been adopted in 2018/19, by restating opening balances for the year. Further details are provided in Note 18, commencing on page 82.*

# Statement of Accounts - Notes to the Financial Statements

## Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 26 to 31) and provide further information on the financial performance of the Council during 2018/19. The notes set out within this section are as follows:

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# Statement of Accounts - Notes to the Financial Statements

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## 1. Accounting policies

### 1.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year, and its position as at 31st March 2019. 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 2018/19 Statement of Accounts, are set out within the following paragraphs.

### 1.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

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

### 1.3 Accruals of income and expenditure

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

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

### 1.4 Provisions and contingencies

#### 1.4.1 Provisions

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

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

# Statement of Accounts - Notes to the Financial Statements

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## 1.4.2 Contingencies

A contingent liability arises where:

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

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

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

## 1.5 Earmarked revenue reserves

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

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

## 1.6 Government grants and contributions

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

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

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

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

# Statement of Accounts - Notes to the Financial Statements

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

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

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

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

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

## **1.8 Employee benefits**

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

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

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

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

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

# Statement of Accounts - Notes to the Financial Statements

## 1.8.3 Post-employment (retirement) benefits

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

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

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

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

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method.
- Liabilities are discounted to their value at current prices, using a discount rate that is based upon the indicative rate of return on a high-quality corporate bond of equivalent currency and term to the scheme's liabilities.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
- Changes in the net pension's liability are analysed into the following components:
  - **Service Costs**, comprising:
    - **Current service cost** – charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked);
    - **Past service cost** - charged to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement; and
    - **Net interest on the net defined benefit liability** – charged or credited to the 'Financing and Investment Income and Expenditure' line within the Comprehensive Income and Expenditure Statement.
  - **Re-measurements of the net pension liability** (comprising **Return on plan assets** and **Actuarial gains and losses**) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - **Contributions paid to the LGPS** – not accounted for as an expense within the Comprehensive Income and Expenditure Statement.

# Statement of Accounts - Notes to the Financial Statements

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- The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year to the LGPS, as determined in accordance with the statutory requirements governing the Scheme. Where this amount does not match the net amount charged to the Surplus or Deficit on the Provision of Services, the difference is appropriated, in the Movement in Reserves Statement, to the Pensions Reserve.

## **1.8.4 Discretionary benefits**

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

## **1.9 Overheads and support services**

The costs of overheads are recharged to those who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2018/19 (SeRCOP).

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

## **1.10 Value added tax**

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

## **1.11 Inventories**

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

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

# Statement of Accounts - Notes to the Financial Statements

## 1.12 Property, plant and equipment

### 1.12.1 Recognition of property, plant and equipment

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

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

### 1.12.2 Measurement

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

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

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

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

Asset category	Measurement basis
Land and buildings	Current value <i>Current value is determined as being the amount that would be paid for the asset in its existing use but, if there is no market based evidence of fair value due to the specialist nature of the asset, depreciated replacement cost is used as an estimate of current value.</i>
Vehicles and equipment	Depreciated historical cost ( <i>as a proxy for current value</i> ).
Infrastructure	Depreciated historical cost.
Community assets	Depreciated historical cost.
Assets under construction	Historical cost.
Surplus assets	Fair value, estimated at highest and best use from a market participant's perspective.

# Statement of Accounts - Notes to the Financial Statements

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

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

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

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

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

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

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

## 1.12.3 Depreciation

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

Asset category	Depreciation basis
Land	Land is not depreciated.
Buildings	<p>Buildings are depreciated, on a straight line basis, over the useful economic life (UEL) of each asset (as assessed by the Council's Valuer).</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:</p> <ul style="list-style-type: none"><li>▪ Structure 80 years</li><li>▪ Roof 25 to 80 years</li><li>▪ Plant and machinery 30 to 40 years</li><li>▪ External works 30 years</li></ul>

# Statement of Accounts - Notes to the Financial Statements

Asset category	Depreciation basis
Community assets	Depreciated over <b>60</b> years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between <b>2</b> and <b>30</b> years.
Roads and other infrastructure	<p>Depreciation is provided on a straight-line basis over the following periods:</p> <ul style="list-style-type: none"> <li>Road signage <b>30</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</li> <li>Other infrastructure <b>15 to 20</b> years</li> <li>Additions prior to 2008/09 <b>30 to 35</b> years</li> </ul>
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

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

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

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

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

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

Amounts received for disposals are categorised as capital receipts. These receipts are therefore appropriated, via the Movement in Reserves Statement, to the Capital Receipts Reserve. They can then only be applied to pay for new capital investment or to reduce the Council's underlying need to borrow.

The written off value of asset disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing.

# Statement of Accounts - Notes to the Financial Statements

Amounts are appropriated from the General Fund Balance to the Capital Adjustment Account and are recorded as such in the Movement in Reserves Statement.

## 1.13 Intangible assets

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

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

Intangible assets are initially measured at cost and are subsequently carried at amortised cost.

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

The amortisation, impairment losses and disposal gains and losses charged to the Comprehensive Income and Expenditure Statement Account are reversed out of the General Fund Balance in the Movement in Reserves Statement and are posted to the Capital Adjustment Account and (for sale proceeds) to the Capital Receipts Reserve.

## 1.14 Heritage Assets

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

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

# Statement of Accounts - Notes to the Financial Statements

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Where there is evidence of impairment, this is recognised and measured in accordance with the Council's general policy on impairment (see note 1.12.2 which commences on page 39).

Where heritage assets are disposed of, the sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of non-current assets and in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 1.12.4).

## 1.15 Investment property

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

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

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

## 1.16 Charges to revenue for non-current assets

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

- Depreciation attributable to the assets held and/or occupied;
- Revaluation and impairment losses on the assets held or occupied (i.e. where there are no accumulated gains in the Revaluation Reserve against which the losses can be applied), and revaluation gains that reverse a revaluation loss previously recognised in the Comprehensive Income and Expenditure Statement; and
- Amortisation of intangible assets held.

The Council is not required to raise council tax to cover these charges. Instead, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

# Statement of Accounts - Notes to the Financial Statements

## 1.17 Revenue expenditure funded from capital under statute

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

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

## 1.18 Private Finance Initiative and similar contracts

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

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

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

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

Element of charge	Accounting treatment
<b>Services received</b> <i>Services that the operator must provide with the property, plant and equipment.</i>	Charged to the relevant service in the Comprehensive Income and Expenditure Statement.
<b>Deferred income</b> <i>Benefits that the Council is deemed to receive through its control of the services to be provided using the property, plant and equipment.</i>	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.
<b>Finance cost</b> <i>Interest charge on outstanding Balance Sheet liability.</i>	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
<b>Contingent rent</b> <i>Increases in the amount to be paid for the property arising during the contract.</i>	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

# Statement of Accounts - Notes to the Financial Statements

Element of charge	Accounting treatment
<b>Payment towards liability</b> <i>Obligation to pay the operator for the property, plant and equipment.</i>	Applied to write down the Balance Sheet liability towards the PFI operator.
<b>Lifecycle replacement</b> <i>The replacement of components of an asset as they wear out.</i>	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

## 1.19 Leases

### 1.19.1 Classification of leases

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

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

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

### 1.19.2 Council as lessee

Property, plant and equipment held by the Council under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability. Subsequent payments are apportioned between:

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

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

# Statement of Accounts - Notes to the Financial Statements

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## **1.19.3 Council as lessor**

Where the Council grants a finance lease over a property, or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal, with the difference between the carrying amount of the asset and the Council's net investment in the lease being credited (or debited) to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. The net investment in the lease is recognised as a lease asset in the Balance Sheet, net of any premium paid.

Lease rentals receivable are apportioned between:

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

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

## **1.20 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable on demand without penalty on the same working day, or with notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

## **1.21 Financial instruments**

### **1.21.1 Financial liabilities**

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

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

# Statement of Accounts - Notes to the Financial Statements

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

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

Where the repurchase of loans has taken place that involves the modification of existing loans:

- The carrying amount of the loans is recalculated by discounting the new cash flows, including any premiums or discounts, by the original effective interest rate;
- Any difference between the recalculated amount and the original cash flows represent a gain or loss on modification that is recognised immediately in the Comprehensive Income and Expenditure Statement; and
- Interest is allocated to the Comprehensive Income and Expenditure Statement over the term of the modified loans, based on the adjusted carrying amount.

This represents a change in account policy, effective from 1 April 2018. Previously, modified loans were retained in the Balance Sheet at their old carrying amount, with the premium or discount and interest being allocated to the Comprehensive Income and Expenditure Statement over the remaining term, based on a recalculated effective interest rate.

## 1.21.2 Financial Assets

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

### ▪ Amortised cost

Financial assets are initially measured at fair value, and subsequently at their amortised cost.

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

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

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

# Statement of Accounts - Notes to the Financial Statements

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- **Fair value through profit or loss (FVPL)**

Financial assets are initially measured and carried at fair value. Changes in fair value are recognised as they arise in the Surplus or Deficit on the Provision of Services.

For pooled investment funds, changes in fair value are subsequently reversed out of the General Fund Balance, in the Movement in Reserves Statement, to a Pooled Investment Funds Adjustment Account.

For investments covered by the definition of capital expenditure, changes in fair value are subsequently reversed out of the General Fund Balance, in the Movement in Reserves Statement, to the Capital Adjustment Account.

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

Allowances for impairment losses are calculated for financial assets carried at amortised cost, applying the expected credit losses model, either on a 12 month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place, because the borrower could default on their obligations. Changes in loss allowances, including balances outstanding at the date of derecognition of an asset, are debited / credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## 1.22 Fair value measurement

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

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

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

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

# Statement of Accounts - Notes to the Financial Statements

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## 1.23 Joint operations

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

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

## 1.24 Changes in accounting estimates

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

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

## 1.25 Events after the Balance Sheet date

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types of event:

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

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

## 2. Critical judgements in applying accounting policies

The Council must make judgements about complex transactions, or those involving uncertainty about future events, when applying the accounting policies set out in Note 1.

# Statement of Accounts - Notes to the Financial Statements

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The critical judgements made in applying the accounting policies for 2018/19 are as follows:

- **Future funding for local government**

The Council accepted a multi-year financial settlement from Central Government in 2016/17, in return for an efficiency plan. The settlement provides certainty over some central government funding streams until 2019/20; thereafter, the funding position is currently unknown. Government funding is reducing significantly over this period too, with Revenue Support Grant expected to fall to zero with effect from 2020/21.

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

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

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

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

- **Property, Plant and Equipment**

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

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

- **Schools**

Whilst all locally maintained schools (*i.e. community, foundation, voluntary aided, voluntary controlled, community special and foundation special schools*) are deemed to be entities controlled by the Council, only the income, expenditure, assets, liabilities, reserves and cash

# Statement of Accounts - Notes to the Financial Statements

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flows that would be recognised by a 'school as an entity' are consolidated into the Council's financial statements.

Land and buildings provided by religious bodies for use by voluntary controlled, voluntary aided and certain foundation schools without the right to continuing use, such that they can be taken back by the owners at any point, are not recognised in the Council's financial statements, even though these assets may continue to be used by these schools for many years into the future. At 31st March 2019, land and buildings for **47** voluntary controlled (2017/18: 57), **51** voluntary aided (2017/18: 56) and **4** foundation schools (2017/18: 4) were provided by religious bodies without the right to continuing use.

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

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

With regard to the Waste Treatment Plant, the Council cannot yet demonstrate that the economic benefits and service potential of the Plant will flow to it, as the Plant remains subject to testing (*see page 80 for further details*). The Council has therefore determined that the asset and the associated PFI liability should not be recognised within its financial statements for 2018/19.

- **Leases**

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

- **Provisions**

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

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

# Statement of Accounts - Notes to the Financial Statements

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- **Collaborative arrangements**

- **Group entities**

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

- **South East Local Enterprise Partnership**

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

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

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

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

The Council has therefore concluded that it acts as an agent for the SELEP, which means that the SELEP's transactions are not reflected within the Council's financial statements. However, the Council recognises a creditor in its Balance Sheet for the cash it holds on behalf of the partnership. At 31st March 2019, this creditor amounted to **£70.479m** (2017/18: £67.391m).

- **Pooled budgets**

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

# Statement of Accounts - Notes to the Financial Statements

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

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

Further details of these pooled budgets are provided in Note 33, which commences on page 114.

The nature of these pooled budget arrangements implies an element of joint decision making over how the pooled funds are used. However, the precise accounting is determined by the terms of the agreements between the members of these partnership arrangements.

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

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

## 3. 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 considering historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31st March 2019 for which there is a risk of material adjustment in the forthcoming financial year are set out in the following paragraphs.

	Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Property, plant & equipment	Land and buildings are valued at 'current value' based on existing use or on a depreciated replacement cost (DRC) basis. DRC is used when there is no established property market (excluding sales for alternative use) which would enable a reliable valuation by any other method.	The gross book value of the operational land and buildings valued on a DRC basis was <b>£1.360bn</b> at 31st March 2019 (equivalent to <b>94%</b> of the total gross book value of operational land and buildings at this date).	The Council employs a professional RICS registered valuer to value its land and buildings, including those valued by DRC. Use of the DRC method of valuation is regularly considered by the Council and its Valuer.

# Statement of Accounts - Notes to the Financial Statements

	Uncertainties	Effect if actual results differ from assumptions	Comments on uncertainty
Property, plant & equipment	<p>Assets are depreciated over their assessed useful lives, considering assumptions about the level of repairs and maintenance that will be undertaken.</p> <p>The current economic climate makes it uncertain that current spending on repairs and maintenance can be sustained, bringing into doubt the useful lives of its assets.</p>	<p>If the useful economic life (UEL) of assets is reduced, depreciation and impairment charges will increase and the carrying value of assets will decrease.</p>	<p>The useful economic lives (UELS) of buildings are reassessed at each formal re-valuation.</p> <p>Details of the carrying values and depreciation are detailed in Note 14 (page 72).</p>
Fair value valuations	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques based on observable data.</p>	<p>Significant changes in any of the valuation inputs would result in a significantly lower or higher fair value measurement for the financial assets and liabilities.</p>	<p>The Council employs experts to identify the most appropriate valuation techniques to determine fair value.</p> <p>Information about the techniques used to determine the fair value is disclosed in notes 14.3, 18.2 and 18.5.</p>
Pensions liability	<p>Estimation of the net pension liability to pay pensions depends on several complex judgements. A firm of 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>£991.877m</b> at 31st March 2019.</p> <p>The effect on the net pensions' liability as a result of changes in individual assumptions is detailed within note 30.4 which commences on page 110.</p>	<p>The pensions liability reduced by <b>£93.800m</b> in 2018/19 because of changes in demographic, financial and other assumptions.</p> <p>Adjustments are likely to arise in future years, due to the complex nature of the judgements made to estimate the liability.</p>

# Statement of Accounts - Notes to the Financial Statements

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## 4. Expenditure and Funding Analysis

### 4.1 Introduction

The Expenditure and Funding Analysis (see note 4.2) shows, for each of the Council's portfolios and recharged strategic support services:

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

The reasons for the differences between the two amounts for each portfolio / recharged strategic support service are explained in Note 4.3 (see page 57).

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

## 4.2 Expenditure and Funding Analysis

2017/18				2018/19		
Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement		Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
115,151	6,136	121,287	Children and Families	116,199	5,388	121,587
14,890	3,062	17,952	Customer and Corporate	13,068	2,531	15,599
5,507	265	5,772	Economic Development	5,449	4,723	10,172
			Education and Skills			
6,798	(15,030)	(8,232)	Dedicated Schools Budget	5,783	(5,251)	532
74,494	44,933	119,427	Non Dedicated Schools Budget	75,485	38,500	113,985
78,303	7,530	85,833	Environment and Waste	86,903	4,956	91,859
408,971	6,911	415,882	Health and Adult Social Care	399,309	7,713	407,022
44,799	12,796	57,595	Infrastructure	54,294	14,870	69,164
5,318	634	5,952	Culture and Communities	4,489	1,881	6,370
9,911	(11,585)	(1,674)	Leader	6,934	3,707	10,641
14,887	(1,787)	13,100	Finance and Commercial	13,225	1,585	14,810
			Recharged Strategic Support Services			
58,227	16,823	75,050	Customer and Corporate	57,514	18,138	75,652
21,328	4,679	26,007	Finance and Commercial	18,480	1,540	20,020
10,330	1,216	11,546	Leader	8,870	622	9,492
868,914	76,583	945,497	<b>Cost of services - continuing operations</b>	866,002	100,903	966,905
(874,300)	67,438	(806,862)	Other income and expenditure not charged to services	(878,855)	176,501	(702,354)
(5,386)	144,021	138,635	<b>Surplus on Provision of Services</b>	(12,853)	277,404	264,551
			<b>General Fund Balance</b>			
(55,299)			Balance as at 1 April	(55,212)		
-			Restatement of opening balances	1,574		
(55,299)			<b>Restated balance at 1 April</b>	(53,638)		
(5,386)			Surplus on Provision of Services	(12,853)		
5,473			Transfers from Earmarked Revenue Reserves	9,881		
(55,212)			<b>Balance as at 31st March</b>	(56,610)		

### Notes:

- The Council has implemented changes to its accounting policies for financial instruments this year. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, prior year comparative figures have not been restated. Instead, the new policies have been adopted in 2018/19, by restating opening balances for the year. Further details are provided in Note 18, commencing on page 82.
- The service groupings shown above reflect the alignment of spending to Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet during 2018/19; comparative figures for 2017/18 have been restated on a consistent basis.

## 4.3 Notes to Expenditure and Funding Analysis

### 4.3.1 Adjustments between funding and accounting basis

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

2017/18	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	Note 4.3.2	Note 4.3.3	Note 4.3.4	Note 4.3.5	
	£000	£000	£000	£000	£000
Children and Families	644	5,500	(8)	-	6,136
Customer and Corporate	1,670	1,386	6	-	3,062
Economic Development	(196)	453	8	-	265
Education and Skills					
Dedicated Schools Budget	-	-	(3,574)	(11,456)	(15,030)
Non Dedicated Schools Budget	38,580	15,641	36	(9,324)	44,933
Environment and Waste	7,142	390	8	(10)	7,530
Health and Adult Social Care	2,424	4,455	32	-	6,911
Infrastructure	21,420	1,092	(12)	(9,704)	12,796
Culture and Communities	610	48	(24)	-	634
Leader	1,293	(11,202)	(2)	(1,674)	(11,585)
Finance and Commercial	3	147	(3)	(1,934)	(1,787)
Recharged Strategic Support Services					
Customer and Corporate	13,374	3,397	52	-	16,823
Resources	2,445	2,395	(31)	(130)	4,679
Leader	-	1,236	(20)	-	1,216
<b>Cost of services - continuing operations</b>	<b>89,409</b>	<b>24,938</b>	<b>(3,532)</b>	<b>(34,232)</b>	<b>76,583</b>
Other income and expenditure not charged to services	(3,165)	34,771	1,600	34,232	67,438
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure</b>					
<b>Statement surplus or deficit on the Provision of Services</b>	<b>86,244</b>	<b>59,709</b>	<b>(1,932)</b>	<b>-</b>	<b>144,021</b>

2018/19	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	Note 4.3.2	Note 4.3.3	Note 4.3.4	Note 4.3.5	
	£000	£000	£000	£000	£000
Children and Families	529	4,859	-	-	5,388
Customer and Corporate	1,556	975	-	-	2,531
Economic Development	4,290	433	-	-	4,723
Education and Skills					
Dedicated Schools Budget	-	-	(2,351)	(2,900)	(5,251)
Non Dedicated Schools Budget	35,033	12,762	-	(9,295)	38,500
Environment and Waste	4,685	281	-	(10)	4,956
Health and Adult Social Care	3,757	3,956	-	-	7,713
Infrastructure	24,790	880	-	(10,800)	14,870
Culture and Communities	1,683	198	-	-	1,881
Leader	6,812	6,105	-	(9,210)	3,707
Finance and Commercial	1,831	104	-	(350)	1,585
Recharged Strategic Support Services					
Culture, Communities and Customer	15,711	2,427	-	-	18,138
Resources	-	1,602	-	(62)	1,540
Leader	-	622	-	-	622
<b>Cost of services - continuing operations</b>	<b>100,677</b>	<b>35,204</b>	<b>(2,351)</b>	<b>(32,627)</b>	<b>100,903</b>
Other income and expenditure not charged to services	112,116	28,012	3,746	32,627	176,501
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure</b>					
<b>Statement surplus or deficit on the Provision of Services</b>	<b>212,793</b>	<b>63,216</b>	<b>1,395</b>	<b>-</b>	<b>277,404</b>

# Statement of Accounts - Notes to the Financial Statements

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## **4.3.2 Adjustments for capital purposes**

This column adds the following amounts into service lines:

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

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

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

## **4.3.3 Net change for Pensions Adjustments**

The net change for Pension adjustments comprises:

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

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

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

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

## **4.3.5 Other differences**

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

# Statement of Accounts - Notes to the Financial Statements

## 5. Expenditure and income analysed by nature

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

2017/18		2018/19	
£000		£000	£000
<b>Expenditure</b>			
559,908	Employee expenses	531,199	
1,263,909	Other service expenditure	1,316,822	
97,805	Depreciation, amortisation and impairment	103,276	
37,415	Interest payable and similar charges	38,987	
3,301	Precepts and levies	3,267	
112,485	(Gain) / loss on disposal of fixed assets	215,329	
88,508	Corporate amounts	89,543	
<u>2,163,331</u>			2,298,423
<b>Income</b>			
(259,303)	Fees, charges and other service income	(274,542)	
(2,411)	Interest and investment income	(2,585)	
(56,254)	Corporate amounts	(57,554)	
(649,638)	Income from council tax and non domestic rates	(685,461)	
(1,057,090)	Government grants and contributions	(1,013,730)	
<u>(2,024,696)</u>			(2,033,872)
<u>138,635</u>	<b>Deficit on the Provision of Services</b>		<u>264,551</u>

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

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

# Statement of Accounts - Notes to the Financial Statements

2017/18	Notes	Usable Reserves				
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
		£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>26.3</b>					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(95,456)	-	-	(95,456)
Amortisation of intangible assets		-	(2,350)	-	-	(2,350)
Revaluation losses on property, plant and equipment		-	-	-	-	-
Movement in market value of investment properties		-	(440)	-	-	(440)
Capital grants and contributions applied		-	126,475	-	-	126,475
Donated assets		-	302	-	-	302
Exchange of assets (recognition of new assets)		-	-	-	-	-
Revenue expenditure funded from capital under statute		-	(47,234)	-	-	(47,234)
Value of assets disposed of during the year		-	(120,276)	-	-	(120,276)
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>						
Statutory provision for the financing of capital investment		-	28,415	-	-	28,415
Capital expenditure charged against the General Fund		-	14,826	-	-	14,826
<b>Adjustments involving the Capital Adjustment Account</b>		-	(95,738)	-	-	(95,738)
<b>Adjustments involving the Capital Grants Unapplied Account</b>						
Grants applied to financing (transferred to the CAA)		-	-	-	1,751	1,751
Grants and contributions unapplied		-	1,573	-	(1,573)	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		-	1,573	-	178	1,751
<b>Adjustments involving the Capital Receipts Reserve</b>						
Sale proceeds (part of gain/loss on disposal)		-	7,921	(7,862)	-	59
Loan repayments - loans awarded for capital purposes		-	-	(546)	-	(546)
Transfer from Deferred Capital Receipts Reserve		-	-	(16)	-	(16)
Use of reserve to finance new capital expenditure		-	-	7,878	-	7,878
Use of capital receipts to repay debt		-	-	546	-	546
<b>Adjustments involving the Capital Receipts Reserve</b>		-	7,921	-	-	7,921
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>	<b>26.4</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40
<b>Adjustments involving the FIAA</b>		-	40	-	-	40
<b>Adjustments involving the Pensions Reserve</b>	<b>26.7</b>					
Reversal of items debited/credited to the CIES		-	(114,989)	-	-	(114,989)
Employers' pension contributions payable in the year		-	55,280	-	-	55,280
<b>Adjustments involving the Pensions Reserve</b>		-	(59,709)	-	-	(59,709)
<b>Adjustments involving the Collection Fund Adjustment Account</b>	<b>26.9</b>					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(1,730)	-	-	(1,730)
<b>Adjustments involving the Collection Fund Adj Account</b>		-	(1,730)	-	-	(1,730)
<b>Adjustments involving the Accumulated Absences Account</b>	<b>26.10</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	3,622	-	-	3,622
<b>Adjustments involving the Accumulated Absences Account</b>		-	3,622	-	-	3,622
<b>Total adjustments</b>		-	(144,021)	-	178	(143,843)

# Statement of Accounts - Notes to the Financial Statements

2018/19	Notes	Usable Reserves				Total Usable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	
		£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>26.3</b>					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Depreciation and impairment of non current assets		-	(100,906)	-	-	(100,906)
Amortisation of intangible assets		-	(2,370)	-	-	(2,370)
Revaluation losses on property, plant and equipment		-	-	-	-	-
Movement in market value of investment properties		-	(8,095)	-	-	(8,095)
Capital grants and contributions applied		-	142,600	-	-	142,600
Donated assets		-	-	-	-	-
Exchange of assets (recognition of new assets)		-	-	-	-	-
Revenue expenditure funded from capital under statute		-	(69,862)	-	-	(69,862)
Value of assets disposed of during the year		-	(224,485)	-	-	(224,485)
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>						
Statutory provision for the financing of capital investment		-	33,116	-	-	33,116
Capital expenditure charged against the General Fund		-	5,038	-	-	5,038
<b>Adjustments involving the Capital Adjustment Account</b>		-	(224,964)	-	-	(224,964)
<b>Adjustments involving the Capital Grants Unapplied Account</b>						
Grants applied to financing (transferred to the CAA)		-	-	-	1,290	1,290
Grants and contributions unapplied		-	2,953	-	(2,953)	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		-	2,953	-	(1,663)	1,290
<b>Adjustments involving the Capital Receipts Reserve</b>						
Sale proceeds (part of gain/loss on disposal)		-	9,218	(9,218)	-	-
Loan repayments - loans awarded for capital purposes		-	-	(1,049)	-	(1,049)
Transfer from Deferred Capital Receipts Reserve		-	-	(16)	-	(16)
Use of reserve to finance new capital expenditure		-	-	4,535	-	4,535
Use of capital receipts to repay debt		-	-	5,748	-	5,748
<b>Adjustments involving the Capital Receipts Reserve</b>		-	9,218	-	-	9,218
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>	<b>26.4</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	58	-	-	58
<b>Adjustments involving the FIAA</b>		-	58	-	-	58
<b>Adjustments involving the Pooled Investment Funds Adjustment Account</b>	<b>26.6</b>					
Gain or loss on the valuation of pooled investment funds		-	169	-	-	169
<b>Adjustments involving the Pooled Invest Funds Adj Account</b>		-	169	-	-	169
<b>Adjustments involving the Pensions Reserve</b>	<b>26.7</b>					
Reversal of items debited/credited to the CIES		-	(119,660)	-	-	(119,660)
Employers' pension contributions payable in the year		-	56,444	-	-	56,444
<b>Adjustments involving the Pensions Reserve</b>		-	(63,216)	-	-	(63,216)
<b>Adjustments involving the Collection Fund Adjustment Account</b>	<b>26.9</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		-	(3,973)	-	-	(3,973)
<b>Adjustments involving the Collection Fund Adj Account</b>		-	(3,973)	-	-	(3,973)
<b>Adjustments involving the Accumulated Absences Account</b>	<b>26.10</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	2,351	-	-	2,351
<b>Adjustments involving the Accumulated Absences Account</b>		-	2,351	-	-	2,351
<b>Total adjustments</b>			(277,404)	-	(1,663)	(279,067)

# Statement of Accounts - Notes to the Financial Statements

## 7. Earmarked revenue reserves

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

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

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

Reserves	Purpose and usage	Timescale for usage
<b>RESTRICTED USE</b>		
▪ <b>Grant equalisation reserve</b>	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Note 1.5) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
▪ <b>PFI equalisation reserves</b>	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
▪ <b>Waste reserve</b>	To smooth the effects of future increases in the costs of waste disposal.	There are no time constraints 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>Schools</b>	Schools are permitted to retain unspent resources which are held in the Schools Reserves.	The statutory authority to commit these resources rests with school governors.
▪ <b>Trading activities</b>	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
<b>OTHER RESERVES</b>		
▪ <b>Adults Digital Programme</b>	Established to enable investment in innovative and digital solutions for Adult Social Care.	There are no time constraints placed upon the usage of this reserve.

## Statement of Accounts - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
▪ <b>Capital receipts pump priming</b>	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.
▪ <b>Carbon reduction</b>	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
▪ <b>Carry Forwards</b>	Used to carry under spends in the year of account forwards to support expenditure plans in the forthcoming financial year.	It is anticipated that this reserve will be fully utilised in 2019/20.
▪ <b>Collection Fund investment risk</b>	Established to mitigate the risks of falling collection rates for council tax and non-domestic rates.	No time constraints have been placed upon the usage of this reserve.
▪ <b>Community Initiatives Fund</b>	Established to fund revenue and capital community initiatives.	No time constraints have been placed upon the usage of this reserve.
▪ <b>Digital infrastructure</b>	Established to fund the Council's digital transformation.	To be subsumed into the Transformation Reserve in 2019/20
▪ <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.
▪ <b>Quadrennial elections</b>	Established to meet costs associated with the Council's local elections.	There are no time constraints placed upon the usage of this reserve.
▪ <b>Transformation</b>	Used to meet costs associated with project and change management aspects of the Council's ambitious programme of transformation.	There are no time constraints placed upon the usage of this reserve.

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

	Balance 1 April 2017	2017/18 movements		Balance 31 March 2018	2018/19 movements		Balance 31 March 2019
	£000	Contributions £000	Withdrawals £000	£000	Contributions £000	Withdrawals £000	£000
<b>Restricted use</b>							
Grant equalisation reserve	(11,127)	(5,511)	5,852	(10,786)	(4,610)	2,760	(12,636)
PFI equalisation reserves	(58,297)	(464)	4,994	(53,767)	(1,181)	4,394	(50,554)
Waste reserve	(90,890)	(10,618)	1,775	(99,733)	(8,776)	4,878	(103,631)
Partnership reserves	(1,540)	(352)	121	(1,771)	(66)	216	(1,621)
Schools	(47,304)	(5,318)	10,974	(41,648)	(5,924)	9,547	(38,025)
Trading activities	(3,373)	(101)	2,059	(1,415)	(359)	1,123	(651)
	(212,531)	(22,364)	25,775	(209,120)	(20,916)	22,918	(207,118)
<b>Future capital funding</b>	(5,060)	(19,827)	14,826	(10,061)	(7,038)	5,038	(12,061)
<b>Other</b>							
Adults Digital Programme	-	(7,000)	100	(6,900)	(3,156)	4,800	(5,256)
Capital receipts pump priming	(2,757)	-	432	(2,325)	(1,000)	121	(3,204)
Carbon reduction	(2,984)	-	378	(2,606)	-	303	(2,303)
Carry forwards	(6,635)	(16,395)	6,635	(16,395)	(23,250)	16,395	(23,250)
Collection Fund investment risk	(1,412)	-	-	(1,412)	-	-	(1,412)
Community Initiatives Fund	(2,097)	-	1,301	(796)	(2,370)	2,013	(1,153)
Digital Infrastructure	-	-	-	-	(5,000)	1,947	(3,053)
Health and safety	(86)	(545)	-	(631)	(250)	-	(881)
Insurance	(8,356)	(705)	-	(9,061)	-	1,000	(8,061)
Quadrennial elections	(1,475)	(500)	1,857	(118)	(500)	-	(618)
Transformation	(32,741)	(11,346)	22,072	(22,015)	(29,969)	26,791	(25,193)
Other reserves	(3,390)	(1,000)	833	(3,557)	(626)	2,868	(1,315)
	(61,933)	(37,491)	33,608	(65,816)	(66,121)	56,238	(75,699)
<b>Total</b>	(279,524)	(79,682)	74,209	(284,997)	(94,075)	84,194	(294,878)

# Statement of Accounts - Notes to the Financial Statements

## 8. Other operating expenditure

Other operating expenditure comprises of the following:

2017/18		2018/19
£000		£000
	<b>(Gains)/losses on the disposal of non current assets</b>	
(7,921)	Disposal proceeds	(9,218)
120,276	Carrying value of assets disposed of during the year	224,485
130	Disposal costs	62
<u>112,485</u>	Losses on disposal of non-current assets	<u>215,329</u>
3,301	<b>Precepts and levies</b>	3,267
<u>115,786</u>	<b>Total Other Operating Expenditure</b>	<u>218,596</u>

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

## 9. Financing and investment income and expenditure

Financing and investment income and expenditure comprises of the following:

2017/18		2018/19
£000		£000
	<b>Net interest on the net defined benefit liability</b>	
88,068	Interest cost	81,414
(54,188)	Interest on assets	(53,812)
<u>33,880</u>		<u>27,602</u>
37,415	<b>Interest payable and similar charges</b>	38,987
(2,411)	<b>Interest receivable and similar income</b>	(2,585)
	<b>Income and expenditure in relation to investment properties and changes in their value</b>	
197		6,194
(1,939)	<b>Net surplus on trading activities</b>	(1,950)
<u>67,142</u>	<b>Financing and Investment income and expenditure</b>	<u>68,248</u>

# Statement of Accounts - Notes to the Financial Statements

## 10. Trading operations

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

Trading activity	Purpose
▪ EES for Schools	Delivers advisory and inspection, governor, library services and financial management support to schools.
▪ School staffing insurance scheme	A self-insurance scheme for schools, supporting sickness and relocation expenses.
▪ Music Services	Delivers music services to schools.
▪ Information Services infrastructure	Monitors the decommissioning and refresh of IT equipment within the 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.

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

	Balance at 1 April	Movements			Balance at 31 March
		Income	Expend- iture	Net (Surplus) / deficit	
	£000	£000	£000	£000	£000
<b>2017/18</b>					
EES for Schools	(1,026)	(12,072)	9,519	(2,553)	(321)
School staffing insurance scheme	(913)	(4,187)	4,837	650	(263)
Music Services	(103)	(4,306)	4,421	115	-
Smarte East	(143)	-	-	-	-
Information Services infrastructure	(437)	(8,488)	8,387	(101)	(538)
Essex Legal Services	(320)	-	(25)	(25)	-
Library Services	(33)	11	(3)	8	-
Place Services	(398)	(2,575)	2,542	(33)	(293)
	(3,373)	(31,617)	29,678	(1,939)	(1,415)
<b>2018/19</b>					
EES for Schools	(321)	(10,499)	8,076	(2,423)	-
School staffing insurance scheme	(263)	(4,075)	5,172	1,097	-
Music Services	-	(4,529)	4,233	(296)	(168)
Information Services infrastructure	(538)	(3,687)	3,543	(144)	-
Place Services	(293)	(2,856)	2,672	(184)	(483)
	(1,415)	(25,646)	23,696	(1,950)	(651)

#### Notes

- The Smarte East, Essex Legal Services and Library Services trading accounts were closed at the end of 2017/18.
- The School staffing insurance scheme trading activity was closed at the end of 2018/19.

# Statement of Accounts - Notes to the Financial Statements

## 11. Taxation and non-specific grant income

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

2017/18 £000		2018/19 £000
	<b>Taxation</b>	
(607,448)	Council tax	(641,542)
(42,190)	Non domestic rates	(43,919)
(649,638)		(685,461)
(340,152)	<b>Non specific grant income</b>	(303,737)
(989,790)	<b>Taxation and non specific grant income</b>	(989,198)

## 12. Grant income

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

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

2017/18 £000		2018/19 £000
	<b>Non ring-fenced grants</b>	
73,875	Revenue Support Grant	45,738
126,762	Non Domestic Rates ( <i>Top up grant and Safety net / levy</i> )	130,940
29,082	Private Finance Initiative Grants	27,123
6,782	New Homes Bonus / New Homes Bonus Adjustment Grant	4,551
6,972	Transitional Grant	-
5,946	Adult Social Care Support Grant	3,700
5,420	Independent Living Fund Grant	5,249
4,452	Business Rates (Section 31 Grants)	11,586
931	Other non ring-fenced grants	1,230
260,222		230,117
	<b>Capital grants and contributions</b>	
	Department for Education	
27,217	Basic need	18,077
966	Other	4,782
	Department for Transport grants	
19,463	Direct funding	19,626
9,592	Integrated transport grant	7,640
-	Other	6,055
10,987	South East Local Enterprise Partnership - Local Growth Fund	10,162
11,403	Other grants and contributions	7,278
79,628		73,620
302	<b>Donated assets - recognition of new assets</b>	-
340,152	<b>Total non-specific grant income</b>	303,737

# Statement of Accounts - Notes to the Financial Statements

## 12.2 Amounts credited to Services

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

2017/18			2018/19		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
<b>Department for Education (incl. Education and Skills Funding Agency)</b>					
24,626	4,733	29,359	42,080	3,498	45,578
-	512,622	512,622	-	476,965	476,965
-	20,954	20,954	-	18,161	18,161
-	11,973	11,973	-	11,447	11,447
-	8,369	8,369	-	7,927	7,927
-	12,436	12,436	-	10,811	10,811
24,626	571,087	595,713	42,080	528,809	570,889
<b>Department of Health and Social Care</b>					
-	64,128	64,128	-	62,479	62,479
-	-	-	-	5,919	5,919
309	2,402	2,711	-	2,340	2,340
309	66,530	66,839	-	70,738	70,738
<b>Ministry of Housing, Communities and Local Government (MHCLG)</b>					
-	20,143	20,143	-	34,006	34,006
126	3,541	3,667	-	3,830	3,830
126	23,684	23,810	-	37,836	37,836
<b>Grants awarded by other bodies</b>					
2,238	-	2,238	891	-	891
9,338	3,329	12,667	7,822	1,470	9,292
5,741	9,930	15,671	8,455	11,892	20,347
17,317	13,259	30,576	17,168	13,362	30,530
42,378	674,560	716,938	59,248	650,745	709,993

**Note:**

Comparative figures for the prior year have been grouped on a basis consistent with 2018/19.

# Statement of Accounts - Notes to the Financial Statements

## 13. Dedicated Schools Grant

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

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2018.

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 2018/19 are provided in the following table.

2017/18		2018/19 Total	Deployment in 2018/19	
£000			Central Expenditure	Individual Schools Budget
		£000	£000	£000
(1,025,122)	Final DSG for the year (before Academy recoupment)	(1,068,459)		
518,852	Academy figure recouped	586,477		
(506,270)	Total DSG after Academy recoupment	(481,982)		
(3,341)	Brought forward from previous year	5,096		
(509,611)	Agreed initial budgeted distribution	(476,886)	(82,864)	(394,022)
941	In year adjustments	1,755	-	1,755
(508,670)	Final budgeted distribution	(475,131)	(82,864)	(392,267)
513,766	Actual central expenditure / ISB deployed	478,150	85,883	392,267
5,096	Carry forward to next year	3,019	3,019	-

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

### 14.1 Movement in balances – 2017/18

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

## 14.2 Movement in balances – 2018/19

	Property, plant and equipment						Intangible Assets	Investment Property	Heritage Assets	Assets held for sale	Investment Properties held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets					
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>											
As at 1 April 2018	1,608,241	55,324	1,446,754	3,375	135,115	46,097	16,187	39,920	14,536	3,795	-
Additions	2,033	296	79	-	170,489	-	-	6,673	-	-	-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	64,183	-	-	136	-	5,383	-	-	-	-	-
Surplus/Deficit on the provision of services	(23,940)	-	-	-	-	(2,674)	-	(8,095)	-	-	-
Disposals	(223,412)	(1,976)	-	-	-	-	-	(52)	-	(676)	-
Reclassification of assets to / (from) other categories	(9,532)	-	-	(406)	-	7,056	-	(123)	-	3,005	-
Transfers from assets under construction	28,783	1,308	105,781	255	(136,669)	151	303	14	74	-	-
<b>As at 31 March 2019</b>	<b>1,446,356</b>	<b>54,952</b>	<b>1,552,614</b>	<b>3,360</b>	<b>168,935</b>	<b>56,013</b>	<b>16,490</b>	<b>38,337</b>	<b>14,610</b>	<b>6,124</b>	<b>-</b>
<b>Depreciation / Amortisation</b>											
As at 1 April 2018	(37,023)	(39,127)	(370,801)	(258)	-	(1,094)	(6,791)	-	(35)	-	-
Revaluations and restatements	21,957	-	-	90	-	244	-	-	-	-	-
Depreciation / amortisation on impairments	2,286	-	-	-	-	284	-	-	-	-	-
Depreciation / amortisation for the year	(29,606)	(6,425)	(40,444)	(64)	-	(319)	(2,370)	-	(3)	-	-
Depreciation / amortisation on assets sold	3,696	1,630	-	-	-	-	-	-	-	-	-
Other movements in depreciation / impairment	2	-	-	2	-	(4)	-	-	-	-	-
<b>As at 31 March 2019</b>	<b>(38,688)</b>	<b>(43,922)</b>	<b>(411,245)</b>	<b>(230)</b>	<b>-</b>	<b>(889)</b>	<b>(9,161)</b>	<b>-</b>	<b>(38)</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31 March 2018</b>	<b>1,571,218</b>	<b>16,197</b>	<b>1,075,953</b>	<b>3,117</b>	<b>135,115</b>	<b>45,003</b>	<b>9,396</b>	<b>39,920</b>	<b>14,501</b>	<b>3,795</b>	<b>-</b>
<b>Net book value at 31 March 2019</b>	<b>1,407,668</b>	<b>11,030</b>	<b>1,141,369</b>	<b>3,130</b>	<b>168,935</b>	<b>55,124</b>	<b>7,329</b>	<b>38,337</b>	<b>14,572</b>	<b>6,124</b>	<b>-</b>

# Statement of Accounts - Notes to the Financial Statements

## 14.3 Fair value measurement

In accordance with Note 1.22 (page 48), the Council measures its surplus assets and investment property at fair value. The inputs into the valuation techniques are categorised as follows:

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

Information about the fair values of these assets as at 31st March 2019 is as follows:

31st March 2018				31st March 2019		
Level 1 <i>Quoted price in active market for identical assets</i>	Level 2 <i>Other significant observable inputs</i>	Fair value		Level 1 <i>Quoted price in active market for identical assets</i>	Level 2 <i>Other significant observable inputs</i>	Fair value
£000	£000	£000		£000	£000	£000
<b>Surplus properties</b>						
6,433	12,449	18,882	Former school sites	5,025	27,568	32,593
2,283	8,934	11,217	Land	2,414	8,880	11,294
8,820	7,178	15,998	Other	4,216	7,910	12,126
<b>17,536</b>	<b>28,561</b>	<b>46,097</b>		<b>11,655</b>	<b>44,358</b>	<b>56,013</b>
<b>Investment properties</b>						
-	15,462	15,462	Retail Park	-	14,079	14,079
-	11,100	11,100	Office Block	-	10,749	10,749
-	-	-	Industrial Unit	-	6,300	6,300
6,660	5,598	12,258	Agricultural tenancies	1,144	5,110	6,254
700	400	1,100	Other	523	432	955
<b>7,360</b>	<b>32,560</b>	<b>39,920</b>		<b>1,667</b>	<b>36,670</b>	<b>38,337</b>

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

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

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

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

# Statement of Accounts - Notes to the Financial Statements

## 14.4 Capital commitments

At 31st March 2019, the Council has entered into contracts for the construction or enhancement of property, plant and equipment. The commitments as at 31st March are summarised as follows:

2018 £000		2019 £000
7,708	Highways and Transportation	13,836
34,798	Education (schools)	15,894
7,758	Information Services	12,188
5,824	Other	7,526
<b>56,088</b>		<b>49,444</b>

## 14.5 Revaluations

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

	Held at historical value  £000	Valued as at					Total cost or valuation  £000
		31 March 2015  £000	31 March 2016  £000	31 March 2017  £000	31 March 2018  £000	31 March 2019  £000	
<b>Operational Assets</b>							
Land and buildings	-	126,242	132,596	202,992	557,126	427,400	1,446,356
Vehicles, plant & equipment	54,952	-	-	-	-	-	54,952
Infrastructure	1,552,614	-	-	-	-	-	1,552,614
Community Assets	3,360	-	-	-	-	-	3,360
<b>Non-Operational Assets</b>							
Surplus Assets	-	616	19,172	7,006	10,842	18,377	56,013
Assets under construction	168,935	-	-	-	-	-	168,935
<b>Gross book value</b>	<b>1,779,861</b>	<b>126,858</b>	<b>151,768</b>	<b>209,998</b>	<b>567,968</b>	<b>445,777</b>	<b>3,282,230</b>

# Statement of Accounts - Notes to the Financial Statements

## 15. Capital expenditure and capital financing

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

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

2017/18 £000		2018/19 £000      £000	
901,016	Opening Capital Financing Requirement		992,451
	<b>Capital investment</b>		
188,166	Property, plant and equipment	172,897	
27,180	Investment property	6,673	
7,123	Inventories	6,423	
47,234	Revenue expenditure funded from capital under statute	69,862	
1,373	Loans awarded for capital purposes	627	
250	Equity investments	250	
271,326	<b>Total capital investment</b>	256,732	
	<b>Sources of finance</b>		
(8,424)	Capital receipts	(10,283)	
(128,226)	Government grants and contributions	(143,890)	
(14,826)	Earmarked revenue reserves applied	(5,038)	
(28,415)	Revenue provision for the repayment of debt	(33,116)	
(179,891)	<b>Total sources of finance</b>	(192,327)	
91,435	Increase in the Capital Financing Requirement		64,405
992,451	<b>Closing Capital Financing Requirement</b>		1,056,856
	<b>Explanation of movements in year</b>		
90,824	Increase in underlying need to borrow		64,302
611	Increase for assets acquired under finance lease		103
91,435	<b>Increase in the Capital Financing Requirement</b>		64,405

## Statement of Accounts - Notes to the Financial Statements

## 16. Leases

## 16.1 Council as Lessee – Finance leases

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

31st March 2018			31st March 2019	
Short Term	Long Term		Short Term	Long Term
£000	£000		£000	£000
8	805	Property	8	797
1,469	4,573	Vehicles, plant and equipment	1,307	3,229
6,551	133,567	Private Finance Initiatives	6,636	126,931
8,028	138,945		7,951	130,957

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 17, which commences on page 78.

## 16.2 Council as Lessee – Operating leases

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

31 March 2018				31 March 2019		
Property £000	Other £000	Total £000		Property £000	Other £000	Total £000
3,374	1,926	5,300	One year	3,128	1,933	5,061
10,974	1,524	12,498	Two to five years	10,733	1,314	12,047
54,493	212	54,705	Over five years	51,123	21	51,144
68,841	3,662	72,503	Total lease rentals	64,984	3,268	68,252

### 16.3 Council as Lessor – Finance leases

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

# Statement of Accounts - Notes to the Financial Statements

The gross investment is made up of the following amounts:

31 March 2018 £000		31 March 2019 £000
	<b>Finance lease debtor</b>	
25	Current	25
2,510	Non-current	2,494
<u>2,535</u>		<u>2,519</u>

## 16.4 Council as lessor – Operating leases

The Council leases out the properties within its Investment Property portfolio, as detailed in Note 14.3, on page 74. It also leases out properties for the provision of community and voluntary services. The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

31 March 2018 £000		31 March 2019 £000
3,177	Not later than one year	3,374
10,655	Later than one year and not later than five years	11,105
11,035	Later than five years	12,049
<u>24,867</u>	<b>Total</b>	<u>26,528</u>

## 17. Private Finance Initiative and similar contracts

### 17.1 Nature and significant terms of PFI arrangements

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

Scheme	Nature and significant terms
<b>A130 Bypass</b>	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until construction of the road was complete. Construction costs were estimated at <b>£80m</b> (including construction and land costs but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface and are based</p>

# Statement of Accounts - Notes to the Financial Statements

Scheme	Nature and significant terms
	<p>upon the availability and usage of the road. Deductions can be made if the road is closed or if traffic flow is affected by road works.</p> <p>The road will be passed to the Council in a repaired/neutral state at the end of the arrangements in 2030.</p>
<b>Debden Park School</b>	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of <b>£15m</b>.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p>
<b>Clacton Secondary Schools</b>	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of <b>£34m</b>.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge, which varies according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>
<b>Tendring Primary Schools</b>	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of <b>£15m</b>.</p> <p>The Operator is operating and maintaining the schools' facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary according to inflation, the proportion of the required time that the facilities are available to the Council and the extent to which performance goals are met.</p>
<b>Castlevew, Cornelius Vermuyden and Columbus Schools</b>	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>At financial close of this contract, two of the schools were foundation schools and one was a community school. All three of the schools have subsequently converted to academy status.</p> <p>These schools' governing bodies consent to the Council acting on their behalf and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement.</p> <p>The Council carries the PFI liabilities on its own Balance Sheet for one of these schools (the Columbus School), as this school was a community school at financial close of the contract. The construction costs of this school amounted to <b>£22.3m</b>.</p>

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Scheme	Nature and significant terms
<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. It converted to academy status on 1 April 2015.</p> <p>Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£4m</b> per annum.</p>
<b>Waste Treatment Plant - Basildon</b>	<p>This contract was entered into on 31 May 2012 with Urbaser Balfour Beatty and provides for the design, construction, finance and operation of a waste treatment plant in Basildon. Work on the physical construction commenced in March 2013; the Facility required capital expenditure in the region of <b>£107m</b> (borne by the private sector) and achieved the Readiness Date in November 2014.</p> <p>The Facility is accepting waste and achieving diversion from landfill but is still in its commissioning phase and the contractual longstop date has passed. The parties are utilising the contractual and dispute mechanisms to seek resolution to the commissioning issues that have arisen (<i>see page 95 for further details</i>).</p> <p>The Facility, and associated PFI liability, will not be recognised in the Council's Balance Sheet until the Acceptance Test Certificate is issued for the Facility or a likely future obligation exists.</p> <p>Upon expiry of the 25 year PFI contract, it is intended that any property interest will revert back to the Council for nil consideration.</p>

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

The Council makes agreed payments under the schemes detailed in note 17.1 each year, which are increased by inflation, and can be reduced if the contractor fails to meet availability and performance standards, but which are otherwise fixed.

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

	Estimated timing of payments to PFI/PPP operators					Total
	Within one year	2 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	
	£000	£000	£000	£000	£000	£000
Service charges	7,368	31,462	42,280	38,076	13,562	132,748
Interest and similar charges	19,444	82,113	59,187	24,582	5,529	190,855
Repayment of liability	6,636	45,540	38,474	25,939	16,979	133,568
Lifecycle replacement	2,115	13,714	13,512	17,251	2,076	48,668
<b>Total</b>	<b>35,563</b>	<b>172,829</b>	<b>153,453</b>	<b>105,848</b>	<b>38,146</b>	<b>505,839</b>

# Statement of Accounts - Notes to the Financial Statements

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

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

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

31st March 2018 £000		31st March 2019 £000
	<b>Gross Book Value</b>	
143,083	As at 1 April	145,339
-	Additions	-
	Revaluation increases / (decreases) recognised in:	
2,249	Revaluation Reserve	1,359
(2)	Surplus/Deficit on the provision of services	-
9	Transfers to / (from) assets under construction	8
<u>145,339</u>	<b>As at 31 March</b>	<u>146,706</u>
	<b>Depreciation / Amortisation</b>	
(30,988)	As at 1 April	(33,330)
612	Revaluations and restatements	703
1	Depreciation / amortisation on impairments	-
(2,955)	Depreciation / amortisation for the year	(2,962)
<u>(33,330)</u>	<b>As at 31 March</b>	<u>(35,589)</u>
112,095	<b>Net book value at 1 April</b>	112,009
112,009	<b>Net book value at 31 March</b>	111,117

## 17.4 Value of PFI liabilities for capital expenditure

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

2017/18 £000		2018/19 £000
(144,072)	<b>Balance as at 1 April</b>	(140,120)
3,952	Liabilities repaid	6,552
<u>(140,120)</u>	<b>Balance as at 31 March</b>	<u>(133,568)</u>

# Statement of Accounts - Notes to the Financial Statements

## 18. Financial instruments

### 18.1 Categories of Financial Instruments

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

31 March 2018			31 March 2019		
Long term £000	Short term £000	Total £000	Long term £000	Short term £000	Total £000
<b>Financial assets</b>					
Investments					
-	-	-	11,645	-	11,645
-	-	-	1,470	90,209	91,679
1,634	164,193	165,827	-	-	-
10,862	47,368	58,230	-	-	-
250	-	250	-	-	-
12,746	211,561	224,307	13,115	90,209	103,324
17,971	121,534	139,505	5,591	93,896	99,487
-	40,567	40,567	-	157,578	157,578
30,717	373,662	404,379	18,706	341,683	360,389
<b>Financial liabilities (amortised cost)</b>					
(514,914)	(7,382)	(522,296)	(511,798)	(8,572)	(520,370)
(138,945)	(8,028)	(146,973)	(130,957)	(7,951)	(138,908)
(124)	(269,443)	(269,567)	(1,113)	(283,666)	(284,779)
(653,983)	(284,853)	(938,836)	(643,868)	(300,189)	(944,057)

Cash and cash equivalents are financial instruments which are 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 21 on page 92.

Debtors and creditors are carried at amortised cost. The above totals for debtors and creditors differ from the Balance Sheet as debtors and creditors related to statutory debts such as council tax and non-domestic rates are excluded, as they are not classified as financial instruments.

Under defined circumstances, the gain or loss on an exchange of debt instruments between an existing borrower and lender is applied to adjust the carrying amount of the modified loans. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 the carrying value of loans previously deemed to have been modified has been restated as at 1st April 2018 (in accordance with Accounting Policy Note 1.21.1 on page 46). The Council has five modified loans (related to debt refinancing undertaken in 2007/08); the carrying value of these loans, at 31st March 2018, was **£41.833m**. The restated amount, at 1 April 2018, is **£40.595m**. The difference between these two amounts (**£1.238m**) was transferred into the General Fund Balance.

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The Council has adopted new classifications for financial assets with effect from 1 April 2018, in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The table below shows how the closing balances for 2017/18 translate into the new asset classifications.

Investments at 1 April 2018	Carrying amount brought forward at 1 April 2018	New classification at 1 April 2018		
		Amortised cost	Fair value through Profit and Loss	Fair value through other comprehensive income
	£000	£000	£000	£000
<b>Previous classifications</b>				
Loans and receivables	165,827	165,712	115	-
Available for sale	58,230	47,368	10,862	-
Unquoted equity investment at cost	250	-	250	-
Fair value through profit and loss	-	-	-	-
<b>Reclassified amount at 1 April 2018</b>	<b>224,307</b>	<b>213,080</b>	<b>11,227</b>	<b>-</b>
Remeasurements at 1 April 2018		(114)	-	-
<b>Remeasured carrying amounts at 1 April 2018</b>		<b>212,966</b>	<b>11,227</b>	<b>-</b>

## 18.2 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:

2017/18			2018/19	
Surplus or deficit on the Provision of services	Other Comprehensive Income and Expenditure		Surplus or deficit on the Provision of services	Other Comprehensive Income and Expenditure
£000	£000		£000	£000
<b>Net gains / losses</b>				
<b>Financial assets classified as:</b>				
-	-	Fair value through profit or loss	(169)	-
-	(492)	Available for Sale	-	-
-	(492)		(169)	-
<b>Interest revenue</b>				
<b>Financial assets classified as:</b>				
-	-	Fair value through profit or loss	(692)	-
-	-	Amortised cost	(1,724)	-
(1,788)	-	Loans and receivables	-	-
(623)	-	Available for Sale	-	-
(2,411)	-		(2,416)	-
37,396	-	<b>Interest expense</b>	38,987	-
19	-	<b>Fee expense</b>	-	-
35,004	(492)	<b>Net (gain) / loss for the year</b>	36,402	-

# Statement of Accounts - Notes to the Financial Statements

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

The financial assets classified as 'Fair Value through Profit and Loss' in note 18.1 comprise an investment in a pooled Property Fund and an equity investment in Medtech Accelerator Ltd, a company supporting the development of new medical technologies to create new employment opportunities in the region.

The pooled Property Fund is measured at fair value on a recurring basis, using input **Level 1** in the fair value hierarchy. This means that fair value is based on the quoted price in an active market for identical shares.

The equity investment in Medtech Accelerator Ltd is held at amortised cost, as a proxy for fair value, as fair value cannot be reliably estimated.

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

Other than the financial assets described in note 18.2, all financial assets and all financial liabilities are carried in the Balance Sheet at amortised cost.

The following table compares, for all financial assets and liabilities held at amortised cost, the carrying and fair values:

31 March 2018			31 March 2019	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
		<b>Financial liabilities</b>		
		Borrowing		
(436,060)	(542,359)	Public Works Loans Board	(433,418)	(551,998)
(77,928)	(122,969)	Money Market loans	(77,928)	(124,888)
(8,308)	(8,308)	Other	(9,024)	(9,024)
(522,296)	(673,636)		(520,370)	(685,910)
(146,973)	(146,973)	PFI / finance lease liabilities	(138,908)	(138,908)
(269,567)	(269,567)	Creditors (contractual)	(284,779)	(284,779)
(938,836)	(1,090,176)		(944,057)	(1,109,597)
		<b>Financial Assets</b>		
		Investments		
165,827	165,827	Loans and receivables	-	-
-	-	Investments at amortised cost	91,679	91,470
165,827	165,827		91,679	91,470
40,567	40,567	Cash and cash equivalents	157,578	157,578
139,505	139,505	Debtors (contractual)	99,487	99,487
345,899	345,899		348,744	348,535

# Statement of Accounts - Notes to the Financial Statements

## Financial liabilities

- The fair value of Public Works Loan Board (PWLB) loans measures the economic effect of terms agreed with the PWLB compared with the estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed to be the PWLB 'new loan' rate. The difference between the fair value of the PWLB loans (**£551.998m**) and the carrying amount (**£433.418m**) therefore measures the additional interest the Council will pay over the remaining terms of the loans, against what would be paid if the loans were at prevailing 'new loan' rates. However, the Council would not simply be able to swap its existing loans for equivalent loans at the 'new loan' rate because the PWLB would raise a penalty charge for early redemption of **£207.288m** for the additional interest that would now not be paid. The exit price for the PWLB loans, including this penalty charge, would therefore be **£640.706m**.
- Whilst the 'fair value' measurements provide an indication of the cost of prematurely repaying existing PWLB and Money Market loans at 31st March 2019, the Council has a Capital Financing Requirement (see note 15 on page 76) well in excess of these loans, and so does not foresee the need to prematurely repay these loans.

## Investments and cash

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

## Other

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

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

The fair values for borrowing and investments that are not carried in the Balance Sheet at fair value have all been derived at **level 2** of the fair value hierarchy (i.e. using inputs other than quoted prices that are observable for the financial asset / liability). The fair value of the remainder of financial liabilities and assets that are not carried in the Balance Sheet at fair value have been derived at **level 3** of the fair value hierarchy.

The fair value for financial liabilities and financial assets that are not measured at fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- **Financial Assets**
  - No early repayments or impairment is recognised.
  - Estimated ranges of interest rates at 31st March 2019 of **0.55%** to **1.10%** for loans receivable, based on new lending rates for the remaining period of the deposits at that date.

# Statement of Accounts - Notes to the Financial Statements

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- **Financial liabilities**
  - No early repayment is recognised.
  - Estimated ranges of interest rates at 31st March 2019 of **1.48%** to **2.26%** for loans payable based on new lending rates for equivalent loans at that date.
  - The fair value of trade and other payables is taken to be the invoiced or billed amount.

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

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

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

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

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

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

Risk management is carried out by the Council's central treasury team, under policies approved by the Council in the annual **Treasury Management Strategy**. In addition, the Council has written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit risk

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

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

## Statement of Accounts - Notes to the Financial Statements

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strategy, which is updated annually (as a minimum) and seeks to provide a sound approach to investing in normal market circumstances.

UK banks and building societies, and non-UK banks domiciled in a country with a minimum sovereign rating of '**AA**', were considered for inclusion on the Council's lending list during 2018/19 if they had acceptable credit ratings in both of the following categories:

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

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

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

Application of the credit rating criteria set out within the Annual Investment Strategy meant that the maximum amount invested in 2018/19 by the Council with any financial institution, at any point in time, ranged between **£20m** and **£70m** (*i.e. the limit varied within this range, depending on the relative strength of financial institutions' credit ratings within the acceptable range*).

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

The Council's Investments Strategy also allowed for underlying cash balances to be invested on a longer-term basis (*i.e. for periods beyond 364 days*). Because it is not possible to respond to changes in credit risk as quickly, a limit was set within the annual treasury management strategy, upon the total amount that could be invested for periods beyond 364 days. For 2018/19, this limit was **£50m** (2017/18: £50m).

No credit limits were exceeded during 2018/19 and the Council did not experience any losses from non-performance by any of its counterparties in relation to the deposits it placed with them.

# Statement of Accounts - Notes to the Financial Statements

## Liquidity risk

There are no significant risks that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council seeks to mitigate against this risk by ensuring a relatively even debt maturity profile, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of existing financial liabilities is as follows:

31 March 2018				Repayment period	31 March 2019			
PWLB	Money Market	Other	Total		PWLB	Money Market	Other	Total
£000	£000	£000	£000		£000	£000	£000	£000
5,469	928	985	7,382	Less than one year	5,551	928	2,093	8,572
5,469	928	985	7,382	<b>Short term borrowing</b>	5,551	928	2,093	8,572
1,479	-	1,552	3,031	Between 1 and 2 years	16,539	-	1,685	18,224
34,809	-	5,204	40,013	Between 2 - 5 years	28,005	-	5,246	33,251
51,178	-	567	51,745	Between 5 - 10 years	48,019	-	-	48,019
161,576	-	-	161,576	Between 10 - 25 years	155,000	-	-	155,000
161,549	-	-	161,549	Between 25 - 40 years	180,304	-	-	180,304
20,000	-	-	20,000	Between 40 - 50 years	-	-	-	-
-	77,000	-	77,000	Over 50 years	-	77,000	-	77,000
430,591	77,000	7,323	514,914	<b>Long term borrowing</b>	427,867	77,000	6,931	511,798
436,060	77,928	8,308	522,296	<b>Total borrowing</b>	433,418	77,928	9,024	520,370

## Market Risk

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

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

The Council only carries a small proportion of its investments at fair value, and none of its borrowing is carried at fair value. Consequently, nominal gains and losses on fixed rate borrowing and investments would not impact on the surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and

# Statement of Accounts - Notes to the Financial Statements

investments will impact on the amount charged / credited to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has several strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of borrowings in variable rate loans (2017/18: 30%).

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

If interest rates had been **1%** higher throughout 2018/19 (with all other variables held constant) the Council's net interest burden would have been lower than that shown in Note 18.2, as follows:

2017/18 £000		2018/19 £000
	Impact on the Comprehensive Income and Expenditure Statement	
343	Interest payable on variable rate borrowing	339
(1,214)	Interest receivable on variable rate investments	(1,077)
<u>(871)</u>	<b>Net (gain) / loss</b>	<u>(738)</u>

## 18.7 Credit risk management practices

The following arrangements were in place for managing credit risk in relation to financial assets, and for estimating the impairment loss allowances that would reflect the Council's exposure to this risk:

Asset type	Credit risk management practices	Estimation of impairment loss allowances
<b>Loans to other local authorities</b>	Investments guaranteed by statute – no credit risk.	No allowance required.
<b>Deposits with banks and building societies</b>	Deposits are restricted by the Council's Treasury Management Strategy (as noted above).	Expected credit losses are calculated applying historical experience of default factors supplied by the Council's Treasury Management Advisor.
<b>Other debtors</b>	Debtors are not subject to internal credit rating and have been grouped for the purposes of calculating expected credit losses.	Expected credit losses are calculated using provision matrices based on historical data for defaults, overlaid by consideration of factors impacting upon debtors' ability to settle their obligations.

# Statement of Accounts - Notes to the Financial Statements

The following table summarises the Council's potential credit risk exposure:

	Credit risk rating			Gross carrying amount £000
	Low £000	Medium £000	High £000	
Deposits with banks and other financial institutions	269,000	-	-	269,000
Loans to businesses	1,470	-	-	1,470
	<b>270,470</b>	<b>-</b>	<b>-</b>	<b>270,470</b>
Other debtors (contractual) - not subject to credit rating				99,487
<b>Total amount exposed to credit risk</b>				<b>369,957</b>

Other debtors (contractual) are not subject to credit rating. Instead, credit risk is assessed by grouping debtors according to their credit risk characteristics. A collective assessment of the credit loss allowance for each category of debt is determined based on the age profile of the debt and the Council's historical credit loss experience. The total credit loss allowance for contractual debtors, at **£14.063m**, equates to **14%** of the debt outstanding at 31st March 2019.

The following movements in the impairment loss allowances for financial assets took place in 2018/19:

	Allowance at 1 April 2018 £000	Assets derecognised £000	Assets recognised £000	Allowance at 31st March 2019 £000
Deposits with banks and other financial institutions				
Cash and cash equivalents	2	(2)	24	24
Investments at amortised cost	114	(114)	33	33
Other debtors (contractual)	13,989	-	74	14,063
<b>Total amount exposed to credit risk</b>	<b>14,105</b>	<b>(116)</b>	<b>131</b>	<b>14,120</b>

The adjustments made to impairment loss allowances as a result of reclassification of financial assets and the change from an incurred losses model to an expected losses model at 1st April 2018 are as follows:

	Allowance B/fwd 1 April 2018 £000	Cash and cash equivalents £000	Investments at amortised cost £000	Debtors (contractual) £000	Allowance at 1 April 2018 £000
Previous classifications					
Cash and cash equivalents	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Debtors (contractual)	11,294	-	-	11,294	11,294
	<b>11,294</b>	<b>-</b>	<b>-</b>	<b>11,294</b>	<b>11,294</b>
Remeasurement from incurred loss to expected losses basis at 1 April 2018		2	114	2,695	2,811
<b>Impairment loss allowance at 1 April 2018</b>		<b>2</b>	<b>114</b>	<b>13,989</b>	<b>14,105</b>

# Statement of Accounts - Notes to the Financial Statements

## 19. Inventories

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

2017/18				2018/19		
Consumable Stores	Property acquired or constructed for sale	Total		Consumable Stores	Property acquired or constructed for sale	Total
£000	£000	£000		£000	£000	£000
50	-	50	Balance as at 1 April	42	7,123	7,165
-	7,123	7,123	Purchases	11	6,424	6,435
(8)	-	(8)	Recognised as an expense in the year	(9)	(3,695)	(3,704)
42	7,123	7,165	Balance as at 31 March	44	9,852	9,896

## 20. Debtors

The following table analyses short and long-term debtors:

31 March 2018				31 March 2019		
Short term	Long term	Total		Short term	Long term	Total
£000	£000	£000		£000	£000	£000
94,914	1,490	96,404	Trade debtors	82,843	283	83,126
9,985	-	9,985	Recoverable Value Added Tax	10,442	-	10,442
			Council Tax and Non Domestic Rates			
13,569	-	13,569	Billing authorities	11,536	-	11,536
39,886	-	39,886	Taxpayers	43,064	-	43,064
27,018	419	27,437	Prepayments	23,190	400	23,590
8,615	-	8,615	Grants and accrued income	7,006	-	7,006
165	16,807	16,972	Other debtors	612	16,706	17,318
194,152	18,716	212,868		178,693	17,389	196,082
			Allowance for doubtful debts			
(10,549)	(745)	(11,294)	Sundry debtors	(14,063)	-	(14,063)
(17,347)	-	(17,347)	Council Tax and Non Domestic Rates	(18,539)	-	(18,539)
166,256	17,971	184,227	Total	146,091	17,389	163,480

*Note: the analysis of debtors provided above differs from that provided in the previous year's accounts. Comparative figures have been restated on a basis consistent with 2018/19.*

# Statement of Accounts - Notes to the Financial Statements

## 21. Cash and cash equivalents

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

31st March 2018 £000		31st March 2019 £000
<b>Amounts that form an integral part of the Council's cash management</b>		
5,618	Cash repayable on demand	43,997
29,022	Cash equivalents	125,162
(33,987)	Bank overdraft	(52,327)
93	Petty cash balances	85
<hr/> 746		<hr/> 116,917
39,821	Cash held by schools	40,661
<hr/> 40,567	<b>Total of cash and cash equivalents</b>	<hr/> 157,578

The Council holds several 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.

## 22. Creditors

The following table analyses short and long term creditors:

31st March 2018				31st March 2019		
Short term £000	Long term £000	Total £000		Short term £000	Long term £000	Total £000
157,790	-	157,790	Trade creditors	162,685	987	163,672
84,506	-	84,506	Cash held on behalf of partnerships	84,822	-	84,822
			<b>Council Tax and Non Domestic Rates</b>			
4,128	-	4,128	Billing authorities	6,429	-	6,429
12,151	-	12,151	Taxpayers	13,188	-	13,188
26,980	-	26,980	Employee related creditors	22,410	-	22,410
4,299	-	4,299	Other creditors	13,749	-	13,749
8,386	124	8,510	Receipts in advance	7,654	126	7,780
<hr/> 298,240	<hr/> 124	<hr/> 298,364	<b>Total</b>	<hr/> 310,937	<hr/> 1,113	<hr/> 312,050

*Note: the analysis of creditors provided above differs from that provided in the previous year's accounts. Comparative figures have been restated on a basis consistent with 2018/19.*

# Statement of Accounts - Notes to the Financial Statements

## 23. 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 2018			31st March 2019		
Revenue £000	Capital £000		Revenue £000	Capital £000	
<b>Department for Education and related</b>					
306	8,024	Department for Education grants	316	542	
-	-	Education and Skills Funding Agency	-	-	
607	-	Dedicated Schools grant	754	-	
232	-	Other Education and Skills Funding Agency grants	436	-	
		National College of Teaching and Leadership			
1,145	8,024		1,506	542	
<b>Other grants</b>					
4,582	1,695	Ministry of Housing, Communities & L. Govnt	3,216	-	
3,240	62	Department for Transport	80	17,388	
249	-	Department of Health and Social Care	486	-	
738	24	Other	393	3,398	
8,809	1,781		4,175	20,786	
9,954	9,805	<b>Total of grant receipts in advance</b>	5,681	21,328	
3,553	44,723	<b>Developer contributions (\$106)</b>	8,589	53,747	
13,507	54,528	<b>Total</b>	14,270	75,075	

*Note: whilst prior year comparative figures are consistent overall with the figures presented in the 2017/18 Statement of Accounts, comparative figures for the prior year have been restated on a basis consistent with 2018/19.*

## 24. Provisions and contingencies

### 24.1 Provisions

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

Provisions are split on the Council's Balance Sheet between current (amounts expected to be settled within 12 months) and non-current (those expected to be settled beyond the next 12 months).

# Statement of Accounts - Notes to the Financial Statements

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

	Insurance Provision	Landfill aftercare	Non-domestic rating appeals	Restructuring	Other provisions	Total
	£000	£000	£000	£000	£000	£000
<b>Current provisions</b>						
Balance at 31st March 2018	(6,200)	(396)	(4,133)	(933)	(987)	(12,649)
Amounts arising	-	-	(1,542)	(593)	(488)	(2,623)
Provisions reversed	-	-	-	91	10	101
Provisions utilised	3,090	430	953	1,040	456	5,969
Unwinding of discount	-	(10)	-	-	-	(10)
Amounts reclassified as current	(1,890)	(445)	-	-	-	(2,335)
Balance at 31st March 2019	(5,000)	(421)	(4,722)	(395)	(1,009)	(11,547)
<b>Non-current provisions</b>						
Balance at 31st March 2018	(17,030)	(13,210)	-	-	-	(30,240)
Amounts arising	(5,427)	(2,033)	-	-	-	(7,460)
Provisions reversed	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-
Amounts reclassified as current	1,890	445	-	-	-	2,335
Balance at 31st March 2019	(20,567)	(14,798)	-	-	-	(35,365)
<b>Total current and non-current provisions</b>						
31st March 2018	(23,230)	(13,606)	(4,133)	(933)	(987)	(42,889)
31st March 2019	(25,567)	(15,219)	(4,722)	(395)	(1,009)	(46,912)

An explanation of each provision is as follows:

Provision	Purpose
<b>Insurance</b>	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self-insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 1983, until they ceased trading in 1992. Since ceasing trading, MMI has been dealing with all outstanding claims, operating under a contingent Scheme of Arrangements. This Scheme allows MMI to claw back monies paid (in the form of a levy) from the scheme participants if it has insufficient funds to pay remaining claims itself.</p> <p>The Scheme of Arrangements was triggered, and therefore came into effect, on 13th November 2012. As a result, the Council was required to make an initial levy payment of <b>£1.149m</b> to the Scheme Administrator in 2014/15, equivalent to <b>15%</b> of all claims it had received settlement for since 1993. The Council has been required to meet <b>15%</b> of any subsequent claims made since the initial levy payment was made.</p> <p>With effect from 1 April 2016, the levy increased to <b>25%</b>. Therefore, a second levy payment of <b>£767,000</b> was made in 2017/18, equivalent to a further <b>10%</b> of all claims for which it has received settlement since 1993 to date. The Council will be required to meet <b>25%</b> of any claims made after this second levy payment being made. The Insurance Provision includes</p>

# Statement of Accounts - Notes to the Financial Statements

Provision	Purpose
	<p>an allowance for this liability.</p> <p>Whilst the claims position has stabilised in recent years, and may continue to do so, it is anticipated that a request for payment of a further levy on historic claims will be made in the next <b>18 to 36</b> months. Allowance has been made for this in the Insurance Reserve (see Note 7, which commences on page 63).</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>
<b>Non-domestic rating appeals</b>	<p>Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks that the amount of non-domestic rates collectable could be affected by the requirement to make backdated refunds to non-domestic ratepayers who lodge appeals against the Valuation Rating Lists. For this reason, the Council's Balance Sheet includes an attributable share of the provisions raised by the billing authorities for non-domestic rating appeals.</p>
<b>Restructuring</b>	<p>This provision represents the best estimate of the amount the Council is committed to pay because of formal plans for the restructuring of services, where these plans are likely to result in the termination of employment for some of the affected staff before their normal retirement date.</p>
<b>Other</b>	<p>Provisions have been established for various matters.</p>

## 24.2 Contingent Liabilities

As detailed in Note 17, on page 80, the Council entered into a Private Finance Initiative contract for the design, construction and operation of a waste treatment plant in Basildon in May 2012. The relevant acceptance tests are still to be achieved and therefore the plant remains in the commissioning phase.

The Council has been involved in ongoing discussions with the operator Urbaser Balfour Beatty regarding the delay in achieving services commencement and the Parties are utilising the appropriate contractual mechanisms to resolve these issues. Matters where no agreement has been reached have been referred to the Courts for consideration and to determine an outcome.

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

# Statement of Accounts - Notes to the Financial Statements

## 25. Usable reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement, on page 28, with further analysis provided in Note 6, which commences on page 60.

## 26. Unusable reserves

### 26.1 Introduction

The Council maintains several unusable reserves which are held for statutory reasons or to comply with proper accounting practice. The Council is not able to use these reserves to provide services. Notes 26.2 to 26.10 explain the purpose of each unusable reserve and the movements in these reserves during the year.

### 26.2 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:

2017/18		2018/19	
£000		£000	£000
(578,469)	Balance as at 1 April		(616,624)
(129,835)	Revaluation of non current assets (increases)	(105,271)	
29,699	Revaluation of non current assets (subsequent decreases)	13,278	
(100,136)	Surplus on revaluations		(91,993)
14,270	Depreciation on revaluation gains	13,909	
47,711	Accumulated gains on assets sold or scrapped	92,725	
61,981	Amounts written off to the Capital Adjustment Account		106,634
(616,624)	Balance as at 31 March		(601,983)

# Statement of Accounts - Notes to the Financial Statements

## 26.3 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.

2017/18		2018/19	
£000		£000	£000
(1,340,533)	<b>Balance as at 1 April</b>		(1,316,405)
	<b>Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>		
77,949	Depreciation	79,231	
19,857	Impairment of non-current assets	24,045	
(302)	Donated assets	-	
47,234	Revenue expenditure financed from capital under statute	69,862	
120,276	Cost / value of assets disposed of during the year	224,485	
265,014			397,623
	<b>Adjusting amounts written out of the Revaluation Reserve</b>		
(14,270)	Difference between fair value and historical cost depreciation	(13,909)	
(47,711)	Revaluation gains outstanding for assets upon disposal	(92,725)	
(61,981)			(106,634)
203,033	<b>Net written out amount of the cost of non current assets consumed in the year</b>		290,989
	<b>Capital financing applied in the year</b>		
(14,826)	Revenue reserves applied	(5,038)	
(28,415)	Statutory provision for the financing of capital investment	(33,116)	
(8,424)	Capital receipts applied	(10,283)	
	Capital grants and contributions applied to finance:		
(78,364)	Capital Expenditure	(71,536)	
(48,111)	Revenue expenditure funded from capital	(71,064)	
(1,751)	Application of grants from the Capital Grants Unapplied Account	(1,290)	
(179,891)			(192,327)
546	<b>Repayment of loans awarded for capital purposes</b>		1,049
440	<b>Movement in market value of investment properties</b>		8,095
(1,316,405)	<b>Balance as at 31 March</b>		(1,208,599)

## 26.4 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.

# Statement of Accounts - Notes to the Financial Statements

The Council uses the Account to manage:

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

2017/18				2018/19		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
6,789	(3,688)	3,101	Balance as at 1 April	6,567	(3,506)	3,061
(127)	18	(109)	Amortisation of premiums / discounts to the General Fund	(127)	18	(109)
(95)	164	69	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(95)	146	51
6,567	(3,506)	3,061	Balance as at 31 March	6,345	(3,342)	3,003

## 26.5 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve previously contained 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 was reduced when investments with accumulated gains were re-valued downwards or impaired and the gains are lost.

2017/18 £000		2018/19 £000
(369)	Balance as at 1 April	(861)
-	Reclassification of financial assets	861
(369)	Restated balance at 1 April	-
(492)	Upward revaluation of investments	-
(861)	Balance as at 31 March	-

The Available for Sale Financial Instruments Reserve was closed with effect from 1 April 2018, with the accumulated gains on this reserve being appropriated to the General Fund Balance on this date and then transferred to the Pooled Investment Funds Adjustment Account.

# Statement of Accounts - Notes to the Financial Statements

## 26.6 Pooled Investment Funds Adjustment Account

For financial assets measured and carried at fair value, changes in fair value are recognised as they arise in the Surplus or Deficit on the Provision of Services. However, statutory provisions currently allow the Council to reverse these gains and losses out of the General Fund Balance, in the Movement in Reserves Statement, to a Pooled Investment Funds Adjustment Account.

2017/18 £000	2018/19 £000
- Balance as at 1 April	-
- Reclassification of financial assets	(861)
<hr/> - Restated balance at 1 April	<hr/> (861)
- Upward revaluation of investments	(169)
<hr/> - Balance as at 31 March	<hr/> (1,030)

The ability to reverse these gains / losses out of the General Fund Balance applies to the 2018/19 accounts and ceases on 31st March 2023.

The accumulated gains on the pooled investment funds were previously held in the Available for Sale Financial Instruments Reserve (see note 26.5).

## 26.7 Pension Reserve

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

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

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

# Statement of Accounts - Notes to the Financial Statements

2017/18				2018/19		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,237,011	35,328	1,272,339	Balance as at 1 April	1,053,563	32,114	1,085,677
			Pension Reserve appropriation to / (from) the General Fund for:			
114,413	576	114,989	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	118,953	707	119,660
(52,427)	(2,853)	(55,280)	Council contributions to the schemes	(53,662)	(2,782)	(56,444)
61,986	(2,277)	59,709	Total appropriation from Pension Reserve	65,291	(2,075)	63,216
(245,434)	(937)	(246,371)	Remeasurements of the net pension liability	(156,019)	(997)	(157,016)
1,053,563	32,114	1,085,677	Balance as at 31 March	962,835	29,042	991,877

## 26.8 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.

2017/18 £000		2018/19 £000
(2,492)	Balance as at 1 April	(2,535)
(59)	Deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
16	Transfers to the Capital Receipts Reserve upon receipt of cash	16
(2,535)	Balance as at 31 March	(2,519)

## 26.9 Collection Fund Adjustment Account

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

# Statement of Accounts - Notes to the Financial Statements

2017/18				2018/19		
Council Tax £000	Non-domestic rates £000	Total £000		Council Tax £000	Non-domestic rates £000	Total £000
(16,679)	(747)	(17,426)	Balance at 1 April	(14,527)	(1,169)	(15,696)
			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			
2,152	(422)	1,730		3,482	491	3,973
(14,527)	(1,169)	(15,696)	Balance as at 31 March	(11,045)	(678)	(11,723)

## 26.10 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.

2017/18 £000		2018/19 £000      £000	
16,506	Balance as at 1 April		12,884
(16,506)	Settlement or cancellation of accrual made at the end of the preceding year	(12,884)	
12,884	Amounts accrued for at the end of the current year	10,533	
(3,622)	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		(2,351)
12,884	Balance as at 31 March		10,533

## 27. Cash Flows from operating, investing and financing activities

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

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

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

# Statement of Accounts - Notes to the Financial Statements

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

2017/18		2018/19	
£000		£000	£000
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
(651,368)	Taxation	(689,434)	
(936,582)	Grants	(883,234)	
(276,133)	Sales of goods and rendering of services	(301,981)	
(3,014)	Interest received	(4,049)	
<u>(1,867,097)</u>			<u>(1,878,698)</u>
<b>Cash outflows</b>			
490,155	Cash paid to and on behalf of employees	455,157	
38,237	Interest paid	39,772	
1,140,302	Cash paid to suppliers of goods and services	1,210,104	
116,793	Other payments for operating activities	109,954	
<u>1,785,487</u>			<u>1,814,987</u>
<u>(81,610)</u>	<b>Net inflow of cash from operating activities</b>		<u>(63,711)</u>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
(8,424)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(10,283)	
(20,443)	Proceeds from short and long term investments	(120,968)	
(125,072)	Other receipts from investing activities	(177,436)	
<u>(153,939)</u>			<u>(308,687)</u>
<b>Cash outflows</b>			
212,175	Purchase of property, plant and equipment, investment property and intangible assets	175,522	
134	Purchase of short and long term investments	369	
48,891	Other payments for investing activities	70,953	
<u>261,200</u>			<u>246,844</u>
<u>107,261</u>	<b>Net (inflow) / outflow of cash from investing activities</b>		<u>(61,843)</u>
<b>Cash flows generated from financing activities</b>			
<b>Cash inflows</b>			
(5,583)	Cash receipts of short and long term borrowing	(1,702)	
-	Other receipts from financing activities	(316)	
<u>(5,583)</u>			<u>(2,018)</u>
<b>Cash outflows</b>			
7,347	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	8,169	
3,272	Repayment of short and long term borrowing	2,390	
<u>10,619</u>			<u>10,559</u>
<u>5,036</u>	<b>Net outflow of cash from financing activities</b>		<u>8,541</u>
<u>30,687</u>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<u>(117,013)</u>

# Statement of Accounts - Notes to the Financial Statements

## 28. 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 programme includes projects aimed at modernising working practices and utilising mobile technology and will reshape the Council into a smaller core organisation. Redundancies are an unavoidable consequence of this programme.

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

2017/18 £000		2018/19 £000
513	Childrens and Families	138
944	Customer and Corporate	758
272	Economic Development	279
2,375	Education and Skills	2,077
246	Environment and Waste	194
1,186	Health and Adult Social Care	626
154	Culture and Communities	120
208	Leader	165
1,648	Finance and Commercial	-
	Recharged Strategic Support Services	
236	Customer and Corporate	1,072
611	Leader	222
240	Finance and Commercial	288
<b>8,633</b>	<b>Total</b>	<b>5,939</b>

Notes: The above figures include provision for termination benefits arising from formal plans for the restructuring of certain services, where actual exit packages have yet to be agreed at 31st March. Provision is raised on the basis of the best estimate of costs.

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

2017/18				2018/19				
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	
90	71	161	1,270	Less than £20,000	87	72	159	1,194
21	24	45	1,194	£20,000 to £39,999	24	25	49	1,335
10	20	30	1,455	£40,000 to £59,999	17	9	26	1,326
6	15	21	1,441	£60,000 to £79,999	2	4	6	397
2	5	7	624	£80,000 to £99,999	3	2	5	414
5	5	10	1,197	£100,000 to £149,999	3	3	6	771
3	-	3	545	£150,000 to £199,999	-	-	-	
137	140	277	7,726	Total no. of agreed packages	136	115	251	5,437
			907	Other termination benefits				502
			8,633					5,939

# Statement of Accounts - Notes to the Financial Statements

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The exit packages include all redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

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

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

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

### ▪ Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita on behalf of the Teachers Pensions Agency. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Teachers' pension scheme has in excess of **10,100** participating employers.

### ▪ NHS Pension Scheme

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

The NHS Pension Scheme provides these employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on contribution rates set by the Secretary of State. The NHS Pension Scheme has more than **8,600** 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 enough reliability for accounting purposes. For the purposes of this Statement of Accounts, both schemes are accounted for on the same basis as a defined contribution scheme.

# Statement of Accounts - Notes to the Financial Statements

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

2017/18				2018/19		
Teachers £000	NHS £000	Total £000		Teachers £000	NHS £000	Total £000
25,890	91	25,981	Employer's contributions	22,818	92	22,910
14,355	80	14,435	Employee contributions	12,547	80	12,627
40,245	171	40,416	<b>Total</b>	35,365	172	35,537

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	
	2017/18	2018/19	2017/18	2018/19
Employer's contribution rate	16.48%	16.48%	14.38%	14.38%
Employee contribution rate	7.4% to 11.7%	7.4% to 11.7%	5.0% to 14.5%	5.0% to 14.5%

There were no contributions remaining payable as at 31st March 2019 (31st March 2018: Nil).

The employer's contributions due to be paid in 2019/20 are estimated to be **£26.258m** for the teachers pension scheme and **£92,000** for the NHS pension 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 30 below.

## 30. Defined Benefit Pension Schemes

### 30.1 Participation in Pension Schemes

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

# Statement of Accounts - Notes to the Financial Statements

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The Council participates in two schemes:

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

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

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

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

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

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

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

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

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

- **Award of discretionary post-retirement benefits upon early retirement in relation to the teachers' pension scheme**

# Statement of Accounts - Notes to the Financial Statements

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.

## 30.2 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:

2017/18			2018/19		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
92,567	-	92,567	85,989	-	85,989
2,674	-	2,674	27,791	-	27,791
(14,132)	-	(14,132)	(21,722)	-	(21,722)
81,109	-	81,109	92,058	-	92,058
<b>Financing and Investment Income and Expenditure</b>					
33,304	576	33,880	26,895	707	27,602
114,413	576	114,989	118,953	707	119,660
<b>Re-measurements of the net pensions liability</b>					
(93,100)	-	(93,100)	(121,830)	-	(121,830)
(152,334)	(937)	(153,271)	145,108	820	145,928
-	-	-	(179,297)	(1,817)	(181,114)
-	-	-	-	-	-
-	-	-	-	-	-
(245,434)	(937)	(246,371)	(156,019)	(997)	(157,016)
(131,021)	(361)	(131,382)	(37,066)	(290)	(37,356)
<b>Movement in Reserves Statement</b>					
(114,413)	(576)	(114,989)	(118,953)	(707)	(119,660)
52,427	2,853	55,280	53,662	2,782	56,444
(61,986)	2,277	(59,709)	(65,291)	2,075	(63,216)

# Statement of Accounts - Notes to the Financial Statements

## 30.3 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:

2017/18				2018/19		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
3,224,588	32,114	3,256,702	Present value of the defined benefit obligation	3,256,736	29,042	3,285,778
(2,171,025)	-	(2,171,025)	Fair value of plan assets	(2,293,901)	-	(2,293,901)
1,053,563	32,114	1,085,677	Net liability arising from defined benefit obligations	962,835	29,042	991,877

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 **£991.877m** (2017/18: £1.086bn) 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:

2017/18				2018/19		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
3,288,495	35,328	3,323,823	Balance as at 1 April	3,224,588	32,114	3,256,702
92,567	-	92,567	Current service cost	85,989	-	85,989
87,492	576	88,068	Interest cost	80,707	707	81,414
16,132	-	16,132	Contributions by scheme participants	15,857	-	15,857
			Remeasurement (gains)/losses:			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(179,297)	(1,817)	(181,114)
(152,334)	(937)	(153,271)	Actuarial (gains) / losses arising from changes in financial assumptions	145,108	820	145,928
-	-	-	Other	-	-	-
2,674	-	2,674	Past service costs	27,791	-	27,791
(86,958)	(2,853)	(89,811)	Benefits paid	(92,701)	(2,782)	(95,483)
(23,480)	-	(23,480)	Liabilities extinguished on settlements	(51,306)	-	(51,306)
3,224,588	32,114	3,256,702	Balance as at 31 March	3,256,736	29,042	3,285,778

# Statement of Accounts - Notes to the Financial Statements

## Scheme Assets

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

2017/18				2018/19		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
2,051,484	-	2,051,484	Balance as at 1 April	2,171,025	-	2,171,025
54,188	-	54,188	Interest income	53,812	-	53,812
			Remeasurement gain/(loss)			
93,100	-	93,100	Return on plan assets (excl. amount incl in net interest expense)	121,830	-	121,830
-	-	-	Other	-	-	-
52,427	2,853	55,280	Contributions by the Council	53,662	2,782	56,444
16,132	-	16,132	Contributions from employees into the scheme	15,857	-	15,857
(86,958)	(2,853)	(89,811)	Benefits paid	(92,701)	(2,782)	(95,483)
(9,348)	-	(9,348)	Amounts made for settlements	(29,584)	-	(29,584)
2,171,025	-	2,171,025	Balance as at 31 March	2,293,901	-	2,293,901

Local Government Pension Scheme assets comprised:

31 March 2018			31 March 2019		
£000	%		£000	%	
1,416,934	65.3%	Equities	1,428,158	62.3%	
144,426	6.7%	Gilts	121,750	5.3%	
80,650	3.7%	Other bonds	134,066	5.8%	
205,934	9.4%	Property	203,961	8.9%	
74,660	3.4%	Cash and cash equivalents	60,410	2.6%	
160,367	7.4%	Alternative assets	223,663	9.8%	
88,054	4.1%	Other managed funds	121,893	5.3%	
2,171,025	100.0%	<b>Total assets</b>	2,293,901	100.0%	

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

31 March 2018						31 March 2019				
UK		Overseas		Total		UK		Overseas		Total
Quoted	Unquoted	Quoted	Unquoted			Quoted	Unquoted	Quoted	Unquoted	
-	-	60.7%	4.6%	65.3%	Equities	4.5%	-	53.2%	4.6%	62.3%
6.7%	-	-	-	6.7%	Gilts	5.3%	-	-	-	5.3%
3.7%	-	-	-	3.7%	Other bonds	5.8%	-	-	-	5.8%
3.4%	6.0%	-	-	9.4%	Property	3.3%	5.6%	-	-	8.9%
-	3.4%	-	-	3.4%	Cash and cash equivalents	-	2.6%	-	-	2.6%
(0.5%)	7.9%	-	-	7.4%	Alternative assets	-	9.8%	-	-	9.8%
-	4.1%	-	-	4.1%	Other managed funds	-	5.3%	-	-	5.3%
13.3%	21.4%	60.7%	4.6%	100.0%	Total assets	18.9%	23.3%	53.2%	4.6%	100.0%

# Statement of Accounts - Notes to the Financial Statements

## 30.4 Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by **Barnett Waddingham LLP**, an independent firm of actuaries. The liabilities have been estimated, based upon the results of the valuation as at **31st March 2016** which was carried out for funding purposes.

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

Assumptions	2017/18	2018/19
▪ <b>Rate of inflation</b>		
- RPI	3.3%	3.4%
- CPI	2.3%	2.4%
▪ <b>Rate of increase in salaries</b>	3.8%	3.9%
▪ <b>Rate of increase in pensions</b>	2.3%	2.4%
▪ <b>Discount rate</b>	2.55%	2.4%
▪ <b>Mortality assumptions for members retiring in normal health:</b>		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	24.4 years	22.9 years
▪ Female	27 years	25.4 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.2 years	21.3 years
▪ Female	24.7 years	23.6 years
▪ <b>Expected rate of return on assets in the scheme</b>	9%	8%

In addition to these significant assumptions, the Actuary for the Local Government Pension Scheme (LGPS) has made an adjustment of **£22.340m** to the Employer's defined benefit obligation for the possible impact of any amendments that may be required to the Local Government Pension Scheme as a result of the Court of Appeal judgement on the McCloud and Sargeant cases (related to age discrimination within the Judicial and Fire Pension schemes respectively).

The estimate of the potential impact on the Employer's defined benefit obligation is based on analysis carried out by the Government Actuary's Department and the Council's liability profile, using the assumptions reflected in the table above.

It is not yet clear how this judgement will affect LGPS members' past or future service benefits.

# Statement of Accounts - Notes to the Financial Statements

The actuarial assumptions used in the calculation of the liabilities for Teachers' additional unfunded pensions were those shown on page 110 for the Local Government Pension Scheme, with the following exceptions:

Assumptions	2017/18	2018/19
▪ <b>Rate of inflation</b>		
- RPI	3.35%	3.5%
- CPI	2.35%	2.5%
▪ <b>Rate of increase in pensions</b>	2.35%	2.5%
▪ <b>Discount rate</b>	2.3%	2.1%

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

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,198,286	3,256,736	3,316,313
Projected Service Cost	85,913	88,043	90,228
<b>Adjustment to long term salary increase</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,261,673	3,256,736	3,251,835
Projected Service Cost	88,043	88,043	88,043
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,311,318	3,256,736	3,203,131
Projected Service Cost	90,226	88,043	85,911
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	3,375,443	3,256,736	3,142,245
Projected Service Cost	90,959	88,043	85,221

# Statement of Accounts - 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	28,805	29,042	29,282
<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	29,280	29,042	28,806
<b>Adjustment to life expectancy assumptions</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	30,265	29,042	27,869

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

## 30.5 Impact on the Council's Cash Flows

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2020 is **£45.495m**. Although there are not expected to be any contributions with respect to active members, the total unfunded pensions in respect of teachers are estimated to be **£2.782m** as at 31st March 2019.

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

# Statement of Accounts - Notes to the Financial Statements

## 31. Audit costs

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

2017/18 £000		2018/19 £000
	<b>Audit fees payable to the appointed auditor</b>	
182	External audit services carried out by appointed auditor	135
13	Other services carried out by appointed auditor	13
<u>195</u>		<u>148</u>
	<b>Rebates received in respect of fees paid in previous years</b>	
	Rebates received from Public Sector Auditor	
(24)	Appointments (PSAA)	-
<u>(24)</u>		<u>-</u>
<u>171</u>	<b>Net total</b>	<u>148</u>

The fees payable for external audit services carried out by the appointed auditor include **£9,000** for work carried out by the Council's previous external auditor in 2017/18.

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

# Statement of Accounts - Notes to the Financial Statements

## 32. Members' allowances and expenses

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

2017/18 £000		2018/19 £000
	<b>Members allowances</b>	
899	Basic allowances	899
625	Special responsibility allowances	627
<hr/> 1,524		<hr/> 1,526
63	<b>Members expenses</b>	65
<hr/> 1,587		<hr/> 1,591

## 33. Pooled budgets

### 33.1 Better Care Fund

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

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

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

The Essex Better Care Fund comprises six pooled funds:

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

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

The contributions and expenses of the Pool for 2018/19 were as follows:

2017/18							2018/19						
Basildon & Brentwood	Castle Point & Rochford	Mid Essex	North East Essex	West Essex	Central Pool	Total	Basildon & Brentwood	Castle Point & Rochford	Mid Essex	North East Essex	West Essex	Central Pool	Total
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Contributions</b>							<b>Contributions</b>						
Clinical Commissioning Groups							Clinical Commissioning Groups						
(16,560)	-	-	-	-	-	(16,560)	(16,875)	-	-	-	-	-	(16,875)
-	(11,300)	-	-	-	-	(11,300)	-	(11,512)	-	-	-	-	(11,512)
-	-	(22,788)	-	-	-	(22,788)	-	-	(23,386)	-	-	-	(23,386)
-	-	-	(21,688)	-	-	(21,688)	-	-	-	(23,200)	-	-	(23,200)
-	-	-	-	(19,414)	-	(19,414)	-	-	-	-	(19,562)	-	(19,562)
(16,560)	(11,300)	(22,788)	(21,688)	(19,414)	-	(91,750)	(16,875)	(11,512)	(23,386)	(23,200)	(19,562)	-	(94,535)
-	-	-	-	-	(29,106)	(29,106)	-	-	-	-	-	(43,147)	(43,147)
(16,560)	(11,300)	(22,788)	(21,688)	(19,414)	(29,106)	(120,856)	(16,875)	(11,512)	(23,386)	(23,200)	(19,562)	(43,147)	(137,682)
<b>Total Contributions</b>							<b>Total Contributions</b>						
<b>Expenditure</b>							<b>Expenditure</b>						
Clinical Commissioning Groups							Clinical Commissioning Groups						
10,095	-	-	-	-	-	10,095	10,286	-	-	-	-	-	10,286
-	6,743	-	-	-	-	6,743	-	6,868	-	-	-	-	6,868
-	-	13,485	-	-	-	13,485	-	-	13,726	-	-	-	13,726
-	-	-	13,539	-	-	13,539	-	-	-	13,793	-	-	13,793
-	-	-	-	12,119	-	12,119	-	-	-	-	12,129	-	12,129
10,095	6,743	13,485	13,539	12,119	-	55,981	10,286	6,868	13,726	13,793	12,129	-	56,802
6,465	4,557	9,303	8,149	7,295	29,106	64,875	6,589	4,644	9,660	9,407	7,433	43,147	80,880
16,560	11,300	22,788	21,688	19,414	29,106	120,856	16,875	11,512	23,386	23,200	19,562	43,147	137,682
-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net (surplus) / deficit</b>							<b>Net (surplus) / deficit</b>						

# Statement of Accounts - Notes to the Financial Statements

## 33.2 Equipment Pool

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

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

The contributions and expenses of the Pool for 2018/19 were as follows:

2017/18			2018/19		
Contributions	Expenditure	Net (surplus) / deficit	Contributions	Expenditure	Net (surplus) / deficit
£000	£000	£000	£000	£000	£000
<b>Local authorities</b>					
(8,446)	8,446	-	(8,653)	8,653	-
(511)	511	-	(578)	578	-
<b>Clinical Commissioning Groups</b>					
(2,421)	2,421	-	(2,496)	2,496	-
<b>NHS Trusts</b>					
(2,423)	2,423	-	(2,192)	2,192	-
(52)	52	-	(54)	54	-
(264)	264	-	(316)	316	-
(1,667)	1,667	-	(1,744)	1,744	-
<b>(15,784)</b>	<b>15,784</b>	<b>-</b>	<b>(16,033)</b>	<b>16,033</b>	<b>-</b>
<b>Total</b>			<b>Total</b>		

## 33.3 Transforming Care Partnership Pool

The Council entered into a pooled budget arrangement with various local authority and NHS partners in 2018/19, with the aim of ensuring that people with learning disabilities, autism or both can live in the community, with the right support, thereby reducing their need for in-patient services and improving their quality of life.

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

# Statement of Accounts - Notes to the Financial Statements

The contributions and expenses of the Pool for 2018/19 were as follows:

2017/18			2018/19		
Contributions	Expenditure	Net (surplus) / deficit	Contributions	Expenditure	Net (surplus) / deficit
£000	£000	£000	£000	£000	£000
			<b>Local authorities</b>		
(192)	535	343	(152)	1,344	1,192
(1)	-	(1)	(31)	484	453
			<b>Clinical Commissioning Groups</b>		
(1)	-	(1)	(36)	86	50
(1)	-	(1)	(1,716)	250	(1,466)
(273)	167	(106)	(466)	468	2
(327)	177	(150)	(521)	534	13
(332)	332	-	(659)	405	(254)
(217)	133	(84)	(381)	391	10
<b>(1,344)</b>	<b>1,344</b>	<b>-</b>	<b>(3,962)</b>	<b>3,962</b>	<b>-</b>
<b>Total</b>			<b>Total</b>		

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

## 34. 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.

2017/18			Remuneration band			2018/19		
Non-schools	Schools	Total				Non-schools	Schools	Total
176	125	301	£50,000	to	£54,999	178	103	281
83	88	171	£55,000	to	£59,999	102	87	189
71	68	139	£60,000	to	£64,999	56	64	120
33	64	97	£65,000	to	£69,999	42	51	93
31	22	53	£70,000	to	£74,999	33	30	63
18	14	32	£75,000	to	£79,999	25	7	32
28	7	35	£80,000	to	£84,999	21	8	29
11	5	16	£85,000	to	£89,999	16	5	21
6	2	8	£90,000	to	£94,999	6	2	8
8	1	9	£95,000	to	£99,999	4	1	5
11	1	12	£100,000	to	£104,999	1	3	4
4	-	4	£105,000	to	£109,999	5	-	5
8	-	8	£110,000	to	£114,999	12	-	12
1	-	1	£115,000	to	£119,999	2	1	3
2	-	2	£120,000	to	£124,999	3	-	3
4	-	4	£125,000	to	£129,999	2	-	2
3	-	3	£130,000	to	£134,999	-	-	-
2	-	2	£135,000	to	£139,999	-	-	-
2	-	2	£140,000	to	£144,999	1	-	1
2	-	2	£145,000	to	£149,999	-	-	-
-	-	-	£150,000	to	£154,999	-	-	-
1	-	1	£155,000	to	£159,999	-	-	-
505	397	902	Total			509	362	871

Notes: Senior officers whose individual remuneration is disclosed in note 35 (page 119) are excluded from the remuneration bandings shown in the above analysis.

# Statement of Accounts - Notes to the Financial Statements

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## 35. Senior officers' remuneration

### 35.1 Senior officers

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

### 35.2 Disclosure of senior officers' remuneration

Senior Officers' remuneration is disclosed overleaf.

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

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

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

### 35.3 Fees paid in respect of individuals engaged on an interim basis

The Council also secured services from various other individuals on an interim basis during 2017/18 and/or 2018/19. The fees payable by the Council in respect of some of these individuals amounted to **£150,000** or more, in 2017/18 and/or 2018/19, as follows:

- Mr Jon Babb, who held the position of **Interim Head of Delivery** until December 2017 at a cost to the Council in 2017/18 of **£143,127**;
- Mrs Fran Arnold, who held the position of **Regional Development Manager – Adoption**, at a cost to the Council of **£153,070** in 2018/19 (2017/18: **£157,141**);
- Ms Akosua Bame-Ashiagbor, who held the position of **Senior Project Manager** until March 2019 at a cost to the Council of **£98,943.42** in 2018/19 (2017/18: **£152,933**);
- Ms Lauren Rochat, who held the position of **Service Manager** until March 2019, at a cost to the Council in 2018/19 of **£174,443**;
- Ms Suzanne Westhead, who held the position of **Director, Strategic Commissioning and Policy** until March 2019, at a cost to the Council in 2018/19 of **£170,928**;
- Ms Michelle Granat, who holds the position of **Commercial Programme Manager**, at a cost to the Council in 2018/19 of **£153,070**; and
- Mr Clark Povey, who holds the position of **Interim Head of Contact Centre**, at a cost to the Council in 2018/19 of **£158,508**.

The amounts disclosed in respect of these individuals are the costs incurred by the Council to secure their services. The amounts received by these individuals will have been lower.

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

## Notes:

(i) The Executive Director, Children and Families fulfils the statutory role of Director of Children's Services, appointed under Section 18 of the Children Act 2004.	(ii) The Executive Director, Corporate and Customer Services fulfils the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972.
(iii) The Executive Director, Corporate Development was appointed with effect from 5th June 2017.	(iv) The Executive Director, Infrastructure and Environment was appointed with effect from 1st July 2017.
(v) The Council's Director, Wellbeing, Public Health and Communities fulfils the statutory role of Director of Public Health.	(vi) The Director, Digital was a member of the Council's Corporate Management Board until the Executive Director, Corporate Development was appointed. He left the Council on 31 <sup>st</sup> October 2017.
(vii) The Council's Director, Adult Social Care fulfils the statutory role of Director for Adult Social Services (DASS).	(viii) The Council's Director, Legal and Assurance was appointed with effect from 1 <sup>st</sup> April 2017 and fulfils the statutory role of Monitoring Officer.

2018/19	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
		£	£	£	£	£	£	£
Chief Executive - Mr Gavin Jones		195,000	-	11,546	-	206,546	31,395	237,941
Executive Director, Adult Social Care Mr Nicholas Presmeg	(i)	160,042	500	-	-	160,542	22,433	182,975
Executive Director, Children and Families Ms Helen Lincoln	(ii)	162,500	250	1,874	-	164,624	25,076	189,700
Executive Director, Corporate and Customer Services - Mrs Margaret Lee	(iii)	162,500	250	1,874	-	164,624	25,076	189,700
Executive Director, Corporate Development Mr Jason Kitcat		162,500	-	2,343	-	164,843	25,035	189,878
Executive Director, Economy, Localities and Public Health - Mr Mark Carroll		170,417	250	2,343	-	173,010	26,350	199,360
Executive Director, Infrastructure and Environment Ms Nicola Beach	(iv)	21,397	-	-	-	21,397	3,434	24,831
Executive Director, Social Care and Education Mr David Hill	(v)	14,407	-	-	-	14,407	2,233	16,640
Director, Wellbeing, Public Health and Communities Dr Michael Gogarty	(vi)	165,087	250	2,357	-	167,694	26,619	194,313
Director, Legal and Assurance	(vii)	123,500	500	-	-	124,000	19,280	143,280
Director, Organisation Development and People		143,173	250	1,874	-	145,297	22,178	167,475

## Notes

<b>(i)</b> The Council's <b>Executive Director, Adult Social Care</b> fulfils the statutory role of Director for Adult Social Services (DASS).	<b>(ii)</b> The <b>Executive Director, Children and Families</b> fulfils the statutory role of Director of Children's Services, appointed under Section 18 of the Children Act 2004.
<b>(iii)</b> The <b>Executive Director, Corporate and Customer Services</b> fulfils the statutory role of Chief Finance Officer under section 151 of the Local Government Act 1972.	<b>(iv)</b> The <b>Executive Director, Infrastructure and Environment</b> , left the Council on 20 May 2018.
<b>(v)</b> The <b>Executive Director, Social Care and Education</b> , left the Council on 29 April 2018.	<b>(vi)</b> The Council's <b>Director, Wellbeing, Public Health and Communities</b> fulfils the statutory role of Director of Public Health.
<b>(vii)</b> The Council's <b>Director, Legal and Assurance</b> fulfils the statutory role of Monitoring Officer.	

# Statement of Accounts - Notes to the Financial Statements

## 36. Related parties

The Council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention, in making this disclosure, is to make explicit the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Related party	Declaration
UK Government	The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are detailed in notes 11 (page 69) and 12 (page 69)
Elected members	<p>Members of the Council have direct control over the Council's financial and operating policies. The Council's <a href="#">Constitution</a> requires members to declare their pecuniary interests and any other interests that could reasonably be regarded as likely to prejudice their judgement of the public interest in a <a href="#">Register of Interests</a> and at relevant meetings. The Register of Interests is published on the Council's website. In addition, members are asked to declare separately any related party transactions with the Authority.</p> <p>Based on these declarations, the following matters require disclosure as related party transactions:</p> <ul style="list-style-type: none"> <li> <b>Basildon Borough Heritage Society</b>  The objectives of this charity are to advance the education of the public in the history and heritage of Basildon. The Council provided <b>£1,000</b> to the charity in 2018/19. <b>Cllr Tony Ball</b> is a trustee of this charity. </li> <li> <b>Brentwood Community Transport</b>  This charity provides transport to people who find mainstream public transport difficult to access. The Council provided <b>£117,000</b> to this charity in 2018/19 (2017/18: £122,000). <b>Cllr David Kendall</b> is a trustee of the charity. </li> <li> <b>Essex Association of Local Councils (EALC)</b>  This is a Member led Association of Essex Local Councils. Through membership of the EALC, the Parish and Town Councils of Essex are affiliated to the National Association of Local Councils. The Council provided <b>£247,000</b> to this organisation in 2018/19 (2017/18: £211,000). <b>Cllr John Jowers</b> is the current president of the EALC. He is also the current Chairman of the County Council. </li> </ul>

# Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
Elected Members	<ul style="list-style-type: none"> <li>▪ <b>Essex Cares Ltd</b> Essex Cares Ltd is a wholly owned subsidiary of the Council (see page 125 for further details). The following Members have held the role of non-executive director of Essex Cares Ltd: <ul style="list-style-type: none"> <li>– <b>Cllr Stephen Canning</b> was a non-executive director of Essex Cares Ltd between 14th August 2017 and 9th May 2018; he received an allowance of <b>£1,000</b> from Essex Cares in respect of this role in 2018/19 (2017/18: £10,000). Cllr Canning was a member of the Place Services and Economic Growth and the Corporate Policy and Scrutiny Committees until May 2018. He was also a Member of the Essex Pension Strategy Board and Investment Steering Committee.</li> <li>– <b>Cllr Penny Channer</b> was appointed as a non-executive director of Essex Cares with effect from 9th May 2018; she received an allowance of <b>£11,000</b> from Essex Cares in respect of this role in 2018/19. Cllr Channer is a member of the Council's Audit, Governance and Standards Committee.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>▪ <b>Playout Group Ltd</b> A group of companies incorporated during 2018/19 and wholly owned by Ormiston Families; provide a range of childcare and education services for children from 0 to 14 years. <b>Cllr Derek Louis</b> is a Director of these companies. During 2018/19, the Council made payments to these companies amounting to <b>£79,000</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ <b>Provide Community Interest Company</b> The principle activities of the company are the provision of integrated health and social care. <b>Cllr Derrick Louis</b> is the chairman of Provide. The Council made payments totalling <b>£24.636m</b> to this organisation during 2018/19 (2017/18: £23.106m).</li> </ul>
	<ul style="list-style-type: none"> <li>▪ <b>Open Road Visions</b> Open Road is a drug and alcohol recovery support charity in Essex and Medway. It provides services to support individuals on their journey to recovery from drug and alcohol addiction. The Council has provided <b>£1.822m</b> to the charity in 2018/19. <b>Cllr John Aldridge</b> became a trustee of the charity in March 2019. He was Chairman of the Council in April 2018.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ <b>Rural Community Council of Essex (RCCE)</b> The RCCE is a registered charity that works with local community groups in villages and market towns across the County. The Council provided <b>£959,000</b> to the charity during 2018/19 (2017/18: £837,000). <b>Cllr Simon Walsh</b>, who is Cabinet Member for Environment and Waste, became a trustee of the Rural Community Council of Essex (RCCE) in July 2017.</li> </ul>

# Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
Elected Members	<ul style="list-style-type: none"> <li> <b>Stow Maries Great War Aerodrome</b>  This charity's aim is to preserve the Stow Maries Great War Aerodrome. The Council loaned <b>£200,000</b> to this charity in 2013. The charity made loan repayments, comprising principal and interest, of <b>£29,000</b> during 2018/19. <b>£150,000</b> of the loan remained outstanding at 31st March 2019. <b>Cllr John Aldridge</b> became a trustee of this charity in January 2019. He was Chairman of the Council in April 2018. </li> <li> <b>Supporting Carers and Families Together</b>  This charity's objective is to relieve the social, emotional, mental, physical and educational needs of carers and families in Essex. The Council provided <b>£4,000</b> to this charity in 2018/19 (2017/18: £19,000). <b>Cllr June Lumley</b> is a Trustee of the charity. </li> <li> <b>Tendring Eldercare</b>  This is a charity which seeks to relieve elderly people in Tendring who are in need and to preserve and protect the health of those caring for elderly people by offering a respite service. The Council provided <b>£74,000</b> to this charity in 2018/19 (2017/18: £38,000). <b>Cllr Mark Platt</b> is a trustee of this charity. </li> <li> <b>Wyvern Community Transport</b>  This charity provides transport to people who find mainstream public transport difficult to access. The Council provided <b>£124,000</b> to this charity in 2018/19 (2017/18: £121,000). <b>Cllr June Lumley</b> is a trustee of this charity. </li> </ul> <p>The total of members' allowances paid is shown in note 32 (page 114).</p>
Officers	<p>Members of the Council's Corporate Leadership Team, and other officers with independent statutory powers, can influence significantly the policies of the authority. However, officers are bound by a <a href="#">Code of Conduct</a> which seeks to prevent related parties exerting undue influence over the Council. In addition, they are required to declare any transactions with the Council.</p>
Essex Pension Fund	<p>The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies.</p> <p>The Council charged <b>£3.001m</b> for administering the Fund during 2018/19, of which <b>£448,000</b> was outstanding at 31st March 2019 (2017/18: £2.713m, of which £258,000 was outstanding at 31st March 2018).</p>

## Statement of Accounts - Notes to the Financial Statements

Related party	Declaration
Essex Cares Ltd	<p>Essex Cares Ltd is a wholly owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 128 to 142.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of <b>£35.8m</b> in 2018/19 (2017/18: £30.7m).</p> <p>The Council provided financial, internal audit and other support services to Essex Cares Ltd during 2018/19; the value of these services in 2018/19 was <b>£320,000</b> (2017/18: £179,000).</p> <p>The Council also provided cash management support to Essex Cares Ltd. The Council paid interest of <b>£3,000</b> (net) on the amounts it borrowed from Essex Cares Ltd; <b>£500</b> of this total was outstanding at 31st March 2019 (2017/18: <i>charged interest of £47,000 (net) on amounts it lent, £600 of which was outstanding at 31st March 2018</i>).</p> <p>As noted on page 123, Cllr Stephen Canning held a position on the Essex Cares' Board of Directors until May 2018; thereafter, Cllr Penny Channer fulfilled this role.</p>
Rochford District Council	<p>The Council provided Section 151 Officer support to Rochford District Council during 2018/19, at a cost of <b>£71,000</b>, of which <b>£45,000</b> was outstanding at 31st March 2019 (2017/18: £60,000, <i>all of which was outstanding at 31st March 2018</i>).</p>
South East Local Enterprise Partnership	<p>The South East Local Enterprise Partnership (South East LEP) is a business-led, public / private body established to drive economic growth across East Sussex, Essex, Kent, Medway, Southend and Thurrock. It has a range of members (<i>including representatives from businesses, local authorities and higher / further education</i>).</p> <p>The South East LEP secured <b>£91.739m</b> from the Government's Local Growth Fund in 2018/19 to support economic growth in the area, of which <b>£15.815m</b> was allocated to the Council to fund major transport schemes (2017/18: £15.875m). In addition, the South East LEP awarded the Council a capital loan of <b>£627,000</b> from its Growing Places fund. The funding allocated to the Council by the South East LEP followed a competitive bidding process.</p>

# Statement of Accounts - Notes to the Financial Statements

## 37. Accounting for schools

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

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

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

2017/18						2018/19				
Nursery schools	Primary Schools	Secondary schools	Special schools	Total		Nursery schools	Primary Schools	Secondary schools	Special schools	Total
2	150	1	8	161	Community schools	2	122	-	6	130
-	30	1	2	33	Foundation schools	-	28	1	1	30
-	4	-	-	4	Foundation schools (C of E)	-	4	-	-	4
-	57	-	-	57	Voluntary controlled schools	-	47	-	-	47
-	53	3	-	56	Voluntary aided schools	-	48	3	-	51
2	294	5	10	311	Total	2	249	4	7	262

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

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

# Statement of Accounts - Notes to the Financial Statements

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Note 13 on the Dedicated Schools Grant (see page 71) shows the total of the Individual Schools budget, which is divided into a budget share for each maintained school.

The reduction in the number of locally maintained schools between 2017/18 and 2018/19 shown in the above table primarily results from schools converting to academy status during the year.

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

The conversion process usually involves at least five elements:

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

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

## 38. Events after the Balance Sheet Date

The Statement of Accounts was certified by the Executive Director, Corporate and Customer Services on **31st July 2019**. Events taking place after this date were not reflected in the financial statements or notes.

# Statement of Accounts - Group Accounts

## Introduction

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

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

These statements (*the purposes of which are explained on page 26*), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages, as detailed below.

Contents	Page
Group Comprehensive Income and Expenditure Statement	129
Group Movement in Reserves Statement	130
Group Balance Sheet	131
Group Cash Flow Statement	133
Notes to the Group Accounts	134

## Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2019

129

2017/18					2018/19			
Gross expenditure	Government grants	Other Income	Net Expenditure		Gross expenditure	Government grants	Other income	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
139,703	(11,678)	(6,738)	121,287	Children and Families	142,828	(13,301)	(7,940)	121,587
24,976	(148)	(6,876)	17,952	Customer and Corporate	23,462	(33)	(7,830)	15,599
9,506	(2,504)	(1,230)	5,772	Economic Development	13,402	(2,403)	(827)	10,172
				Education and Skills				
581,423	(550,668)	(38,987)	(8,232)	Dedicated Schools Budget	553,013	(512,170)	(40,311)	532
204,907	(46,184)	(39,296)	119,427	Non Dedicated Schools Budget	218,536	(59,592)	(44,959)	113,985
92,079	(1,238)	(5,008)	85,833	Environment and Waste	99,457	(2,269)	(5,329)	91,859
648,589	(87,551)	(145,005)	416,033	Health and Adult Social Care	658,300	(105,732)	(147,149)	405,419
89,497	(16,343)	(15,559)	57,595	Infrastructure	98,961	(12,718)	(17,079)	69,164
7,583	(179)	(1,452)	5,952	Culture and Communities	8,046	(91)	(1,585)	6,370
(945)	(170)	(559)	(1,674)	Leader	12,279	(1,437)	(201)	10,641
17,927	(275)	(4,552)	13,100	Finance and Commercial	20,040	(247)	(4,983)	14,810
				Recharged Strategic Support Services				
74,316	-	-	74,316	Customer and Corporate	75,263	-	-	75,263
26,007	-	-	26,007	Finance and Commercial	20,020	-	-	20,020
12,280	-	-	12,280	Leader	9,881	-	-	9,881
1,927,848	(716,938)	(265,262)	945,648	Cost of services - continuing operations	1,953,488	(709,993)	(278,193)	965,302
115,786	-	-	115,786	Other Operating Expenditure	218,596	-	-	218,596
125,914	-	(58,781)	67,133	Financing and Investment Income and Expenditure	128,452	-	(60,282)	68,170
-	(340,152)	(649,638)	(989,790)	Taxation and non specific grant income	-	(303,737)	(685,461)	(989,198)
2,169,548	(1,057,090)	(973,681)	138,777	Deficit on Provision of Services	2,300,536	(1,013,730)	(1,023,936)	262,870
			-	Tax expenses of subsidiary				-
			138,777	Group deficit				262,870
			(100,136)	Surplus arising on revaluation of non-current assets				(91,993)
			(492)	(Surplus) / deficit arising on revaluation of available for sale financial a				-
			(248,663)	Re-measurements of the net defined benefits pension liability				(160,966)
			(349,291)	Other Comprehensive Income and Expenditure				(252,959)
			(210,514)	Total Comprehensive Income and Expenditure				9,911

Statement of Accounts - Group Accounts

## Group Movement in Reserves Statement

For the years ended 31st March 2018 and 31st March 2019

	Usable Reserves							Total Unusable Reserves	Total Reserves	Analysis of Reserves	
	Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves			Total Authority Reserves	Authority Share of Reserves of Subsidiary
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2017</b>	(279,524)	(55,299)	(1,045)	(1,633)	-	(2,735)	(340,236)	(647,343)	(987,579)	(984,901)	(2,678)
<b>Movement in Reserves during 2017/18</b>											
Total Comprehensive Expenditure and Income	-	138,635	142	(2,292)	-	-	136,485	(346,999)	(210,514)	(208,364)	(2,150)
Adjustments between accounting basis and funding under regulations	-	(144,021)	(999)	999	-	178	(143,843)	143,843	-	-	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>	-	(5,386)	(857)	(1,293)	-	178	(7,358)	(203,156)	(210,514)	(208,364)	(2,150)
Transfers to Earmarked Reserves	(5,473)	5,473	-	-	-	-	-	-	-	-	-
<b>(Increase) / decrease in 2017/18</b>	(5,473)	87	(857)	(1,293)	-	178	(7,358)	(203,156)	(210,514)	(208,364)	(2,150)
<b>Balance at 31 March 2018</b>	(284,997)	(55,212)	(1,902)	(2,926)	-	(2,557)	(347,594)	(850,499)	(1,198,093)	(1,193,265)	(4,828)
<b>Restatement of opening balances</b>											
Reclassification of financial assets	-	-	-	-	-	-	-	-	-	-	-
Adjustment for credit loss allowances	-	2,812	-	-	-	-	2,812	-	2,812	2,812	-
Adjustment for modified loans	-	(1,238)	-	-	-	-	(1,238)	-	(1,238)	(1,238)	-
<b>Adjusted Balance at 1 April 2018</b>	(284,997)	(53,638)	(1,902)	(2,926)	-	(2,557)	(346,020)	(850,499)	(1,196,519)	(1,191,691)	(4,828)
<b>Movement in Reserves during 2018/19</b>											
Total Comprehensive Expenditure and Income	-	264,551	(1,681)	(3,950)	-	-	258,920	(249,009)	9,911	15,542	(5,631)
Adjustments between accounting basis and funding under regulations	-	(277,404)	-	-	-	(1,663)	(279,067)	279,067	-	-	-
<b>Net (increase)/decrease before transfers to earmarked reserves</b>	-	(12,853)	(1,681)	(3,950)	-	(1,663)	(20,147)	30,058	9,911	15,542	(5,631)
Transfers to Earmarked Reserves	(9,881)	9,881	(933)	933	-	-	-	-	-	-	-
<b>(Increase) / decrease in 2018/19</b>	(9,881)	(2,972)	(2,614)	(3,017)	-	(1,663)	(20,147)	30,058	9,911	15,542	(5,631)
<b>Balance at 31 March 2019</b>	(294,878)	(56,610)	(4,516)	(5,943)	-	(4,220)	(366,167)	(820,441)	(1,186,608)	(1,176,149)	(10,459)

Note: The Council has implemented changes to its accounting policies for financial instruments this year. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, prior year comparative figures have not been restated. Instead, the new policies have been adopted in 2018/19, by restating opening balances for the year. Further details are provided in Note 18, commencing on page 82.

# Statement of Accounts - Group Accounts

## Group Balance Sheet as at 31st March 2019

31 March 2018	Note		31 March 2019	
£000			£000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,571,218		Land and buildings	1,408,207	
16,425		Vehicles, plant and equipment	11,123	
1,075,953		Infrastructure	1,141,369	
3,117		Community assets	3,130	
		<b>Non operational assets</b>		
135,115		Assets under construction	168,935	
45,003		Surplus assets held pending disposal	55,124	
<b>2,846,831</b>		<b>Total Property, Plant and Equipment</b>	<b>2,787,888</b>	
14,501		Heritage assets	14,572	
39,920		Investment property	38,337	
9,523		Intangible assets	7,352	
12,746		Long term investments	13,115	
17,292		Long term debtors	16,803	
<b>2,940,813</b>		<b>Long term assets</b>		<b>2,878,067</b>
211,561		Short term investments	90,209	
8,038		Inventories	10,839	
164,244	5	Short term debtors	146,162	
40,573		Cash and cash equivalents	157,545	
3,795		Assets held for sale	6,124	
<b>428,211</b>		<b>Current assets</b>		<b>410,879</b>
(7,382)		Short-term borrowing	(8,164)	
(295,301)	5	Creditors	(308,115)	
(13,507)		Revenue grant receipts in advance	(14,270)	
(54,528)		Capital grant receipts in advance	(75,075)	
(12,908)		Provisions (current)	(11,810)	
(8,028)		Finance lease obligations - short term	(7,951)	
<b>(391,654)</b>		<b>Current liabilities</b>		<b>(425,385)</b>
(124)		Long term creditors	(1,113)	
(30,240)		Provisions (non-current)	(35,365)	
(514,914)		Long term borrowing	(511,798)	
		Other long term liabilities		
(138,945)		Finance lease obligations - long term	(130,957)	
(12,303)		Deferred credits	(11,699)	
(1,082,751)	6	Net Pensions liability	(986,021)	
<b>(1,779,277)</b>		<b>Long term liabilities</b>		<b>(1,676,953)</b>
<b>1,198,093</b>		<b>Net Assets</b>		<b>1,186,608</b>

# Statement of Accounts - Group Accounts

## Group Balance Sheet as at 31st March 2019

31 March 2018	Note		31 March 2019	
£000			£000	£000
		<b>Usable reserves</b>		
(284,997)		Earmarked reserves	(294,878)	
(55,212)		General Fund Balance	(56,610)	
(1,902)		Profit and Loss reserve	(4,516)	
(2,926)	6	Pension reserve	(5,943)	
-		Usable capital receipts reserve	-	
(2,557)		Capital grants unapplied	(4,220)	
<u>(347,594)</u>				(366,167)
		<b>Unusable reserves</b>		
(616,624)		Revaluation reserve	(601,983)	
(1,316,405)		Capital Adjustments Account	(1,208,599)	
3,061		Financial Instruments Adjustment Account	3,003	
-		Pooled Investment Funds Adjustment Account	(1,030)	
(861)		Available for Sale Financial Instruments Reserve	-	
1,085,677	6	Pension reserve	991,877	
(2,535)		Deferred capital receipts	(2,519)	
(15,696)		Collection Fund Adjustment Account	(11,723)	
12,884		Accumulating Compensated Absences Adjustment Account	10,533	
<u>(850,499)</u>				(820,441)
<u>(1,198,093)</u>		<b>Total Reserves</b>		<u>(1,186,608)</u>

# Statement of Accounts - Group Accounts

## Group Cash Flow Statement

For the year ended 31st March 2019

2017/18 £000	Notes		2018/19 £000
(82,367)	7	Operating activities	(64,380)
106,816	↓	Investing activities	(61,543)
6,248	↓	Financing activities	8,949
<b>30,697</b>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<b>(116,974)</b>
71,270		Cash and cash equivalents at 1st April	40,573
-		Adjustment for credit loss allowances (cash and cash equivalents)	(2)
<b>71,270</b>			<b>40,571</b>
40,573		Cash and cash equivalents at 31st March	157,545

*Note: The Council has implemented changes to its accounting policies for financial instruments this year. In accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, prior year comparative figures have not been restated. Instead, the new policies have been adopted in 2018/19, by restating opening balances for the year. Further details are provided in Note 18, commencing on page 82.*

# Statement of Accounts - Group Accounts

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## Notes to the Group Accounts

### 1. Group boundary

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

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

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

### 2. Accounting policies

In preparing the Group Accounts the Council has:

- Aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary;
- Consolidated the financial statements of the company with those of the Council on a line by line basis; and
- Eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

### 3. Group Expenditure and Funding Analysis

2017/18			2018/19		
Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement	Net expenditure chargeable to General Fund	Adjustments between the Funding and Accounting basis	Net expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
114,046	7,241	121,287	116,199	5,388	121,587
14,890	3,062	17,952	13,068	2,531	15,599
5,507	265	5,772	5,449	4,723	10,172
6,798	(15,030)	(8,232)	5,783	(5,251)	532
74,494	44,933	119,427	75,485	38,500	113,985
78,303	7,530	85,833	86,903	4,956	91,859
409,122	6,911	416,033	397,706	7,713	405,419
44,799	12,796	57,595	54,294	14,870	69,164
5,318	634	5,952	4,489	1,881	6,370
9,911	(11,585)	(1,674)	6,934	3,707	10,641
14,887	(1,787)	13,100	13,191	1,619	14,810
57,493	16,823	74,316	57,125	18,138	75,263
21,328	4,679	26,007	18,480	1,540	20,020
11,064	1,216	12,280	9,259	622	9,881
867,960	77,688	945,648	864,365	100,937	965,302
(874,203)	67,332	(806,871)	(878,899)	176,467	(702,432)
(6,243)	145,020	138,777	(14,534)	277,404	262,870
General Fund Balance & Profit and Loss Reserve					
(56,344)			(57,114)		
-			1,574		
(56,344)			(55,540)		
(6,243)			(14,534)		
5,473			8,948		
(57,114)			(61,126)		
Cost of services - continuing operations					
Other income and expenditure not charged to services					
Surplus on Provision of Services					
Balance as at 1 April					
Restatement of opening balances					
Surplus on Provision of Services					
Transfers from Earmarked Revenue Reserves					
Balance as at 31st March					

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

2017/18	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	£000	£000	£000	£000	£000
Children and Families	644	6,605	(8)	-	7,241
Customer and Corporate	1,670	1,386	6	-	3,062
Economic Development	(196)	453	8	-	265
Education and Skills					
Dedicated Schools Budget	-	-	(3,574)	(11,456)	(15,030)
Non Dedicated Schools Budget	38,580	15,641	36	(9,324)	44,933
Environment and Waste	7,142	390	8	(10)	7,530
Health and Adult Social Care	2,424	4,455	32	-	6,911
Infrastructure	21,420	1,092	(12)	(9,704)	12,796
Culture and Communities	610	48	(24)	-	634
Leader	1,293	(11,202)	(2)	(1,674)	(11,585)
Finance and Commercial	3	147	(3)	(1,934)	(1,787)
Recharged Strategic Support Services					
Customer and Corporate	13,374	3,397	52	-	16,823
Finance and Commercial	2,445	2,395	(31)	(130)	4,679
Leader	-	1,236	(20)	-	1,216
<b>Cost of services - continuing operations</b>	<b>89,409</b>	<b>26,043</b>	<b>(3,532)</b>	<b>(34,232)</b>	<b>77,688</b>
Other income and expenditure not charged to services	(3,165)	34,665	1,600	34,232	67,332
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure</b>					
<b>Statement surplus or deficit on the Provision of Services</b>	<b>86,244</b>	<b>60,708</b>	<b>(1,932)</b>	<b>-</b>	<b>145,020</b>

2018/19	Adjustments for capital purposes	Net change for Pension Adjustments	Other adjustments between funding and accounting	Other differences	Adjustments between the Funding and Accounting basis
	£000	£000	£000	£000	£000
Children and Families	529	4,859	-	-	5,388
Customer and Corporate	1,556	975	-	-	2,531
Economic Development	4,290	433	-	-	4,723
Education and Skills					
Dedicated Schools Budget	-	-	(2,351)	(2,900)	(5,251)
Non Dedicated Schools Budget	35,033	12,762	-	(9,295)	38,500
Environment and Waste	4,685	281	-	(10)	4,956
Health and Adult Social Care	3,757	3,956	-	-	7,713
Infrastructure	24,790	880	-	(10,800)	14,870
Culture and Communities	1,683	198	-	-	1,881
Leader	6,812	6,105	-	(9,210)	3,707
Finance and Commercial	1,831	104	-	(316)	1,619
Recharged Strategic Support Services					
Customer and Corporate	15,711	2,427	-	-	18,138
Finance and Commercial	-	1,602	-	(62)	1,540
Leader	-	622	-	-	622
<b>Cost of services - continuing operations</b>	<b>100,677</b>	<b>35,204</b>	<b>(2,351)</b>	<b>(32,593)</b>	<b>100,937</b>
Other income and expenditure not charged to services	112,116	28,012	3,746	32,593	176,467
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure</b>					
<b>Statement surplus or deficit on the Provision of Services</b>	<b>212,793</b>	<b>63,216</b>	<b>1,395</b>	<b>-</b>	<b>277,404</b>

# Statement of Accounts - Group Accounts

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## 5. Debtors and creditors

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

## 6. Defined Benefit Pension Schemes

Note 30 of the Council's single entity accounts provides an explanation of the Council's participation in two pension schemes:

- Local Government Pension Scheme; and
- Award of discretionary post-retirement benefits upon early retirement in relation to the Teachers' pension scheme.

Essex Cares Ltd participates in the Local Government Pension scheme as an admitted body.

The following paragraphs explain the Group transactions relating to retirement benefits, the Group assets and liabilities within the Local Government Pension Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

The Council's transactions related to the award of discretionary post retirement benefits upon early retirements in relation to the teachers' pension scheme (as detailed in Note 30 of the Council's single entity accounts) are not reproduced here but are included within the Group Comprehensive Income and Expenditure Statement and the Balance Sheet.

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2018/19 in relation to participation in the Local Government Pension Scheme.

# Statement of Accounts - Group Accounts

2017/18			2018/19		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
92,567	1,588	94,155	85,989	1,599	87,588
2,674	20	2,694	27,791	45	27,836
(14,132)	-	(14,132)	(21,722)	-	(21,722)
81,109	1,608	82,717	92,058	1,644	93,702
<b>Financing and Investment Income and Expenditure</b>					
33,304	(106)	33,198	26,895	(103)	26,792
33,304	(106)	33,198	26,895	(103)	26,792
114,413	1,502	115,915	118,953	1,541	120,494
<b>Total charge to the Surplus / Deficit on Provision of Services</b>					
<b>Re-measurement of the net pensions liability</b>					
(93,100)	(4,447)	(97,547)	(121,830)	(2,814)	(124,644)
(152,334)	2,618	(149,716)	145,108	4,098	149,206
-	-	-	(179,297)	(3,938)	(183,235)
-	-	-	-	-	-
-	-	-	-	1,097	1,097
-	(463)	(463)	-	(2,393)	(2,393)
(245,434)	(2,292)	(247,726)	(156,019)	(3,950)	(159,969)
(131,021)	(790)	(131,811)	(37,066)	(2,409)	(39,475)
<b>Total charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Movement on the Authority's General Fund Balance</b>					
(114,413)	(1,502)	(115,915)	(118,953)	-	(118,953)
52,427	503	52,930	53,662	521	54,183
(61,986)	(999)	(62,985)	(65,291)	521	(64,770)

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

2017/18			2018/19		
Council £000	Subsidiary £000	Total £000	Council £000	Subsidiary £000	Total £000
3,224,588	72,528	3,297,116	3,256,736	77,792	3,334,528
(2,171,025)	(77,847)	(2,248,872)	(2,293,901)	(83,648)	(2,377,549)
1,053,563	(5,319)	1,048,244	962,835	(5,856)	956,979
-	2,393	2,393	-	-	-
1,053,563	(2,926)	1,050,637	962,835	(5,856)	956,979

# Statement of Accounts - Group Accounts

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

2017/18				2018/19		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
3,288,495	67,235	3,355,730	Balance as at 1 April	3,224,588	72,528	3,297,116
92,567	1,588	94,155	Current service cost	85,989	1,599	87,588
87,492	1,863	89,355	Interest Cost	80,707	1,868	82,575
16,132	264	16,396	Contributions by scheme participants	15,857	256	16,113
			Actuarial (gains) / losses			
-	-	-	Actuarial (gains) / losses arising from changes in demographic assumptions	(179,297)	(3,938)	(183,235)
(152,334)	2,618	(149,716)	Actuarial (gains) / losses arising from changes in financial assumptions	145,108	4,098	149,206
-	-	-	Experience loss ( gain) on defined benefit obligation	-	-	-
-	-	-	Other	-	2,895	2,895
2,674	20	2,694	Past service costs	27,791	45	27,836
(86,958)	(1,060)	(88,018)	Benefits paid	(92,701)	(1,559)	(94,260)
(23,480)	-	(23,480)	Liabilities extinguished on settlements	(51,306)	-	(51,306)
3,224,588	72,528	3,297,116	Balance as at 31 March	3,256,736	77,792	3,334,528

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

2017/18				2018/19		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
2,051,484	71,724	2,123,208	Balance as at 1 April	2,171,025	77,847	2,248,872
54,188	1,969	56,157	Interest income	53,812	1,971	55,783
			Remeasurement gain / (loss)			
93,100	4,447	97,547	Return on plan assets (excl. amount incl in net interest expense)	121,830	2,814	124,644
-	-	-	Other	-	1,798	1,798
52,427	503	52,930	Contributions by Employer	53,662	521	54,183
16,132	264	16,396	Contributions by scheme participants	15,857	256	16,113
(86,958)	(1,060)	(88,018)	Benefits paid	(92,701)	(1,559)	(94,260)
(9,348)	-	(9,348)	Settlements	(29,584)	-	(29,584)
2,171,025	77,847	2,248,872	Balance as at 31 March	2,293,901	83,648	2,377,549

# Statement of Accounts - Group Accounts

The Local Government Pension Scheme assets comprised:

31 March 2018			31 March 2019		
£000	%		£000	%	
1,467,206	65.3%	Equities	1,479,461	62.3%	
149,276	6.7%	Gilts	125,823	5.3%	
85,641	3.7%	Other bonds	141,107	5.8%	
213,050	9.4%	Property	211,336	8.9%	
77,533	3.4%	Cash and cash equivalents	62,707	2.6%	
165,248	7.4%	Alternative Assets	231,145	9.8%	
90,918	4.1%	Other managed funds	125,970	5.3%	
<b>2,248,872</b>	<b>100.0%</b>	<b>Total assets</b>	<b>2,377,549</b>	<b>100.0%</b>	

Note 30.4 of the Council's 'single entity' accounts, which commences on page 110, set out the significant assumptions used by the Actuary in its calculations for the Local Government Pension Scheme. The assumptions made in relation to Essex Cares Ltd are consistent with those made for the Council, except for the rate of increase in salaries where the rate for Essex Cares Ltd is estimated at **3.15%** (2017/18: 3.05%).

The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period. It assumes for each change that the assumption analysed changes, while all other assumptions remain constant.

Local Government Pension Scheme	Effect of change in assumptions		
	£000	£000	£000
<b>Adjustment to discount rate</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,274,464	3,334,528	3,395,749
Projected Service Cost	87,596	89,765	91,990
<b>Adjustment to long term salary increase</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,339,628	3,334,528	3,329,466
Projected Service Cost	89,765	89,765	89,765
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+ 0.1%</b>	<b>0.0%</b>	<b>- 0.1%</b>
Present value of total obligation	3,390,586	3,334,528	3,279,474
Projected Service Cost	91,987	89,765	87,594
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 year</b>	<b>None</b>	<b>- 1 year</b>
Present value of total obligation	3,455,666	3,334,528	3,217,686
Projected Service Cost	92,738	89,765	86,887

# Statement of Accounts - Group Accounts

## 7. Cash Flow

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

2017/18 £000		2018/19 £000      £000	
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
(651,368)	Taxation	(689,434)	
(936,582)	Grants	(883,234)	
(280,966)	Sales of goods and rendering of services	(303,692)	
(3,014)	Interest received	(4,049)	
<u>(1,871,930)</u>			(1,880,409)
<b>Cash outflows</b>			
490,155	Cash paid to and on behalf of employees	455,157	
38,237	Interest paid	39,772	
1,144,378	Cash paid to suppliers of goods and services	1,211,146	
116,793	Other payments for operating activities	109,954	
<u>1,789,563</u>			1,816,029
<u>(82,367)</u>	<b>Net inflow of cash from operating activities</b>		<u>(64,380)</u>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
(8,424)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(10,283)	
(20,443)	Proceeds from short and long term investments	(120,968)	
(125,072)	Other receipts from investing activities	(177,436)	
<u>(153,939)</u>			(308,687)
<b>Cash outflows</b>			
211,730	Purchase of property, plant and equipment, investment property and intangible assets	175,822	
134	Purchase of short and long term investments	369	
48,891	Other payments for investing activities	70,953	
<u>260,755</u>			247,144
<u>106,816</u>	<b>Net (inflow) / outflow of cash from investing activities</b>		<u>(61,543)</u>
<b>Cash flows generated from financing activities</b>			
<b>Cash inflows</b>			
(4,371)	Cash receipts of short and long term borrowing	(1,702)	
-	Other receipts from financing activities	(316)	
<u>(4,371)</u>			(2,018)
<b>Cash outflows</b>			
7,347	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	8,169	
3,272	Repayment of short and long term borrowing	2,798	
<u>10,619</u>			10,967
<u>6,248</u>	<b>Net outflow of cash from financing activities</b>		<u>8,949</u>
<u>30,697</u>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<u>(116,974)</u>

# Statement of Accounts - Pension Fund Accounts

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## Introduction

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

	Page
<b>Fund Account</b>	<b>144</b>
<b>Net Assets Statement</b>	<b>145</b>
<b>Notes to the Pension Fund Accounts</b>	<b>146</b>

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Fund Account for the year ended 31st March 2019

2017/18 £000	Note		2018/19	
			£000	£000
		<b>Dealing with members and others directly involved in the Fund</b>		
		<b>Income</b>		
		Contributions receivable		
(56,186)	9	Member contributions	(57,799)	
(219,932)	9	Employers' contributions	(181,987)	
(10,877)	9	Transfers in from other Pension Funds	(10,796)	
(2,155)		Other income	(2,423)	
		<b>Total income</b>		(253,005)
		<b>Expenditure</b>		
		Benefits payable		
189,425	9	Pensions	200,611	
35,072	9	Commutation of pensions & lump sum retirement benefits	38,334	
5,526	9	Lump sum death benefits	5,599	
		Payments to and on account of Leavers		
655		Refunds of contributions	687	
114		State scheme premiums	33	
11,497	9	Transfers out to other schemes	30,304	
44,545	11	Management expenses	48,921	
		<b>Total expenditure</b>		324,489
		<b>Net additions from dealings with members</b>		71,484
		<b>Returns on investments</b>		
(96,614)	10	Investment income	(92,287)	
(392,865)	12	Profit and losses on disposal of investments and changes in market value of investments	(492,310)	
3,965	15	Taxes on income	4,647	
		<b>Net returns on investments</b>		(579,950)
		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		(508,466)
		<b>Net assets as at 1 April</b>		(6,518,883)
		Restatement of opening balance		61
		<b>Adjusted net assets as at 1 April</b>		(6,518,822)
		<b>Net assets as at 31 March</b>		(7,027,288)

The 2018/19 Code requires the Fund to undertake a credit allowance assessment on its cash balances. The Fund was required to calculate the effect on 2017/18 balances, but not required to restate 2017/18 totals. The 2018/19 net assets opening balance has therefore been restated and reduced by £61,000, to reflect the impact of the 2017/18 credit allowance assessment.

# Statement of Accounts - Pension Fund Accounts

## Pension Fund Accounts

Net Assets Statement as at 31st March 2019

31 March 2018 £000	Note		31 March 2019 £000	£000
	<b>12</b>	<b>Investments at market value</b>		
		Investment assets		
242,167		Fixed interest securities	404,594	
3,955,138		Equities	4,064,304	
433,664		Index linked securities	391,041	
393,885		Property	383,250	
224,468		Property unit trusts	226,626	
299,451		Private Equity	321,530	
297,756		Infrastructure	356,015	
109,869		Timber	212,357	
106,570		Private Debt	118,654	
264,399		Other managed funds	365,608	
18,489		Derivative contracts	11,216	
149,108		Cash/deposits	145,961	
36,703		Other investment balances	7,995	
<u>6,531,667</u>				7,009,151
		Investment liabilities		
(46,059)		Derivative contracts	(10,798)	
(5,095)		Other investment balances	(209)	
<u>(51,154)</u>				(11,007)
<u>6,480,513</u>		<b>Total Investments</b>		<u>6,998,144</u>
		<b>Long term assets</b>		
2,869		Contributions due from employers		1,587
	<b>14</b>	<b>Current assets and liabilities</b>		
		Current Assets		
23,729		Cash		14,775
19,944		Contributions due from employers and other current assets		21,560
<u>6,527,055</u>				<u>7,036,066</u>
		Current liabilities		
(8,172)		Unpaid benefits and other current liabilities		(8,778)
<u>6,518,883</u>		<b>Net assets of the scheme available to fund benefits</b>		<u>7,027,288</u>

# Statement of Accounts - Pension Fund Accounts

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## Notes to the Pension Fund Accounts

### 1. Background

#### 1.1 General description of the Fund

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

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

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

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

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

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

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The ISC oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Strategy Board. The Fund's Investment Strategy Statement, formally known as the Statement of Investment Principles, is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website ([www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk)).

# Statement of Accounts - Pension Fund Accounts

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## Regional Asset Pools

In response to the Government's guidance and criteria on pooling investments issued in 2015, the Essex Pension Fund are working collaboratively with ten other like-minded LGPS Funds under the name of ACCESS (A Collaboration of Central, Eastern and Southern Shires).

In 2018 a joint procurement was undertaken by ACCESS for a passive provider with UBS Asset Management appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS). As at 31 March 2019 Link had launched 8 sub funds.

At the end of 2017/18 Essex Pension Fund had transitioned **£1.945bn** from Legal and General to ACCESS's new provider, UBS Asset Management. During 2018/19 a further **£1.532bn** had been invested into sub funds managed by Link Solutions Limited.

It is anticipated that during 2019/20 further investment will be made into the ACS managed by Link.

## 1.2 Membership

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

Organisations participating in the Essex Pension Fund include:

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

There are around **650** active employer organisations within Essex Pension Fund including the County Council itself.

## 1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31st March 2019. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The

# Statement of Accounts - Pension Fund Accounts

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last such valuation was at **31st March 2016**. Details can be found on the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

## 1.4 Benefits

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

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

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

## 2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

The financial statements summarise the Fund's transactions for the financial year ended 31st March 2019 and its position as at 31st March 2019. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits (IAS 26) as at 31st March 2019 using IAS 19 methodology can be found in section 3.3.

The accounts are prepared on a going concern basis.

## 3. Actuarial valuation

The contributions payable for 2018/19 were determined by the 2016 Actuarial Valuation.

### 3.1 Actuarial Valuation 2016

An actuarial valuation of the Essex Pension Fund was carried out as at 31st March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£4,993m** (on a smoothed basis) represented **89%** of the Funding Target liabilities of **£5,598m** at the valuation date. The valuation also showed that a primary rate of contribution of

# Statement of Accounts - Pension Fund Accounts

**16.3%** of Pensionable Pay per annum was required from employers. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

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

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

The main financial assumptions used were as follows:

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

The assets were assessed at market value.

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

## 3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer

# Statement of Accounts - Pension Fund Accounts

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

## 3.3 Actuarial present value of promised retirement benefits

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

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has used a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2016.

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

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

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2018 is **19 years** which in turn means a discount rate of **2.40%** per annum (31 March 2018: 2.55%).

McCloud / Sargent ruling: Two employment tribunal cases in respect of the Judicial and Firefighters' Pension Schemes were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public services pension schemes from 1 April 2015. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination. The rulings of both cases were appealed to the Employment Appeal Tribunal and subsequently to the Court of Appeal. In December 2018, the Court of Appeal ruled that the transitional protections gave rise to unlawful discrimination. In June 2019, the Government was denied permission to appeal the decision to the Supreme Court. The result of the ruling has far reaching consequences for all public services pension schemes, including the Local Government Pension Scheme, as there is now a requirement to compensate eligible members for any discrimination suffered as a result of the transitional protections. The Government Actuary's Department (GAD) has undertaken a high-level cost analysis of the potential impact on total liabilities of the ruling. The impact of the ruling has not been negotiated or imposed by

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the Employment Tribunal and applied to all public service schemes so the outcome for the Local Government Pension Scheme is still unknown. The Actuary, however, applying GAD's scenario analysis has estimated that the impact on the total liabilities at 31st March 2019 would be **0.8%** of liabilities, which equates to **£79.328m**.

The value of the Fund's promised retirement benefits as at 31st March 2019 was **£9,805m** (£9,447m as at 31 March 2018). The key financial assumptions used are:

31 March 2018 %		31 March 2019 %
2.3	Pension increases	2.4
3.8	Salary increases	3.9
2.6	Discount rate	2.4

## 4. Accounting policies

### 4.1 Fund Account – revenue recognition

#### 4.1.1 Contribution income

Normal contributions (also referred to as Primary Contributions), both from the members and from the employer, are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which arise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

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

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

#### 4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 9 which commences on page 161).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 9 which commences on page 161).

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

## **4.1.3 Investment Income**

### **▪ Dividend income**

Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 15 (page 175) of the accounting notes that accompany these financial statements.

### **▪ Interest income**

Interest 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 from other investments**

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

### **▪ Property related income**

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

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

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

This is recognised as income during the year and comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

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## 4.2 Fund Account – Expense items

### 4.2.1 *Benefits payable*

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave the Fund, or upon death.

### 4.2.2 *Taxation*

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 15).

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

### 4.2.3 *Management expenses*

The Fund discloses its pension fund management expenses where possible in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses 2016'.

### 4.2.4 *Administrative expenses*

All administrative expenses are accounted for on an accruals basis. All staff costs of the administration part of the function are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2018/19 this totalled **£2.860m** (2017/18: £2.377m).

The Fund in 2017/18 changed its policy on the treatment of administration recharges in accordance with CIPFA's guidance. In prior years admin expenses were offset by the administration income received to the Fund from employers. Administration expenses are now shown gross of this income. The income totalling **£1.547m** (2017/18: £1.429m) is now shown under other income in the Fund Account. The change in policy has a net nil effect.

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## 4.2.5 Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2018/19, this totalled **£1.689m** (2017/18: £1.436m).

## 4.2.6 Investment management expenses

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

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2018/19, **£2.412m** of fees is based on such estimates (2017/18: £3.301m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

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

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

## 4.3 Net Assets Statement

### 4.3.1 Financial Assets

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

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

## **4.3.2 Contingent assets**

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

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

## **4.3.3 Valuation of investments**

The value of investments as shown in the Net Assets Statement is determined as outlined in the following paragraphs.

### **▪ Market Quoted Investments**

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

### **▪ Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2018/19, these are mainly valued as at 31 December 2018, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31st March 2019 has been made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31st March 2019.

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

### **▪ Directly held investments**

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

Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pooled or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry

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guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

- **Value of fixed interest investments**

Fixed interest investments in the Fund's investment portfolio are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within Note 10).

- **Direct Property Investments**

Direct property investments have been valued on a fair value basis as at 31 March 2019, by Frank Knight, Chartered Surveyors in accordance with the Royal Institute of Chartered Surveyors' (RICS) valuation standards 2017 which incorporates the International Valuation Standards and the RICS UK National Supplement effective from January 2019. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

## **4.3.4 Derivatives**

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 12).

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

## **4.3.5 Dividends, Interest and Foreign Currencies**

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

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## **4.3.6 Cash and Cash Equivalents**

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

## **4.3.7 Financial Liabilities**

A financial liability is recognised in the Net Asset Statement of the date the Fund becomes party to the liability. The Fund recognises financial liabilities related to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between the contract date, the year end date and the eventual settlement date are recognised in the Fund as part of Change in Value of Investments.

Other financial liabilities classified as amortised cost are carried at amortised cost (i.e. the amount carried in the Net Asset Statement is the outstanding principal repayable plus accrued interest). Any interest charged is accounted for on an accruals basis and included in administrative costs.

## **4.3.8 Contingent liabilities**

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

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

## **4.3.9 Other financial Instruments**

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

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

The fair values of loans and receivables (which are now referred to as financial assets at amortised cost) 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.

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

## 5. Critical judgements in applying accounting policies

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

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31st March 2019 was **£321.5m** (31st March 2018: £299.5m).

- **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, and using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31st March 2019 was **£356.0m** (31st March 2018: £297.8m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31st March 2019 was **£212.4m** (31st March 2018: £109.9m).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuation are agreed with the Actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31st March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note:</i> <i>Results are taken from the 2016 Actuarial valuation)</i></p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a <b>0.1%</b> decrease in the discount rate assumption would result in an increase in the pension liability of <b>£89m</b>.</p> <p>An increase of the CPI assumption by <b>0.1%</b> per annum increases the value of liabilities by approximately <b>£76m</b>.</p> <p>A <b>0.1%</b> increase in the long-term rate of salary increase would increase the value of liabilities by approximately <b>£8m</b>.</p> <p>Increasing the long-term rate of improvement used in the mortality projection by <b>0.25%</b> per annum would increase the liability by approximately <b>£54m</b>.</p>

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Item	Uncertainties	Effect if actual results differ from assumptions
Pooled property funds and directly held freehold and leasehold property	<p>Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property.</p> <p>Where possible, these valuation techniques are based on observable data but where this is not possible management uses the best available data.</p> <p>Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.</p>	The effect of variations in the factors supporting the valuation could result in an increase or decrease in the value of directly held property currently valued as <b>£383.3m</b> by +/- 10% (i.e. an increase or decrease of <b>£38.33m</b> on current value of <b>£383.3m</b> ) (note 18.6)
Private equity / Infrastructure / Timber / Private debt	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity, infrastructure, timber and private debt investments in the financial statements are <b>£1.008bn</b> . There is a risk that this investment may be under or overstated in the accounts, totalling an increase / decrease of £100.5m (note 18.6).

## 7. Events after the reporting date

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

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

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

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

## 8. Accounting standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires the disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

## 9. Membership activities

### 9.1 Membership

31 March 2018		31 March 2019
66,449	Contributors	55,564
55,904	Deferred pensioners	70,832
40,528	Pensioners	42,430

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

### 9.2 Pension benefits payable

2017/18				2018/19			
Pensions	Commutation of pensions and lump sums	Lump sum retirement benefits		Pensions	Commutation of pensions and lump sums	Lump sum retirement benefits	
£000	£000	£000		£000	£000	£000	
67,776	10,514	1,861	Administering Authority	71,791	12,831	1,355	
102,914	20,515	3,150	Scheduled Bodies	108,880	20,611	3,745	
11,588	2,234	253	Community Admission Bodies	12,194	2,395	62	
6,523	1,689	117	Transferee Admission Bodies	7,039	2,119	432	
624	120	145	Resolution Bodies	707	378	5	
189,425	35,072	5,526		200,611	38,334	5,599	

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## 9.3 Contributions receivable

### 9.3.1 By category

Contributions receivable from employers are set out below:

2017/18		2018/19	
£000		£000	£000
56,186	Employee's normal contributions		57,799
	Employers' normal contributions		
140,926	Normal contributions	146,065	
75,342	Employers' deficit recovery contributions	30,313	
3,664	Employers' augmentation	5,609	
<u>219,932</u>			181,987
<u>276,118</u>			<u>239,786</u>

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

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

In 2015/16 Essex County Scout Council entered into a five year cessation plan. The fourth instalment of **£30,000** was received in 2018/19. One further payment of **£30,000** is due in 2019/20.

In 2017/18, Southend Domestic Abuse Projects entered into a payment plan, agreeing five years of instalments totalling **£76,000**, with a review agreed as at March 2019 valuation. In 2018/19, payments totalling **£18,000** were received (2017/18: £10,000 received).

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

In 2018/19 no new final termination amounts were received.

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## 9.3.2 By type

2017/18			2018/19	
Member £000	Employer £000		Member £000	Employer £000
16,191	50,011	Administering Authority	15,475	49,525
36,661	157,969	Scheduled Bodies	38,890	119,077
1,712	7,028	Community Admission Bodies	1,908	8,682
1,321	3,977	Transferee Admission Bodies	1,205	3,654
301	947	Resolution Bodies	321	1,049
56,186	219,932		57,799	181,987

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

2017/18			2018/19	
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000
-	1,719	Group transfers	-	19,381
10,877	9,778	Individual transfers	10,796	10,923
10,877	11,497	Total	10,796	30,304

During 2018/19 (and 2017/18) no group transfers from other schemes were received.

In 2018/19, a bulk transfer of **£19.381m** was made in respect of Epping College to London Pension Fund Authority (LPFA) following a college merger.

In 2017/18, a bulk transfer of **£1.719m** was made in respect of Essex Police to West Yorkshire Pension Fund.

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## 10. Investment Income

### 10.1 By Type

2017/18 £000		2018/19 £000
30,092	Dividends from equities	32,488
403	Income from index linked securities	-
7,257	Private Equity income	2,505
15,943	Infrastructure / timberland income	17,301
9,785	Managed fund income	10,100
7,001	Income from pooled property investments	7,926
22,032	Net rent from properties	13,976
712	Interest from cash deposits	2,204
446	Other	2,142
<b>93,671</b>	<b>Total investment income showing net property rent</b>	<b>88,642</b>
	Add back:	
2,943	Property operating expenses	3,645
<b>96,614</b>	<b>Total investment income showing gross property rent</b>	<b>92,287</b>

In line with best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However, rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis.

### 10.2 Investment property net rental

2017/18 £000		2018/19 £000
22,711	Rental Income from investment property	17,214
(2,670)	Direct operating expenses arising from investment property	(3,535)
<b>20,041</b>	<b>Total</b>	<b>13,679</b>

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## 10.3 Contractual rental receivable

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

2017/18 £000		2018/19 £000
18,472	Within one year	15,733
50,676	Between one and five years	45,826
39,784	Beyond five years	47,553
<b>108,932</b>	<b>Total</b>	<b>109,112</b>

The above disclosure has been reduced by a loss allowance of **1.5%** per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This is based on fund information for the year to 31 March 2019. 2017/18 figures have not been restated.

## 10.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
<b>Fair value at 1 April 2017</b>	<b>297,415</b>	<b>68,770</b>	<b>366,185</b>
Additions	43,359	-	43,359
Disposals	(36,769)	-	(36,769)
Net gain/loss on fair value	19,380	1,730	21,110
<b>Fair value at 31 March 2018</b>	<b>323,385</b>	<b>70,500</b>	<b>393,885</b>
Additions	7,870	12,295	20,165
Disposals	(44,507)	-	(44,507)
Net gain/loss on fair value	16,232	(2,525)	13,707
<b>Fair value at 31 March 2019</b>	<b>302,980</b>	<b>80,270</b>	<b>383,250</b>

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## 11. Management expenses

### 11.1 By type

2017/18 £000		2018/19 £000
2,377	Administration costs	2,860
40,732	Investment management expenses	44,372
1,436	Oversight and governance	1,689
44,545	<b>Total</b>	<b>48,921</b>

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

Administrative costs are now shown gross of administration income received from employers. Administration income received from employers totalled **£1.547m** for 2018/19 (£2017/18: £1.429m) and is now shown within 'Other Income' on the face of the Fund Account.

Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£783,000** for 2018/19 (2017/18: £791,000). The Fund in 2018/19 also incurred transaction costs of **£240,000** as a result of moving assets into sub funds managed by Link Solutions Limited, the ACCESS Pool Operator. ACCESS set up costs were **£116,000** for 2018/19 (£94,000 in 2017/18). These costs are shown under the oversight and governance costs line of the above note.

External audit costs were **£30,000** for 2018/19, including the audit fee of £24,000 (2017/18: £31,000, which includes the audit fee of £31,000).

### 11.2 Investment management expenses

2017/18 £000		2018/19 £000
39,522	Management fees	43,201
419	Custody fees	388
791	Transaction costs	783
40,732	<b>Total</b>	<b>44,372</b>

# Statement of Accounts - Pension Fund Accounts

## 12. Investments

### 12.1 Value of investments held by managers

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

2018			2019		
£m	%		£m	%	
<b>Investments managed inside the ACCESS Pool</b>					
-		Link Asset Solutions - Long term Global Growth Fund	507	7.2	
-		Link Asset Solutions - Global Dividend Fund	536	7.7	
-		Link Asset Solutions - Global Equity Fund	489	7.0	
1,945	30.0	UBS Asset Management	2,045	29.2	
1,945	30.0		3,577	51.1	
<b>Investments managed outside of the ACCESS Pool</b>					
116	1.8	Alcentra Ltd	122	1.7	
657	10.1	Aviva Investors	670	9.6	
685	10.6	Baillie Gifford and Co	-	-	
315	4.9	Stewart Investors (formerly First State)	335	4.8	
242	3.7	Goldman Sachs Asset Management International	404	5.8	
334	5.2	Hamilton Lane	347	5.0	
73	1.1	IFM Investors	86	1.2	
74	1.1	JPMorgan Asset Management	73	1.0	
503	7.8	Longview Partners	1	-	
526	8.1	Marathon Asset Management Ltd	588	8.4	
471	7.3	M&G Investments	-	-	
263	4.1	M&G Investments Alpha Opportunities	365	5.2	
1	-	M&G Investments Financing Fund	1	-	
151	2.3	Partners Group Management II S.à r.l	202	2.9	
110	1.7	Stafford Timberland Limited	217	3.1	
15	0.2	Other	10	0.2	
4,536	70.0		3,421	48.9	
6,481	100.0		6,998	100.0	

# Statement of Accounts - Pension Fund Accounts

## 12.2 Investments by asset type

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

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

# Statement of Accounts - Pension Fund Accounts

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

For 2018/19, the total transaction costs were **£783,000** (2017/18: £791,000). These are included within investment management expenses (see note 11).

2018/19	Value at 1 April 2018	2018/19 Movement					Value at 31 March 2019
		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	242,167	160,000	-	-	2,427	-	404,594
<b>Equities</b>							
UK quoted	134,666	7,972	(54,523)	(27,142)	4,370	-	65,343
Overseas quoted	1,838,222	282,901	(864,903)	(600,574)	157,348	-	812,994
UK unit trust life assurance policies	239,889	-	-	-	7,359	-	247,248
Overseas unit trust life assurance policies	774,160	5,020	-	-	30,291	-	809,471
Global unit life assurance policies	496,794	85,000	-	-	15,342	-	597,136
Global unit trusts	471,407	1,714	(496,834)	(4,045)	27,758	-	-
ACCESS pooled global equity funds	-	22,108	1,416,260	(1,666)	95,410	-	1,532,112
<b>Index linked securities (UK public sector quoted)</b>							
Index linked unit life assurance policies	433,664	6	-	(63,000)	20,371	-	391,041
<b>Property</b>							
UK properties (freehold)	323,385	7,870	-	(44,507)	16,232	-	302,980
UK properties (leasehold)	70,500	12,295	-	-	(2,525)	-	80,270
Property unit trusts	224,468	8,379	-	(4,589)	(1,632)	-	226,626
<b>Private equity</b>							
UK unquoted	7	-	-	-	(3)	-	4
Overseas unquoted	299,444	52,988	-	(88,892)	57,986	-	321,526
<b>Infrastructure</b>							
UK unquoted	1	-	-	-	-	-	1
overseas unquoted	297,755	66,434	-	(49,681)	41,506	-	356,014
<b>Timber (Overseas unquoted)</b>	109,869	98,955	-	(10,895)	14,428	-	212,357
<b>Private Debt</b>							
UK unquoted	29,676	-	-	(136)	864	-	30,404
Overseas unquoted	76,894	24,515	-	(15,081)	1,922	-	88,250
<b>Other managed funds</b>							
UK unquoted	264,399	105,015	-	(1,529)	(2,277)	-	365,608
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	85,487	-	-	-	-	(1,818)	83,669
Foreign currency	63,621	-	-	(5,133)	5,133	(1,329)	62,292
	6,476,475	941,172	-	(916,870)	492,310	(3,147)	6,989,940
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	30,932						60
Investment income due	5,771						7,892
Amounts receivable in respect of the GLF sales	-						43
Liabilities							
Amounts payable for purchase of investments	(3,971)						(56)
Investment withholding tax payable	(143)						(153)
Amounts payable in respect of the GLF purchases	(981)						-
<b>Derivative pending foreign currency contracts</b>							
Assets	18,489						11,216
Liabilities	(46,059)						(10,798)
	6,480,513						6,998,144

# Statement of Accounts - Pension Fund Accounts

31 March 2018 £000		31 March 2019 £000
	<b>Fixed interest securities</b>	
242,167	UK quoted	404,594
	<b>Equities</b>	
134,666	UK quoted	65,343
1,838,222	Overseas quoted	812,994
239,889	UK unit trust life assurance policies	247,248
774,160	Overseas unit trust life assurance policies	809,471
496,794	Global unit life assurance policies	597,136
471,407	Global unit trusts	-
	ACCESS pooled global equity funds	1,532,112
	<b>Index linked securities: UK public sector quoted</b>	
433,664	UK unit linked life assurance policies	391,041
-	UK public sector quoted	-
	<b>Property</b>	
323,385	UK properties (freehold)	302,980
70,500	UK properties (leasehold)	80,270
224,468	Property unit trusts	226,626
	<b>Private equity</b>	
7	UK unquoted	4
299,444	Overseas unquoted	321,526
	<b>Infrastructure</b>	
1	UK unquoted	1
297,755	Overseas unquoted	356,014
109,869	<b>Timber: Overseas unquoted</b>	212,357
	<b>Private Debt</b>	
29,676	UK unquoted	30,404
76,894	Overseas unquoted	88,250
264,399	<b>Other managed funds: UK unquoted</b>	365,608
	<b>Derivative contracts</b>	
18,489	<b>Assets:</b> Derivative pending foreign currency contracts	11,216
(46,059)	<b>Liabilities:</b> Derivative pending foreign currency contracts	(10,798)
	<b>Cash deposits</b>	
	<b>Cash deposits held at custodian/other</b>	
85,487	Sterling	83,669
63,621	Foreign currency	62,292
6,448,905		6,990,358
	<b>Other investment balances</b>	
	<b>Assets</b>	
30,932	Amounts receivable for sales of investments	60
5,771	Investment income due	7,892
-	Amounts receivable re. GLF	43
	<b>Liabilities</b>	
(3,971)	Amounts payable for purchase of investments	(56)
(143)	Investment withholding tax payable	(153)
(981)	Amounts payable re. GLF	-
6,480,513	<b>Value at 31 March</b>	6,998,144

# Statement of Accounts - Pension Fund Accounts

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

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

31 March 2018			31 March 2019		
£000	%		£000	%	
496,794	7.6%	UBS Asset Management Life All World Equity Tracker	597,136	8.50%	
-	-	Link Fund Solutions Global Dividend Fund	535,454	7.60%	
-	-	Link Fund Solutions LTGG Fund	507,346	7.20%	
-	-	Link Fund Solutions Global Equity Fund	489,312	7.00%	
242,166	3.7%	Goldman Sachs Strategic Absolute Fund	404,594	5.80%	
433,664	6.7%	UBS Asset Management Life Over 5 Year Index Tracker	391,041	5.60%	
345,618	5.3%	UBS Asset Management Life USA Equity Tracker Hedged	370,615	5.30%	
263,311	4.0%	M&G Alpha Opportunity Fund	364,778	5.20%	
471,407	7.2%	M&G Global Dividend Fund	-	-	

## 12.4 Derivative contracts

### 12.4.1 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.

### 12.4.2 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **67.3%** of the Fund's NAS is in overseas assets as at 31st March 2019 (31st March 2018: 67.0%).

To reduce some of the volatility associated with fluctuating currency rates (currency risk) the Fund invests in hedged overseas regional index funds via its passive provider UBS Asset Management.

# Statement of Accounts - Pension Fund Accounts

## 12.4.3 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	84,216	GBP	(47,559)	-	(1,512)	(1,512)
Up to one month	CAD	84,841	GBP	(48,014)	-	(1,105)	(1,105)
Up to one month	CHF	76,700	GBP	(58,988)	-	(1,889)	(1,889)
Up to one month	EUR	289,830	GBP	(256,813)	-	(2,709)	(2,709)
Up to one month	EUR	85	USD	(105)	-	-	-
Up to one month	GBP	47,735	AUD	(84,216)	1,688	-	1,688
Up to one month	GBP	48,536	CAD	(84,841)	1,627	-	1,627
Up to one month	GBP	57,861	CHF	(76,700)	762	-	762
Up to one month	GBP	268,227	EUR	(305,026)	795	-	795
Up to one month	GBP	179,129	JPY	(27,605,832)	-	(5,915)	(5,915)
Up to one month	GBP	25,502	SEK	(285,911)	1,164	-	1,164
Up to one month	GBP	1,156,985	USD	(1,619,826)	2,325	-	2,325
Up to one month	GBP	232	HKD	(2,558)	-	-	-
Up to one month	JPY	27,605,832	GBP	(187,928)	-	(2,884)	(2,884)
Up to one month	JPY	201,329	USD	(1,896)	-	(2)	(2)
Up to one month	SEK	285,911	GBP	(25,071)	-	(733)	(733)
Up to one month	USD	1,871	CHF	(1,792)	-	(1)	(1)
Up to one month	USD	1,621,059	GBP	(1,174,719)	-	(19,181)	(19,181)
Up to one month	USD	180	SEK	(1,503)	-	-	-
Up to one month	USD	78	DKK	(469)	-	-	-
Up to one month	ZAR	1,792	USD	(152)	-	(1)	(1)
Up to one month	MXN	2,692	USD	(147)	1	-	1
<b>Open forward currency contracts at 31 March 2018</b>					<b>8,362</b>	<b>(35,932)</b>	<b>(27,570)</b>
<b>Open forward currency contracts at 31 March 2017</b>					<b>9,144</b>	<b>(10,541)</b>	<b>(1,397)</b>

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	GBP	11,181	EUR	(12,484)	418	-	418
Up to one month	GBP	26	PHP	(1,768)	-	-	-
Up to one month	USD	2	HKD	(15)	-	-	-
Up to one month	USD	10	JPY	(1,050)	-	-	-
<b>Open forward currency contracts at 31 March 2019</b>					<b>418</b>	<b>-</b>	<b>418</b>
<b>Open forward currency contracts at 31 March 2018</b>					<b>8,362</b>	<b>(35,932)</b>	<b>(27,570)</b>

## 13. Additional Voluntary Contributions (AVC) Investments

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

# Statement of Accounts - Pension Fund Accounts

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

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

## 13.1 Reconciliation of movements in AVC investments

2017/18 £000		2018/19 £000
6,336	Value of AVC fund at beginning of year	7,302
1,741	Employees contributions	1,982
173	Investment income and change in market value	247
(948)	Benefits paid and transfers out	(1,115)
<u>7,302</u>		<u>8,416</u>

## 13.2 Analysis of AVC investments by Provider

2017/18 £000		2018/19 £000
94	Equitable Life	50
2,523	Prudential	3,768
4,685	Standard Life	4,598
<u>7,302</u>		<u>8,416</u>

# Statement of Accounts - Pension Fund Accounts

## 14. Current assets and liabilities

### 14.1 Analysis of current assets

31 March 2018 £000		31 March 2019 £000      £000	
<b>Cash Balances</b>			
80	Cash at bank	627	
23,649	Cash on short term deposits within 3 months	14,148	
<u>23,729</u>			14,775
<b>Debtors and payments in advance</b>			
4,291	Contributions due – employees	4,475	
14,263	Contributions due – employers	15,213	
1,390	Sundry debtors	1,872	
<u>19,944</u>			21,560
<u>43,673</u>	<b>Total</b>		<u>36,335</u>

### 14.2 Analysis of long-term debtors

31 March 2018 £000		31 March 2019 £000	
39	Financial strain instalments due	-	
2,830	Other employer contributions due	1,514	
-	Reimbursement of lifetime allowances	73	
<u>2,869</u>	<b>Total</b>	<u>1,587</u>	

Introduced in 2016, the lifetime allowance limits the amount of pension that can be paid by an individual pensioner without incurring an extra tax charge. Responsibility falls to the pensioner. However, the Fund offers the facility to pay all or part of the tax upfront, on the individual's behalf, and gets reimbursed by additional pension deductions over time. A long-term debtor has been raised in 2018/19 in this regard.

### 14.3 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.

# Statement of Accounts - Pension Fund Accounts

## 14.4 Analysis of current liabilities

31 March 2018 £000		31 March 2019 £000
	<b>Unpaid benefits and other current liabilities</b>	
(179)	Contributions due – employers	(791)
(3,483)	Investment manager fees payable	(2,674)
(4,229)	Benefits payable	(5,295)
(281)	Other	(18)
<u>(8,172)</u>	<b>Total</b>	<u>(8,778)</u>

## 14.5 Contingent liabilities and contractual commitments

As at 31st March 2019, the Fund had a commitment to contribute a further **£512.6m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, private debt and financing (31st March 2018: £563.7m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

## 15. Taxes on income

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

2017/18 £000		2018/19 £000
102	UK withholding tax	78
3,264	Overseas withholding tax	3,704
599	Payment to HMRC in respect of returned contributions	865
<u>3,965</u>		<u>4,647</u>

## 16. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

# Statement of Accounts - Pension Fund Accounts

## 16.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred gross costs of **£3.001m** in 2018/19 (2017/18: £2.713m) 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 **£49.525m** to the Fund in 2018/19 (2017/18: **£50.011m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Investment Steering Committee 28 March 2018. This service is provided to the Fund at a cost of **£27,000** (2017/18: £27,000).

During the year to 31st March 2019, the Pension Fund had an average investment balance of **£31.296m** (2017/18: £30.786m) earning **£176,000** interest (2017/18: £84,000).

## 16.2 Governance

Under IAS 24 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year, each member of the Essex Pension Board and Investment Steering Committee is required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

## 16.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2015, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2018/19, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr S. Barker
Representative of scheme employers	▪ Cllr M. Maddocks
▪ C. Riley	▪ Cllr A. Erskine
Representatives of smaller employing bodies	▪ Cllr A. Davies
▪ J. Moore	

# Statement of Accounts - Pension Fund Accounts

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2018/19, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ A. Coburn
▪ Cllr S. Walsh	▪ P. Hewitt
	▪ D. Hurst
	▪ M. Paget <i>(until December 2018)</i>

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2018/19 were the Executive Director, Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2018/19 approximately **2%** (2017/18: 2%) of the Executive Director, Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short-term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2018/19 was **£161,000** (2017/18: £157,000). The 2018/19 current service cost in respect of these personnel was **£105,000** (2017/18: £110,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

## 17. Agency Services

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

2017/18 £000		2018/19 £000
1,463	Administering Authority	1,456
5,239	Scheduled Bodies	5,209
132	Community Admission Bodies	138
2	Resolution Bodies	2
22	Former employers	20
<b>6,858</b>	<b>Total</b>	<b>6,825</b>

## 18. Financial Instruments

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

# Statement of Accounts - Pension Fund Accounts

## 18.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings. Direct private debt has been reclassified in 2018/19 as a Financial Instrument. The prior year figure has been restated by **£76.894m**.

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

The debtor figure of **£23.147m** as at 31st March 2019 (2017/18: £22.813m) excludes statutory debtors of **£22.895m** (2017/18: £22.813m).

The creditor figure of **£8.778m** as at 31st March 2019 (2017/18: £8.172m) excludes statutory creditors of **£6.086m** (2017/18: £4.689m).

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

31 March 2018			Asset type	31 March 2019		
Fair value through profit and loss Restated £000	Assets at Amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at Amortised cost £000	Liabilities at amortised cost £000
			<b>Financial assets</b>			
242,167	-	-	Fixed interest securities	404,594	-	-
3,955,138	-	-	Equities	4,064,304	-	-
433,664	-	-	Index linked securities	391,041	-	-
224,468	-	-	Property Unit Trusts	226,626	-	-
299,451	-	-	Private equity	321,530	-	-
237,237	-	-	Infrastructure	265,731	-	-
109,869	-	-	Timber	212,357	-	-
106,570	-	-	Private debt	118,654	-	-
264,399	-	-	Other managed funds	365,608	-	-
18,489	-	-	Derivative contracts	11,216	-	-
-	172,837	-	Cash deposits	-	160,736	-
36,703	-	-	Other investment balances	7,995	-	-
-	-	-	Debtors	-	252	-
5,928,155	172,837	-		6,389,656	160,988	-
			<b>Financial liabilities</b>			
(46,059)	-	-	Derivative contracts	(10,798)	-	-
(5,095)	-	-	Other investments balances	(209)	-	-
-	-	(3,483)	Creditors	-	-	(2,692)
(51,154)	-	(3,483)		(11,007)	-	(2,692)
5,877,001	172,837	(3,483)	<b>Balance at the end of the year</b>	6,378,649	160,988	(2,692)
			<b>Total</b>			
		6,046,355				6,536,945

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## 18.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2018 Restated £000		Asset value as at 31 Mar 2019 £000
	<b>Financial assets</b>	
259,611	Fair value through profit and loss	455,488
106,885	Amortised cost - unrealised gains	5,133
<u>366,496</u>	<b>Total</b>	<u>460,621</u>

Financial assets held by the Fund on a direct basis (e.g. direct property) have also been excluded from the above note. As per note 18.1 the gains and losses of direct private debt have been added back into 2017/18 figures following the reclassification.

The net gains and losses differ from the Fund Account by gains and losses of financial assets held directly. These gains and losses totalled **£31.689m** as at 31st March 2019 (31st March 2018: £26.368m).

## 18.3 Valuation of financial instruments carried at fair value

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

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

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

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

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

The table below sets the valuation basis used. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information:

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Market Quoted Equities Unit Trusts Money Market Funds Absolute Returns	Level 1	Published Bid Market Price	N/A	N/A
Unit Linked Life Assurance Policies	Level 2	Valuation technique with quoted prices of a similar asset	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place
Fixed Income / Fixed Interest Securities	Level 2	The prices are published reflecting the NAV at each dealing point but are not exchange traded	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place
Forward Foreign Exchange Derivatives	Level 2	Market exchange rates at the year end	Price of recent transactions for identical instrument	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period
Direct property	Level 3	Direct Property independently valued by Knight Frank LLP in accordance with the Royal Institution of Chartered Surveyors' (RICS) Valuation Standard	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth Covenant strength for existing tendencies Discount rate Land/building valuation surveys	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices and volume of sales and purchases

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Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
Indirect property	Level 2	Assets are based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund.	Pricing inputs are unobservable and include situations where there is little market activity. Estimated rental growth Covenant strength for existing tendencies Discount rate Land/building valuation surveys	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices and volume of sales and purchases
Distressed / Private Debt	Level 3	The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are sustainably the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation	These techniques may include a number of assumptions relating to variables such as credit risk and interest rates	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis
Infrastructure	Level 3	The valuation of the investment assets is determined in accordance with generally accepted valuation principles in compliance with article 5(3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments
Private Equity	Level 3	The valuation of the investment are carried at fair value as determined in good faith by the General Partner in accordance with the terms of the Partnership Agreement and US GAAP	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis
Timberlands	Level 3	Valuation technique is based on projected	Management's cash flow projections	Valuations could be affected by material

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Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuation
		valuation techniques that include discounted cashflow and multiple earnings	Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiple and discount rates used in the discounted cash flow analysis

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

Values as at 31 March 2018				Values as at 31 March 2019			
Level 1 Quoted market prices  £000	Level 2 Using observable inputs  £000	Level 3 Significant unobservable inputs Restated £000		Level 1 Quoted market prices  £000	Level 2 Using observable inputs  £000	Level 3 Significant unobservable inputs  £000	
<b>Financial assets</b>							
2,723,164	2,451,863	753,128	Fair value through profit and loss	2,823,039	2,648,345	918,272	
172,837	-	-	Loans and receivables	160,988	-	-	
2,896,001	2,451,863	753,128		2,984,027	2,648,345	918,272	
<b>Non financial assets</b>							
-	-	454,403	Fair value through profit and loss	-	-	473,533	
<b>Financial liabilities</b>							
(5,095)	(46,059)	-	Fair value through profit and loss	(209)	(10,798)	-	
-	-	-	Loans and receivables	-	-	-	
(3,483)	-	-	Financial liabilities measured at amortised cost	(2,692)	-	-	
(8,578)	(46,059)	-		(2,901)	(10,798)	-	
2,887,423	2,405,804	1,207,531	<b>Total net assets per level</b>	2,981,126	2,637,547	1,391,805	
			<b>Total Net Assets</b>				<b>7,010,478</b>
			<b>6,500,758</b>				

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## 18.4 Transfers between hierarchy levels

The pooled property classification was reviewed by Fund's property manager, Aviva Investors as at 31st March 2018, and was subsequently reclassified into level 2. No reclassifications were made as at 31st March 2019.

Values as at 31 March 2018			Values as at 31 March 2019		
Movement to/(from)			Movement to/(from)		
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
-	224,468	(224,468)	-	-	-
-	224,468	(224,468)	-	-	-
Financial assets					
Fair value through profit and loss					
Pooled property unit trusts					
Movement between levels					

## 18.5 Reconciliation of fair value measurements within Level 3

2018/19	Value at 1 April 2018	2018/19 Movement						Value at 31 March 2019
	£000	Transfer to Level 3 £000	Purchases £000	Net Transfers £000	Sale Proceeds £000	Unrealised profit/ loss £000	Realised profit/ loss £000	£000
<b>Properties</b>								
UK properties (freehold)	323,385	-	7,870	-	(44,507)	9,614	6,618	302,980
UK properties (leasehold)	70,500	-	12,295	-	-	(2,525)	-	80,270
<b>Private equity</b>								
UK unquoted	7	-	-	-	-	(3)	-	4
Overseas unquoted	299,444	-	52,988	-	(88,892)	3,461	54,525	321,526
<b>Infrastructure</b>								
UK unquoted	1	-	-	-	-	-	-	1
Overseas unquoted	297,755	-	66,434	-	(49,681)	23,814	17,692	356,014
<b>Timber (Overseas unquoted)</b>	<b>109,869</b>	-	98,955	-	(10,895)	14,098	330	<b>212,357</b>
<b>Private Debt</b>								
UK unquoted	29,676	-	-	-	(136)	864	-	30,404
Overseas unquoted	76,894	-	24,515	-	(15,081)	(1,685)	3,607	88,250
	<b>1,207,531</b>	-	<b>263,057</b>	-	<b>(209,192)</b>	<b>47,638</b>	<b>82,772</b>	<b>1,391,806</b>

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## 18.6 Sensitivity of assets valued at Level 3

In consultation with fund managers, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The fund has determined that the valuation methods described in note 18.3 are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held as at 31 March 2019.

	Assessed valuation range (+/-)	Value at 1 April 2019  £000	Value on increase  £000	Value on decrease  £000
Freehold and leasehold properties	10.0%	383,250	421,575	344,925
Private equity	15.0%	321,530	369,760	273,301
Infrastructure	7.5%	356,015	382,716	329,314
Timber (overseas unquoted)	5.0%	212,357	222,975	201,739
Private debt	12.6%	118,654	133,604	103,704
		<b>1,391,806</b>	<b>1,530,630</b>	<b>1,252,983</b>

## 19. Nature and extent of risks arising

### 19.1 Risk and risk management

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

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

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## 19.2 Market risk

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

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

## 19.3 Other price risk

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

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

## 19.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2018/19.

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

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31st March 2018 Potential Market movement %	Asset type	31st March 2019 Potential Market movement %
8.7%	UK bonds	8.9%
16.8%	UK equities	16.6%
17.9%	Overseas equities	16.9%
7.2%	UK index linked bonds	7.2%
14.3%	Pooled property unit trusts	14.3%
28.3%	Private equity	28.3%
11.5%	Infrastructure funds	11.8%
11.5%	Timber	11.8%
12.6%	Private debt	12.8%
14.3%	Property	14.3%
0.5%	Cash	0.5%

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

31st March 2018 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2019 £000	Percentage change %	Value increase £000	Value decrease £000
149,108	0.5%	149,854	148,362	Cash and equivalents	145,961	0.5%	146,691	145,231
				Investment portfolio assets				
242,167	8.7%	263,236	221,098	UK bonds	404,594	8.9%	440,441	368,747
134,666	16.8%	157,290	112,042	UK equities	65,343	16.6%	76,190	54,496
1,838,222	17.9%	2,167,264	1,509,180	Overseas equities	812,994	16.9%	950,390	675,598
239,889	16.8%	280,190	199,588	UK equities unit insurance policies	247,248	16.6%	288,291	206,205
774,160	17.9%	912,735	635,585	Overseas equities insurance policies	809,471	16.9%	946,272	672,670
496,794	17.9%	585,720	407,868	Global equities insurance policies	597,136	16.9%	698,052	496,220
471,407	17.9%	555,789	387,025	Global unit trusts	-	16.9%	-	-
-	-	-	-	ACCESS pooled global equity funds	1,532,112	16.9%	1,791,039	1,273,185
433,664	7.2%	464,888	402,440	UK index linked bonds	391,041	7.2%	419,196	362,886
224,468	14.3%	256,567	192,369	Pooled property unit trusts	226,626	14.3%	259,034	194,218
299,451	28.3%	384,196	214,706	Private equity	321,530	28.3%	412,523	230,537
297,756	11.5%	331,998	263,514	Infrastructure	356,015	11.8%	398,025	314,005
109,869	11.5%	122,504	97,234	Timber	212,357	11.8%	237,415	187,299
106,570	12.6%	119,998	93,142	Private Debt	118,654	12.8%	133,842	103,466
264,399	11.5%	294,805	233,993	Other managed funds	365,608	11.8%	408,750	322,466
393,885	14.3%	450,211	337,559	Property	383,250	14.3%	438,055	328,445
(27,570)	-	(27,570)	(27,570)	Net derivative assets	418	-	418	418
5,771	-	5,771	5,771	Investment income due	7,892	-	7,892	7,892
(143)	-	(143)	(143)	WHT payable	(153)	-	(153)	(153)
30,932	-	30,932	30,932	Amounts receivable for sales	60	-	60	60
(3,971)	-	(3,971)	(3,971)	Amounts payable for purchases	(56)	-	(56)	(56)
-	-	-	-	Amounts receivable for GLF	43	-	43	43
(981)	-	(981)	(981)	Amounts payable for GLF	-	-	-	-
6,480,513		7,501,283	5,459,743	Total assets available to pay benefits	6,998,144		8,052,410	5,943,878

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## 19.5 Sensitivity of funding position

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

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

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

## 19.6 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal and General (until February 2018), UBS Asset Management (from March 2018) and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. In addition the Fund has an investment in a private debt mandate.

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

Asset value as at 31 Mar 2018 £000	Asset type	Asset value as at 31 Mar 2019 £000
149,108	Cash and cash equivalents	145,961
23,729	Cash balances	14,775
242,167	Fixed interest securities	404,594
433,664	Index-linked securities	391,041
106,570	Private debt	118,654
955,238	<b>Total assets</b>	<b>1,075,025</b>

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## 19.7 Interest rate risk sensitivity analysis

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

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 1% change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2018 £000	Impact of 1% increase £000	Impact of 1% decrease £000	Asset type	Asset value as at 31 Mar 2019 £000	Impact of 1% increase £000	Impact of 1% decrease £000
149,108	149,108	149,108	Cash and cash equivalents	145,961	145,961	145,961
23,729	23,729	23,729	Cash balances	14,775	14,775	14,775
242,167	239,745	244,589	Fixed interest securities	404,594	400,548	408,640
433,664	433,664	433,664	Index-linked securities	391,041	391,041	391,041
106,570	105,504	107,636	Private debt	118,654	117,467	119,841
955,238	951,750	958,726	<b>Total change in assets available</b>	1,075,025	1,069,792	1,080,258

The above analysis demonstrates that a 1% change in interest rates will only impact the fair value of fixed interest and private debt, interest received would be unaffected.

A 1% movement of interest rates on cash and index linked securities would not impact the fair value and would have a negligible effect on interest received in the region of +/- £1k based on the above asset values.

## 19.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling its reporting currency. To reduce the volatility associated with fluctuating currency rates (currency risk) the Fund invests in hedged overseas regional index funds via its passive provider UBS Asset Management.

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The following table summarises the Fund's currency exposure as at 31st March 2019 and prior year:

31 Mar 2018 £000	Asset type	31 Mar 2019 £000
1,838,222	Overseas equities quoted	812,994
774,160	Overseas unit life assurance policies	809,471
496,794	Global unit life assurance policies	597,136
471,407	Global unit trusts	-
-	ACCESS pooled global equity funds	1,532,112
299,444	Overseas private equity	321,526
297,755	Overseas infrastructure	356,014
109,869	Overseas timber	212,357
76,894	Overseas private debt	88,250
<b>4,364,545</b>	<b>Total overseas assets</b>	<b>4,729,860</b>

## 19.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2017/18: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2017/18: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2018 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2019 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,838,222	2,077,191	1,599,253	Overseas equities quoted	812,994	918,683	707,305
774,160	874,801	673,519	Overseas unit life assurance policies	809,471	914,702	704,240
496,794	561,377	432,211	Global unit life assurance policies	597,136	674,764	519,508
471,407	532,690	410,124	Global unit trusts	-	-	-
-	-	-	ACCESS pooled global equity funds	1,532,112	1,731,287	1,332,937
299,444	338,372	260,516	Overseas private equity	321,526	363,324	279,728
297,755	336,463	259,047	Overseas infrastructure	356,014	402,296	309,732
109,869	124,152	95,586	Overseas timber	212,357	239,963	184,751
76,894	86,890	66,898	Overseas private debt	88,250	99,723	76,778
<b>4,364,545</b>	<b>4,931,936</b>	<b>3,797,154</b>	<b>Total change in assets available</b>	<b>4,729,860</b>	<b>5,344,742</b>	<b>4,114,979</b>

## 19.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The

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market value of investments reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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

## 19.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

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

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31st March 2019 is provided in Note 14.

## 19.12 Forward currency contracts

Forward currency contracts are undertaken by the Fund's appointed fund managers. The largest single contracts were entered into as part of a overseas passive currency overlay programme. The ISC took the decision to cease the currency overlay programme in April 2018. The counterparties on these contracts as at 31 March 2018 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2016. Further details of forward foreign exchange contracts are provided in note 12.

# Statement of Accounts - Pension Fund Accounts

Exposure at 31 March 2018		Counterparty	Exposure at 31 March 2019	
£000	%		£000	%
83,717	2.3%	BNP Paribas Capital Markets	-	-
886,167	24.8%	Citigroup	-	-
103,367	2.9%	Credit Suisse First Boston	-	-
244,980	6.9%	Goldman Sachs	-	-
453,627	12.7%	Deutsche Bank AG	-	-
358,461	10.0%	HSBC	-	-
165,683	4.6%	J P Morgan Securities	-	-
541,970	15.2%	Merrill Lynch	-	-
142,084	4.0%	Morgan Stanley	-	-
134,374	3.8%	RBC Europe	-	-
73,537	2.1%	RBS	-	-
137,927	3.9%	SEB	-	-
185,808	5.2%	Standard Chartered	-	-
34,478	1.0%	UBS	-	-
21,787	0.6%	Westpac Bank Corp	-	-
3,567,967	100.0%	<b>Total</b>	-	-

## 19.13 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, UBS Asset Management, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31st March 2019, the average credit quality of the MandG bond mandate was **BBB+** rated (**A** rated as at 31st March 2018). The portfolio had suffered five defaults since inception, none of which was experienced in the financial year ended 31st March 2019 or 31st March 2018. The average credit rating of the financing fund was **BB+** rated as at 31st March 2019 (BB rated as at 31st March 2018), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31st March 2019 had an average credit quality of **AA+** (AA rated as at 31st March 2018) and has suffered twelve defaults since inception, with one occurring in 2018/19 and five occurring in 2017/18.

# Statement of Accounts - Pension Fund Accounts

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## 19.14 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A+** (A as at 31st March 2018) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the ISC. The ISC have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31st March 2019 **£14.775m** (31st March 2018: £23.729m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

**Cash managed externally** – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31st March 2019, the total balance held in the Sterling and US dollar AAA money market funds was **£117.940m** with a smaller balance of **£28.021m** held in the custodian current account (31st March 2018: £120.060m and £29.048m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

# Statement of Accounts - Pension Fund Accounts

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

31 March 2018			31 March 2019	
Rating	£000		Rating	£000
<b>Cash managed externally</b>				
Cash held on deposit (GLF)				
AAA	57,745	BNP Paribas	AAA	66,717
AAA	6	L&G TA Liquidity Fund	AAA	-
AAA	62,309	Northern Trust	AAA	51,223
Cash held in Current Account				
AA-	29,048	Northern Trust	AA-	28,021
	<u>149,108</u>	<b>Total cash managed externally</b>		<u>145,961</u>
<b>Cash managed internally</b>				
Cash held on fixed term				
AA	-	Thurrock Council	AA	5,000
Cash held on deposit				
AA-	5,004	HSBC	AA-	4,092
BBB+	2	Royal Bank of Scotland	A-	-
A	5,002	Santander UK	A	-
AAA	8,602	Standard Life (formerly IGNIS)	AAA	-
AA-	5,039	Svenska Handelsbanken	AA-	5,055
Cash held in Current Account				
A	80	Lloyds Bank plc	A+	628
	<u>23,729</u>	<b>Total cash managed internally</b>		<u>14,775</u>
	<u>172,837</u>	<b>Total</b>		<u>160,736</u>

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

# Statement of Accounts - Pension Fund Accounts

31 March 2018		31 March 2019	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				
120,060	AAA Rated	117,940	80,000	0.0400%	47
29,048	AA Rated	28,021		0.0200%	6
<b>149,108</b>	<b>Total cash managed externally</b>	<b>145,961</b>			<b>53</b>
	<b>Cash managed internally</b>				
	Deposit with bank and other financial institutions				
8,602	AAA Rated	-	10,000	0.0400%	-
10,043	AA Rated	14,147	7,500	0.0200%	3
5,082	A Rated	628	5,000	0.0500%	-
2	BBB Rated	-	5,000	0.1500%	-
<b>23,729</b>	<b>Total cash managed internally</b>	<b>14,775</b>			<b>3</b>
<b>172,837</b>	<b>Total cash</b>	<b>160,736</b>			<b>56</b>

## 19.15 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 also has an allocation to alternative investments, which are relatively illiquid.

In 2017 the ISC took the decision to de-risk reducing its equity allocation from 60% to 50% as a result the strategic allocation to alternatives will increase from 27% to 37% as and when opportunities arise. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a neutral cash flow and is able to pay benefits from contributions and income received. As the Fund is not in the position of a forced seller, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31st March 2019 had immediate access to its pension fund cash holdings held internally and externally of **£160.736m** (31st March 2018: £172.837m). These monies are primarily invested on an overnight basis on the money market.

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Investment Strategy Statement outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

# Statement of Accounts - Pension Fund Accounts

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## 19.16 Refinancing Risk

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

## 19.17 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31st March 2019 Northern Trust had **\$8.2 trillion** of assets under custody (31st March 2018: \$8.1 trillion) and had a credit rating of **AA-** (31st March 2018: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

## 19.18 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016.

The 2016 Investment Regulations require each LGPS be a part of a regional pool. It is expected that funds will migrate majority of investment assets into the Pool over time in order to benefit from greater economies of scale achieve cost savings. The Essex Pension Fund is part of the ACCESS pool.

During 2017/18 ACCESS funds jointly procured UBS Asset Management to manage the passive assets of ACCESS. In addition, Link Solutions Limited were appointed as ACCESS Pool Operator. At the end of 2017/18 Essex Pension Fund had transitioned **£1.9bn** of its passive assets from Legal and General to UBS Asset Management. During 2018/19 a further **£1.5bn** had been invested into sub funds managed by Link Solutions Limited.

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 on an annual basis.

## 20. Events after the Balance Sheet date

The Statement of Accounts was certified by the Executive Director, Corporate and Customer Services on **31st July 2019**. Events taking place after this date were not reflected in the financial statements or notes.

# Statement of Accounts - Pension Fund Accounts

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## 21. Further information

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

Director for Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 03330 138501

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

# Statement of Accounts - Glossary

Term	Explanation
Accruals	Sums included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuarial gains and losses	Changes in the net pensions' liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions.
Actuarial valuation	A type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Accumulating Absences	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services.
Additional voluntary contributions	Additional voluntary contributions (AVC's) are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortised cost	A way of measuring financial instruments that ignores changes in fair value. Defined as the amount at which a financial instrument is measured when it is first brought onto the Balance Sheet.
Amortised financial assets	Investments for which any gains and losses in fair value are not accounted for until the investment matures or is sold.
Amortisation	Amortisation is the writing down of costs to the Comprehensive Income and Expenditure Statement over several years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Available for sale financial assets	Financial assets that have a quoted market price and/or do not have fixed or determinable payments.
Billing authority	City, district and borough councils are responsible for the billing and collection of Council Tax and Non-domestic rates (NDR).
Cabinet	The Cabinet comprises the Leader, and other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader and are reported to the Council.
Capital Adjustment Account	This account represents: <ul style="list-style-type: none"> <li>▪ Amounts set aside from revenue resources to repay external loans;</li> <li>▪ The financing of capital payments from capital receipts and revenue reserves; and</li> <li>▪ The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.</li> </ul>
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of property, plant and equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.

# Statement of Accounts - Glossary

Term	Explanation
Capital financing requirement	This is a measure of the Council's underlying need to borrow for capital financing purposes.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and non domestic rates.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Community Schools	Locally maintained schools that are owned and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the schools' admission criteria.
Council tax	A local tax set by local authorities 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).
Credit losses	A measure of how much the Council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are due contractually to the Council and those that it expects to receive.
Creditors	Amounts due, but not yet paid, for work, goods received or services received during the financial year.
Current service cost	The increase in pension liabilities because of service earned during the year.
Current value	A measurement reflecting the economic environment prevailing for the service or function the asset is supporting at the reporting date. Current value measurement bases include 'Existing Use Value', 'Depreciated Replacement Cost' and 'Fair Value'.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have enough assets to pay all employee benefits relating to employee service in the current or prior periods.
Depreciated Replacement Cost	A method of valuation which provides a measure of the current cost of replacing an asset with a modern equivalent asset, less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. It involves imagining what the current asset would need to be substituted with to deliver the same level and quality of service currently being delivered.
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount	Arises from prematurely repaying a loan where the prevailing interest rate is above the rate of interest payable on the loan being repaid - the Council is compensated for the interest rate differential, which is referred to as a 'discount' arising from early settlement of the loan.

# Statement of Accounts - Glossary

Term	Explanation
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Employee benefits	Employee benefits include wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees.
Existing Use Value	A valuation method that estimates amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction and disregarding potential alternative uses for the asset.
Expected credit losses	The credit losses that the Council estimates will arise from the amounts that it is currently owed. Expected credit losses are calculated by measuring the losses that would arise from different default scenarios and calculates a weighted average loss based on the probability of each scenario taking place.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Fair value through profit and loss	Defined as financial assets that do not qualify for measurement at amortised cost.
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see 'Leasing' and 'Operating Leases').
Financial instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Foundation Schools	Locally maintained schools that are state-funded by the Council. These schools are run by their governing body. The governing bodies employ the staff, determine the school admission policies and own the school land and buildings.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Inventories	Assets acquired or produced for resale or to be consumed or distributed in the provision of services.
Investment properties	Properties held solely to earn rentals and/or for capital appreciation purposes. This definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
Investments	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

# Statement of Accounts - Glossary

Term	Explanation
	<p>ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
Joint operations	Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.
Lease	An arrangement for securing the use of a use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.
Lessee	The party in a lease arrangement who secures the use of an asset over an agreed period of time in exchange for payment, but does not secure legal title to the asset.
Lessor	The party in a lease arrangement who retains legal title of an asset but lets out that asset to another party in exchange for rental payments.
Loans and receivables	Assets that have fixed or determinable payments but are not quoted in an active market.
Non Domestic Rates	These rates are how local businesses contribute to the cost of providing local authority services. Business rates are collected by the billing authorities and are distributed in accordance government regulations.
Net interest on the net defined benefit liability	The change during the period in the net pension liability that arises from the passage of time. It includes interest income on plan assets and interest costs on the pension liability. It is calculated by applying the discount rate used to measure the net pension obligation at the beginning of the period to the net pension liability at the beginning of the period – considering any changes in the net pension liability during the period as a result of contribution and benefit payments.
Non-current assets held for sale	Property, Plant and Equipment assets that the Council is formally committed to sell and is actively marketing them in their current condition and where sale is expected within the next 12 months.
Operating lease	<p>Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company.</p> <p>The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).</p>
Past service cost	The increase in pension liabilities arising from a current year pension scheme amendment or a curtailment, whose effect relates to years of service earned in earlier years.
Pooled Budget	A type of partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services.
Precept	The amount the County Council requires the City, Borough and District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium	Arises from prematurely repaying a loan where the prevailing interest rate is below the rate of interest payable on the loan being repaid. The differential between the two rates is paid to the lender, in the form of a 'premium' arising from early settlement of the loan.
Private Finance Initiative (PFI)	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

# Statement of Accounts - Glossary

Term	Explanation
Property, Plant and Equipment	Assets that have physical substance and are held for use in the provision or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership (PPP)	An arrangement where the private sector partner agrees to provide a service to a public sector organisation.
Public Works Loan Board	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government's own borrowing rate.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.
Return on plan assets	Interest, dividends and other income derived from the Local Government Pension Scheme's assets (excluding amounts included in net interest on the net defined benefit liability), together with realised and unrealised gains or losses on those assets, less costs of managing the assets and any taxes payable.
Reserves	The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.  Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.
Revenue provision for repayment of debt	The minimum amount which must be charged, by Regulation, to the revenue account each year for repaying external loans.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable. This is because these are not given in exchange for services rendered by employees.
RICS	The Royal Institution of Chartered Surveyors (RICS) is the professional body for qualifications and standards in land, property, infrastructure and construction.
Salary	Salary represents the amounts received under contract of employment for services rendered, other than bonuses, allowances, benefits in kind or compensation payments.
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the 'projected unit method' reflects the benefits that the employer is committed to provide for service up to the valuation date.
SeRCOP	CIPFA Service Reporting Code of Practice provides a framework for consistent financial reporting by local authorities in order that consistency and comparability are achieved.
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific	These represent central government financial support towards local authority services, which the

## Statement of Accounts - Glossary

Term	Explanation
government grant	Government wishes to target.
Surplus properties	Properties not being used to deliver services but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.
Termination benefits	Termination benefits are payable either because of an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
Voluntary aided schools	In these schools, all the running costs and most of the building costs are funded by central government via the Council. The remaining building costs are met by the religious body that owns the school land and buildings. The governing body, comprising most governors appointed by the religious body, employs the school staff and sets the school's admission arrangements in consultation with the Council.
Voluntary controlled schools	These schools are state funded via the Council. A religious body has some formal influence in running the school, including appointing a proportion of the school governors, and owns the school land and buildings. The Council employs the school staff though, and has primary responsibility for the school's admission arrangements.

# Annual Governance Statement

# Annual Governance Statement

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## Introduction

This statement summarises the outcome of Essex County Council's (ECC) review of the governance arrangements that have been in place during 2018/19.

ECC is responsible for ensuring that there is a sound system of governance which incorporates the system of internal control. The local [code of governance](#) is underpinned by the seven principles of good governance set out in the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government: Framework 2016'.

The local code of Governance framework comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which ECC is controlled and governed.

The framework was reviewed in February 2019 in line with current CIPFA guidance and the [code of governance](#) external webpage was also refreshed at the same time.

The effectiveness of key elements of the governance framework are assessed throughout the year by the Corporate Governance Steering Board, the Audit, Governance and Standards Committee, Internal Audit and other Officers and Members as required. The review of effectiveness is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Assurance's annual report, Service Assurance Statements (completed by all Executive Directors) and from comments received from external auditors and other review agencies and inspectorates.

## Findings

The findings of this review are outlined under points 1 – 20 below:

- 1. Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.**

All ECC employees and Members must conduct themselves in accordance with the terms of the [Officer Code of Conduct](#) and [Member Code of Conduct](#) (part 5 of the Constitution).

All Members have attended training on the code of conduct and refresher sessions are offered annually.

The Audit, Governance and Standards Committee advises the Council on the local Code of Conduct for members and to promotes high standards of conduct by members. The Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available online. There was one Standards complaint referred to the Committee during 2018/19.

# Annual Governance Statement

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ECC 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. The modules were launched to ECC Members in September 2017 following the May 2017 elections. Completion rates for all governance e learning modules for Officers and Members are monitored at Corporate Governance Steering Board.

In May 2016 the Council adopted a [Policy](#) that all Members are asked to undergo a Disclosure and Barring Service (DBS) check when elected. This was followed up after the May 2017 elections and all members were DBS checked.

ECC has arrangements in place for employees, consultants or contractors to raise any concerns they have in the workplace. The Whistle-Blowing Policy is available for employees online and provides advice and guidance about informal and formal ways to raise concerns relating to wrongdoing.

An external company called Expolink provides 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, there were no referrals in 2018/19. These arrangements are also covered in the Anti-Fraud and Corruption corporate governance e-learning.

ECC has a strong counter-fraud team that supports investigations into allegations raised through any of the above routes and instigates appropriate recovery action where necessary. The team is being strengthened by recruitment of a data analyst.

All employees must declare any interests in line with the Declaration of Interests Policy, all employees are asked to complete this once a year or whenever their situation changes.

Members are required to register details of Disclosable Pecuniary Interests and a series of interests defined by the Code of Member Conduct. Declarations are required to be completed within 28 days of becoming a Member (or being re-elected or reappointed) in the Authority's Register of Members' Interests. This is set out in section 24.6 of the Constitution. In May 2017 we moved to an online form to aid efficient reporting of member interests.

## **2. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

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

The Chief Audit Executive is responsible for providing assurance on internal controls and ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud. The Chief Audit Executive is the Head of Assurance.

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Each Executive Director is required to complete and formally sign off a Service Assurance Statement (SAS) accompanied by a plan setting out actions to be taken to strengthen any areas of weakness identified. The SAS covers key lines of enquiry on governance arrangements including service planning, budget, people, information, partnerships, risk, business continuity, equalities and health and safety. This gives an overall picture of assurance across the authority.

These Statements were completed in March 2019, collated and analysed. The organisation's 2018/19 Service Assurance Statements returned an adequate overall assessment. Where necessary improvements have been identified and the relevant directors are responsible for securing remedial action in these areas.

All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet or Cabinet Members must incorporate comments from both the Section 151 Officer and Monitoring Officer before they are submitted for consideration. The Reports are also considered at a Cabinet Agenda Setting Meeting before the public meeting. This allows members of the Cabinet and the Corporate Leadership Team to make the decision before they are formally submitted for Cabinet.

The scheme of delegations to officers, to committees and to cabinet members ensures that decisions are not *ultra vires* whilst allowing ECC to exercise its powers in a convenient way.

The Council seeks to comply with both the specific requirements of legislation and the general responsibilities placed on us by the common law and public law, bringing the key principles of good administrative law into processes and decision making.

### 3. Documenting a commitment to openness and acting in the public interest.

ECC's [Publication scheme](#) details the different classes of information which ECC routinely makes available and the '[Your right to know](#)' webpage which provides guidance for the public about what information is available to them and how they can access it, including via Freedom of Information (FOI), Environmental Information and Subject Access Requests. We also publish all [responses](#) to FOI requests.

The [ECC website](#) is accessible to a wide audience, with relevant and regularly updated news articles online.

Copies of the agendas, documents, minutes and decisions of all Committees, Cabinet and Council are available promptly online and an interactive online calendar of future meetings enables public attendance where appropriate. Audio of all Council, Cabinet and most other committee meetings are broadcast live on the website and are [available to listen to after the meeting](#).

ECC publishes data under the [Government's Transparency Code](#) including [Council spending](#), [Council contracts](#), [senior salaries](#) and [Counter Fraud outcomes](#).

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The Essex Vision, developed with partners and ECC's Organisational Strategy (see sections 5 and 6) outline how ECC commits to work in the public interest. ECC's commitment to transparency, as detailed above, enables the public to assess this and they can then use the [complaints policy](#) and the consultation process to feedback their views. For 2018/19 89% of corporate complaints were responded to within 10 days.

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

The [Communications and Marketing Strategy 2018/19](#) outlines how ECC communicates with all sections of the community, employees and stakeholders. It outlines changes being made to communications and marketing approaches, firstly in order to reach audiences with the information, advice and guidance they need in the way they want; and secondly, to tell the story of what the County Council is doing to improve the quality of life of residents through the [Vision for Essex](#) (with partners) and the [Organisation Strategy](#).

All communications are branded to ensure that they are easily recognised, and the information can be translated into different languages and alternative formats as required.

The [constitution](#) allows public speaking at Cabinet and Scrutiny Committees and for public questions to be heard at Full Council. ECC's social media feeds have encouraged people to listen to public meetings as they are simultaneously audio-broadcast online. At many meetings members of the public can now ask a question and expect their elected representatives to respond. Within the last few years there has been a steady increase in the number and frequency of questions from members of the public. At the [extraordinary meeting of Full Council](#) relating to a motion put forward by opposition members relating to the future libraries strategy in March 2019 we had 13 members of the public asking questions. These, and the answer received, were broadcast in full for the first time.

The [Petitions Policy](#) is available online, in 2018/19 we received the highest number of signatures on a single topic to date with 55 petitions and 59,855 signatures about the Essex Libraries Consultation.

ECC proactively engages with the community in order to seek out their views, actively listen to them and support them to respond. There are a range of ways in which people can be involved in shaping decisions. These are inclusive and meet individual needs. This includes statutory consultations, surveys which can be completed online or paper questionnaires plus telephone and accessible format options, focus groups, face to face interviews, ethnographic work, workshops and consultation/discussion events.

The Council's 'Operations Board' has taken on an oversight role to all consultations that ECC is currently undertaking or planning to undertake in the near future. This seeks to ensure that the Consultation that is presented to the public engages with the target communities and seeks a full set of responses which can be used to inform the Council's decision making. Operations Board

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monitors a consultation tracker which lists all current consultations and enables officers seeking to undertake consultation to discuss the requirements with experts across the Council.

The consultation portal '[Consultations in Essex](#)' also known as [Citizen Space](#) is used by ECC for both public and internal consultations and for truly collaborative Partnership consultations, to manage online consultations. There is a list of open and closed consultations and purpose of each consultation is described so it is possible to take part in those that are open. The contact details of the consultation owners are given so that anyone with a question can contact the owner and there is a 'We Asked, You Said, We Did' section so that citizens can view information about what happened as a result.

Over the past 18 months ECC has been working collaboratively with adults with an experience of disability to review current service user groups and explore how we might work differently together in the future, so that together we can ensure that true co-production is happening across the system. The new model for engagement is known as Collaborate Essex and provides various channels of engagement that give opportunities to a much wider range of people. This includes a new 'Citizen's database' which will be used to support recruitment for engagement activity. Local learning disability (LD) groups, which will be user-focused and empower and enable adults with LD to be involved in meaningful engagement activity and A Collaboration In Action Forum, which will have representatives across all disabilities, who will meet with senior ECC officers and members to set a forward plan for co-production and engagement activity.

ECC also supports young people to provide views through a range of groups including the Young Essex Assembly and the Children in Care Council.

5. **Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.**
6. **Translating the vision into courses of action for the authority, its partnerships and collaborations.**

A [Vision](#) called 'the Future of Essex' is available online. The Essex vision was co-created alongside partners in 2017 and is intended to set out ambitions for the County until 2035.

The [vision](#) for ECC is also published online:

*'ECC is dedicated to improving Essex and the lives of our residents. Our ambition is to deliver the best quality of life in Britain. We will achieve this by providing high-quality, targeted services that deliver real value for money.'*

The [Organisational Strategy](#) 2017-21 can be found online and articulates ECC's strategic aims and priorities as well as the organisational building blocks needed to do this.

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The [Organisation Plan and budget 2018/19](#) was approved on 13 February 2018. In 2018, for the first time, the Council combined the Organisation Plan and the Budget report so that plans and how they will be resourced were considered by Council at the same time.

ECC's [Organisation Plan and budget 2019/20](#) was endorsed at Full Council on 12 February 2019.

In addition the [Essex Joint health and wellbeing strategy](#) was considered and endorsed by the Health and Well-being Board in July 2018 and at Cabinet in September 2018.

Employees are supported by a comprehensive individual performance management process. A review of the individual performance management framework began in January 2019 and design will continue into summer 2019. This will ensure it is fit for purpose and meets the need of the Organisation Strategy and People Plan.

Essex is committed to a shared vision called 'the Future of Essex' which comprises a set of ambitions which can only be delivered through effective, joined-up partnership. This sets out the Council's aims that 'whole system thinking' is the key to improving public services, reducing costs to taxpayers and getting the best outcomes for residents.

ECC has made substantial steps forward in developing partnership work in Essex. Recent examples include:

- Creating a movement of whole system leadership via 'Leading Greater Essex' programmes. LGE2018 built upon the pilot "Greater Essex Leadership Collaborative 2016/17 and another cohort is going through LGE2019.
- Essex Partners are sponsoring a series of thematic projects which respond to the ambitions set out in the Future of Essex and seek to generate tangible outcomes within 12-18 months ([www.essexfuture.com](http://www.essexfuture.com))
- Essex Partners are also continuing to drive system leadership by developing the building blocks of partnership working, including through a systems dashboard to improve outcomes and accountability, and establishing a task and finish group to focus on our approach to communications and engagement.

ECC works closely with NHS partners across Essex and is increasingly integrating the way we work and commission with NHS partners. This work is overseen by the Essex Health and Wellbeing Board.

As part of the Better Care Fund (BCF), ECC has established pooled funds with the five clinical commissioning groups in Essex. The BCF is "owned" by the Health and WellBeing Board (HWB) on behalf of ECC and the five Clinical Commissioning Groups (CCG), NHS England require that it is approved by the HWB before submission. BCF is also approved by Cabinet and the individual CCG Boards.

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The Public Sector Equality Duty requires public bodies to publish one or more equality objectives every 4 years. ECC's new equality objectives for 2018-2021 were agreed by the Political Leadership Team and Strategic Business Board in March 2018, these are closely aligned to the strategic aims and priorities that appear in the Organisation Strategy. The Equality priorities for the organisation are set out in the Organisation Plan.

The Essex Faith Covenant is a set of principles agreed by public services and faith-based organisations. The principles aim to harness trust, build effective dialogue and break down barriers in the pursuit of delivering shared outcomes that help those most in need. Currently, the main focus for this partnership is to tackle isolation, loneliness and disadvantage in the areas that have currently signed up (Basildon, Braintree, Colchester, Chelmsford, Maldon and Rochford). Other partners have also expressed a desire to get involved.

## **7. Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.**

Article 5 of the [Constitution](#) defines the responsibilities for decision making and the principles in accordance with which decisions must be made.

The Strategy, Insight and Engagement Team provides ECC with the evidence it needs to inform decisions affecting commissioning and operational service delivery, such as population analysis, demand forecasting and needs assessments, as well as enabling the organisation to manage performance, engage with citizens and service users and maintain key business intelligence systems.

All agendas, minutes and decisions taken by Cabinet members are available to the public through [ECC's website](#). We have an online committee management system which ensures easily accessible and good quality information is always available about decisions and Member meetings, this also ensures that the committee process is efficiently managed.

Reports to Cabinet are considered at a Cabinet Agenda Setting Meeting before the formal Cabinet meeting. This allows members of the Cabinet and the Corporate Management Board to improve the quality of reports and make them easier for the public to understand before they are formally submitted to a Cabinet meeting.

The Overview and Scrutiny Committees play a key role to inform and challenge decisions carried out within each service. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#). All relevant papers can be found on ECC's [Committee Management Information System](#).

ECC intranet pages provide officers and councillors with access to information about how we deal with decision making, including easy access to guidance, including an easy to use decision tree on how to make formal decisions. The Corporate Governance E-learning also covers decision making (see section 13).

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In 2018/19, 96.1% of published decisions had an Equality Impact Assessment completed.

ECC has a robust Data Quality Strategy in place which was reviewed and updated in May 2018, it is due for a further review in May 2019.

For further information on partnerships please see section 20.

## **8. Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.**

The Organisation Performance Report is reviewed by The Corporate Leadership Team (CLT) on a quarterly basis. ECC publishes an annual report which shares progress in delivering the aims in the organisational strategy. The [2017/18 report](#) can be found online and the 2018/19 report will be published later in 2019.

Scrutiny plays a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of ECC's objectives and holding Cabinet to account for delivery.

The Procurement Strategy and procedures provide a framework of best practice for all procurement activities which support ECC in achieving value for money and delivering on corporate objectives.

ECC Service Quality has been recognised nationally during 2018/19:

- Children's Services achieved an Outstanding rating from Ofsted following an assessment in November 2018.
- The Essex Youth Offending Service were rated as Outstanding following an assessment by HM Inspectorate of Probation in October 2018.
- ECC won Best Social Work Employer of the Year at the 2018 Social Worker of the Year Awards.
- The Kingsmoor Flood Alleviation Scheme in Harlow won the national award for 'Small Project of the Year' at the British Construction Industry Awards in November 2018. The award recognises the best construction scheme under £10 million that has had a big impact on a local community. The project was led by ECC) working closely with Harlow District Council and other partners.
- The Quality Innovation team won the 2018 Healthcare Service Journal Patient Safety Award for Mental Health and Learning Disabilities Award. It was awarded for their project to encourage people with learning disabilities and autism to attend health appointments.
- In a survey of 150 councils Essex County Council came seventh out of 150 councils for spending money most effectively and getting the best outcomes for residents. The survey was published in November 2018 by [IMPOWER](#), an independent consultancy. It was

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developed to show which councils are the most productive - achieving better outcomes for residents from a less-than-average spend per head. The results show that Essex County Council has improved its productivity, moving from 23rd place in 2017 to seventh in 2018. The results are drawn from performance measured against six different areas: children's social care, older people, disability, health and social care, housing and homelessness, and waste and recycling. Each council is scored for productivity and is ranked accordingly.

**9. Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.**

The law and [Constitution](#) clearly defines the responsibilities of key member and officer roles.

Part 3 of the [Constitution](#) sets out how Councillors' authority is delegated to Cabinet Members and Officers. Chief Officers are in turn responsible for authorising delegations to their officers. All of these delegations are updated when roles or structures change.

The protocol on Member/Officer relations contained within Part 5 of the [Constitution](#) further defines the day-to-day roles and responsibilities of Officers and Members.

The Council has [Financial Regulations](#) which provide a framework to identify financial responsibilities and the financial limits assigned to individual Officers. These also outline the responsibilities in relation to partnerships and commissioning arrangements. The Financial Regulations are kept under regular review, with the last update approved at Full Council on 11 July 2017.

**10. Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (April 2016), where they do not, explain why and how they deliver the same impact.**

Financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (April 2016). The Chief Financial Officer for 2018/19 was the Executive Director for Corporate and Customer Services and the deputy was the Director, Finance and Procurement.

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

For 2018/19 the Monitoring Officer was the Director, Legal and Assurance and the Head of Legal and the Head of Democracy and Transparency were the deputy monitoring officers.

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

For the year 2018/19 the Head of the paid service was the Chief Executive.

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## **13. Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

The Member Development Steering Group takes ownership of members' development and is responsible for shaping the Member Development Programme. ECC achieved the Member Development Charter Plus in November 2014, following achievement of Charter status in March 2013. In November 2016 we passed the mid-point review of Charter Plus. The full re-assessment took place in March 2018 where evidence was submitted to an external assessment team who then visited the Council to interview key officers, Members and partners. Essex County Council maintained Charter Plus Status following this visit.

Following elections in May 2017 all members were asked to complete a personal development planning questionnaire and then supported in developing a Personal Development Plan. By March 2018 87% of Members had a Personal Development Plan in place. Members were offered a comprehensive Induction after the May 2017 Election and there are regular briefing and development sessions throughout their term of office.

In November 2018 we launched a People Plan – a new workforce strategy which sets out how ECC will build employee capability, skills and culture for the future. The People Plan is a key building block of the [Organisation Strategy](#) and will help ensure ECC achieves the strategic priority to transform the council to achieve more with less. A key strand of this plan is enabling growth and development which will focus on three areas:

- Management and leadership development
- Learning organisation
- Career development

Employees' annual training and development needs are identified through the performance management process. In addition to a comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues. The learning management system 'Learn' brings together professional, leadership, management, personal skills and IT development opportunities. As part of the Essex Social Care Academy, both the Family and Adult Operations Workforce Development teams design and commission training specifically for those teams.

All employees are required to complete comprehensive corporate governance e learning programme.

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

ECC's Risk Management Strategy 2017-21 was approved at Audit Committee in June 2017 and is annually reviewed and refreshed. It is available to staff with accompanying guidance and these are reviewed at least annually to ensure it remains fit for purpose.

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The Risk Assurance Statement for 2018/19 was included in the Head of Assurance Annual Report which was presented to the Audit, Governance and Standards Committee in June 2019.

ECC has a corporate risk management system that records both strategic and service risks and the assigned owners. The system provides automated prompts to risk owners for updates to recorded risks.

A Strategic Risk Report is formally considered on a quarterly basis by the Corporate Leadership Team where they consider current and emerging risks.

A Risk Maturity review has been conducted by PWC and we will be considering this and how to optimise risk management arrangements during 2019/20.

**15. Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).**

ECC has a dedicated Counter Fraud Team within the Assurance Service, delivering services to all ECC staff. The Counter Fraud Team have undertaken proactive prevention and detection work, including participation in the National Fraud Initiative (NFI), data matching exercises with other Essex authorities and internal data matching exercises. The team also deliver directed fraud awareness training in addition to the mandatory Corporate Governance e-learning modules which includes Anti-Fraud and Corruption and Anti-Bribery and Money Laundering.

An external company called Expolink provides an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process.

A total of **284** referrals have been received and investigated by the Counter Fraud Team during 2018/19.

The Audit, Governance and Standards Committee received quarterly updates in respect of counter fraud activity and a summary is included in the Head of Assurance Annual Report.

The Council's counter fraud arrangements have been assessed against the CIPFA Counter Fraud Code of Practice by using the CIPFA self-assessment tool. A set of 68 statements of performance are graded to provide an overall summary of the Council's position. The assessment is divided into 5 main areas:

- Acknowledge Responsibility
- Identify Risks
- Develop a Strategy
- Provide Resources

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- Take Action

The overall summary reported that: *'The organisation has reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.'*

## 16. Ensuring an effective scrutiny function is in place.

Essex County Council has four policy and scrutiny committees. In addition, there are two Joint Health Overview and Scrutiny Committees specifically looking at proposals arising from local Sustainability and Transformation Plans, one with Suffolk County Council and the other with Southend and Thurrock unitary authorities.

Three of the policy and scrutiny committees are chaired by the governing administration. The Corporate Policy and Scrutiny Committee is chaired by the Leader of the largest opposition group. Each of the Committees has two vice-chairmen, one opposition member and one administration member.

Induction, training and support is provided to individual Members and whole committees to support them in their policy development and holding-to-account roles. Following the election in 2017 all committee members received significant levels of training and development and this continues.

The Chairmen of the four committees (and the Chairman of the Audit, Governance and Standards Committee) meet as the Scrutiny Board on a bi-monthly basis, to oversee the coordination of scrutiny activity, consider its development strategically and share best practice.

There is close working between committee Chairmen, Vice-Chairman and their cabinet counterparts, with regular meetings place to discuss key areas of work and direction. Scrutiny Members are involved in influencing policy development (pre-decision scrutiny) and well as post decision scrutiny.

In 2018/19 scrutiny in ECC was supported by officers within Democratic Services and the Head of Democracy and Transparency is the Statutory Scrutiny Officer.

A review of ECC's scrutiny arrangements concluded in 2017 and changes were implemented. The Scrutiny Board continues to discuss issues influencing the effectiveness of scrutiny.

## 17. Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact

The role of the Chief Audit Executive was fulfilled by the Head of Assurance during 2018/2019. The Head of Assurance also has responsibilities for other operational services including Health & Safety, Risk Management, Insurance, Counter Fraud, Emergency Planning and Business Continuity. The arrangements for ensuring independence were outlined in the [Audit Charter](#)

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which was reviewed, updated and presented to the Audit, Governance and Standards Committee in June 2018.

Assurance arrangements for 2018/19 conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit.

In February 2018 the Internal Audit Function was subject to an External Quality Assessment (EQA) by CIPFA to assess its compliance with the Public Sector Internal Audit Standards. The assessor reported that she 'identified some minor areas of non-compliance with the standards, but nothing that would compromise the effectiveness of the service'. These have now been fully addressed.

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

The [Audit, Governance and Standards Committee](#) has undertaken the key functions required of it by Chartered Institute of Public Finance's (CIPFA) guidance on the role of audit committees. The Audit, Governance and Standards Committee role and purpose is set out in Articles of the [constitution](#).

The Committee continues to have a close working relationship with the internal and external auditors and has played an active role in relation to counter-fraud, as stated above.

In July 2018, the Audit, Governance and Standards Committee approved ECC's 2017/18 [Statement of Accounts](#) it approved the 2019/20 Internal Audit Plan in March 2019.

The Committee met 5 times during the 2018/19 financial year, in public. [Their work](#) has included receiving internal audit and counter fraud progress reports, including detail of all limited assurance reviews from the Head of Assurance and the extent to which remedial recommendations have been implemented.

All recommendations arising from Internal Audit and Counter Fraud activity are tracked with monthly automated emails sent to owners of recommendations to request status updates via a web-based system. Summary reports on outstanding recommendations are presented to Audit, Governance and Standards Committee, Corporate Leadership Team, and Functional Leadership Team meetings quarterly. The Corporate Governance Steering Board also monitor implementation of recommendations as one of their indicators of effective organisational governance. This provides good accountability and visibility of Internal Audit recommendations. All reviews with a 'No' or 'limited assurance' opinion are also subject to a follow-up audit review.

## **19. Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.**

The Chief Accountant and the Chief Audit Executive meet with the external auditors on a regular basis to discuss audit activity and ensure that appropriate support is being provided. Quarterly

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meetings are also held with the Executive Director for Corporate and Customer Services (the S151 Officer), the Chief Executive, the Leader and the Cabinet Member with responsibility for Finance to ensure the external auditors are aware of key organisational activity.

## **20. Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures**

The Essex Partnership is a working relationship between representatives of organisations who deliver services to the public across Essex. Governance of Essex Partnership activity is the responsibility of the Essex Partners Board, who meet three times per year to steer the work of partners together to deliver shared priorities for Essex communities.

The Essex Partnership Board directs and oversees progress on, strategic plans which influence the decisions made to shape the future direction of policy and the provision of services within the county.

Essex Partners host the Essex Assembly twice per year, where all senior partners across Essex come together to take forward delivery of the ambitions set out in the Essex vision, Future of Essex and strengthen whole system working.

Essex Partners and the Essex Health & Wellbeing Board are supported by Essex Strategic Coordination Group, who meet every 6 weeks to coordinate action responding to priorities identified by partners and partnerships across the whole Essex system.

The County Council is the accountable body for the South Essex Local Enterprise Partnership (SELEP). This year has been one of change for Local Enterprise Partnerships (LEPS) and following the publication of the 'Strengthened Local Enterprise Partnerships' the Ministry of Housing, Communities and Local Government have issued a wider range of requirements upon LEPS. Accordingly, the SELEP has been working with officials from the MCHLG Cities and Local Growth Unit to ensure that it is actively working towards meeting these requirements. The SELEP has undergone its Annual Performance Review which looked at three key themes, Governance, Delivery and Strategy. The SELEP were found to be compliant with the National Assurance Framework and achieved a 'Good' ranking in relation to Governance and Delivery; a ranking of requires improvement was received in relation to Strategy which has been identified as a priority area by SELEP in 2019/20. In addition to the Annual Performance Review, Essex County Council's internal auditors have undertaken a review of the controls in place for SELEP and the arrangements in place to ensure compliance with the Assurance Framework; the outcome of this audit was an overall opinion of Adequate Assurance, with no critical or major finding arising from the review. The SELEP have developed a delivery plan and have an action plan in place to ensure that there are positive steps taken in ensuring its policies and Assurance Framework are reviewed and updated. Following the Government's expectation that all LEPS must be incorporated, the SELEP are taking steps to achieve this ready for April 2020.

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NHS England has established Sustainability and Transformation Partnerships (STPs). Essex County Council's area is covered by three of the 44 STPs nationally:

- Mid and South Essex (covering Braintree, Chelmsford, Maldon, Brentwood, Basildon, Castle Point and Rochford districts, and the two unitary authority areas of Southend and Thurrock)
- West Essex and Hertfordshire (covering Epping Forest, Harlow and Uttlesford)
- North East Essex and Suffolk (covering Colchester and Tendring)

The governance arrangements for STPs were developed during 2016/17 and were finalised by April 2017. In general terms they all include a Programme Board with representation at director level, as well as reporting links to the Essex Health and Wellbeing Board. STP boards do not change the individual accountabilities and responsibilities of individual organisations as STPs are not statutory.

The NHS Long Term Plan (published in January 2019) expects STPs to become integrated care systems by 2021. These will bring together commissioners and providers across health and social care together under a shared financial envelope to achieve shared goals and health and wellbeing outcomes. Essex County Council is clear that it will not pool funding across county boundaries. The Essex STPs are at different stages of development:

- The Suffolk and North East Essex STP is part of the national wave 2 programme of integrated care systems. A governance framework has been developed and is currently being socialised with, and considered by, partners. It includes proposals for an independent Chair; an Integrated Care System Partnership Board covering Suffolk and North East Essex; and local provider alliances (with a single alliance for North East Essex). The three CCGs across Suffolk and North East Essex are now sharing a single accountable officer and moving towards shared management teams across the three CCGs. Once the governance design work has completed, Cabinet would be asked to approve ECC's support and engagement
- The Hertfordshire and West Essex STP is just starting the process of designing how its ICS might work. It appointed an independent Chair in November 2018. There is already a West Essex Local Delivery Board, bringing together local health and care partners in West Essex, and this is likely to move towards becoming an integrated care alliance
- The Mid and South Essex STP is just starting the process of designing how its ICS might work. This STP has agreed to recruit a new independent Chair in 2019.

The NHS long Term Plan was also accompanied by proposals from NHSE for some changes to the law. These are currently being consulted on nationally. If enacted, they would facilitate the formation of statutory joint committees between NHS providers and commissioners and change some procurement rules for the NHS. It is not clear if – or when – these reforms would be implemented.

The Essex Health Overview Policy and Scrutiny Committee (HOSC) has established two Joint Health Overview and Scrutiny Committees for the two neighbouring authorities in the STPs. The Essex

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HOSC has been working with Southend and Thurrock HOSCs to consider the implications of STP proposals in Mid and South Essex which are now on hold pending resolution of referrals made to the Secretary of State. In another Joint Committee the HOSC is working with the Suffolk HOSC continuing to scrutinise the implementation of the merger of Colchester and Ipswich Hospitals as well as emerging proposals being developed for North East Essex and Suffolk STP. Further joint working may be developed with Hertfordshire HOSC in due course.

## Head of Assurance Opinion

The Head of Assurance's overall audit opinion on the internal control environment (framework of governance, risk management and internal control) is one of **Adequate Assurance** which means that which means although there are some weaknesses which may put individual system/process/service objectives at risk of achievement, there is an overall satisfactory system of internal control, appropriately designed to meet the Council's objectives, and controls are generally being applied consistently.

The Head of Assurance Annual Report provides a summary of the activity used to support this opinion and concludes 'this adequate assurance opinion demonstrates that the control environment has remained relatively stable during 2018/2019, with a similar percentage of limited and no assurance opinions compared to the prior year'.

## External Audit

The External Auditors (EY) provided an [unqualified opinion](#) on the 2017/2018 financial statements. This was reported to the Audit, Governance and Standards Committee in September 2018.

The external auditors for the 2018/19 financial year are BDO LLP.

## External inspections

### Essex Youth Offending Service (YOS)

Essex YOS were rated as Outstanding following an assessment by HM Inspectorate of Probation in October. Inspectors found many aspects of work to prevent offending by children and young people to be impressive and successful.

They commented that work is led well by both strategic leaders and operational managers and although we have one of the largest youth offending teams in the country we have achieved a consistent approach and performance throughout.

Work with children and young people subject to both court orders and dealt with by out-of-court disposals was found to be carried out to "an exceptionally high standard."

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Children and young people, together with their parents and carers, were involved meaningfully at every stage and, unusually, make a valuable contribution to quality assurance of cases.

Inspectors noted a few areas for improvement which are being implemented by the service.

## Children's Services

Children's Services achieved an Outstanding rating from Ofsted following a period of assessment in November 2018. Inspectors judged the local authority to be outstanding in its services to children, with consistently high standards applied across the county, innovative and high quality help and support available and a well-trained and highly skilled workforce.

The report in particular praised the staff and social workers, highlighting that "Staff enjoy working in Essex; morale and motivation are high. Workers describe the work they are able to undertake with children and families as the reason they came into social work." And that "Social workers know children very well. They demonstrate a good understanding of their needs and plans and are passionate about securing and sustaining improvements in their lives."

The report also highlighted that the strong political and corporate support has meant the local authority has been able to manage demand and prioritise children's needs across the council, with praise for senior leaders in their pursuit of excellence for children.

## Allied Healthcare's 'reablement' service (commissioned by ECC)

In September 2018 the Care Quality Commission (CQC) published a report from an inspection of Allied Healthcare's 'reablement' service which took place in March. The CQC carried out the unannounced inspection after service users, their relatives and staff raised serious concerns. They found that safety was inadequate, and that there was inadequate leadership. Since the inspection the Allied decided to transfer its business and ECC worked with Allied to ensure a seamless transfer of care to new providers.

## Information Governance

The Information Commissioner's Office has made the following comments in its Decision Notices issued during 2018/19, none of which have resulted in monetary penalties or enforcement action:

- Of the five decision notices received in 2018/19 from the ICO regarding complaints made to them about ECC compliance:
  - Two were FOI related and three were EIR related.
  - Two were not upheld (i.e. ECC had been found not to have breached the law), three were confirmed as upheld. Of those complaints that were upheld, two required ECC to disclose information that it had previously withheld. And on the final notice, ECC was not required to take any further action because it had released the information during the ICO's investigation.

# Annual Governance Statement

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Monthly performance in responding to statutory requests under FOI/EIR has exceeded the ECC corporate target during 2018/19. However, monthly performance in responding to statutory requests under GDPR (SAR) is 5% below the corporate target. This is monitored by the Corporate Governance Board on a quarterly basis.

General compliance issues relating to processing of personal data are being managed under the GDPR project which remains in place. In addition to Egress, a secure way of sending emails implemented in 2017, we have now implemented TLS secure email solutions across a number of organisations. This replaces the GCSx secure email, when transferring information to public sector bodies. The Data Security and Protection Toolkit has been submitted in 2019 and as ECC has met all mandatory requirements, this demonstrates the ECC's compliance with the National Data Guardians standards and ensures ongoing access to the Health and Social care network, a critical way of sharing information. Measures around information security are monitored by the Corporate Governance Board on a quarterly basis.

## Local Government Ombudsman (LGO)

ECC received 100 contacts from the Local Government and Social Care Ombudsman (LGSCO) between 1 April 2018 to 31 March 2019 which is slightly lower than 117 contacts received in 2017/2018. A total of 35 escalated to formal investigation with 18 cases not upheld and 17 upheld finding either maladministration and/or injustice with all agreed recommendations carried out within timeframe set by the investigator. Where the investigations have found fault, the Ombudsman makes recommendations to remedy that fault. This can come in the form of an apology, a financial payment or a reassessment of services. Ombudsman recommendations may also include wider improvements to services including re-visiting training, policies and procedures. The Compliance and Complaints team continues to work constructively with the Ombudsman's office to remedy injustices and capture the learning from cases and share this across relevant service areas and the wider organisation.

## Health and Safety

There have been no prosecutions, or other enforcement notices served, under health and safety legislation, against the Council during the financial year 2018/19.

However, there are currently three actual or potential "material breaches" of health and safety legislation under investigation by the Health and Safety Executive (HSE).

The first was included in the Corporate Governance Statement a year ago as follows:

*"The Health and Safety Executive investigated a potential breach of the Gas Safety (Installation and Use) Regulations 1998 on a Voluntary Controlled school site (i.e. where ECC is the employer but does not own the school buildings), in November 2017. At the time of writing the outcome of this investigation is not yet known. Although enforcement action is most likely to be against the contractor used by the school the HSE may still take enforcement action against other duty holders such as the school and/or ECC."*

The HSE wrote to ECC, in July 2018, informing us that this may result in a Fee for Intervention (FFI).

# Annual Governance Statement

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In July 2018 there was an incident at a Community School which resulted in ECC reporting a Dangerous Occurrence to the HSE, due to the potential exposure of five ECC employees (and two employees of a contractor) to asbestos contamination. This, again, resulted HSE writing to ECC informing us that this may result in a Fee for Intervention (FFI).

The HSE visited a County Park in October 2018 and issued a formal FFI letter in November alleging a breach of the Control of Substances Hazardous to Health (CoSHH), with respect to inadequate welfare facilities for the public wishing to feed the deer. To date no further correspondence has been received.

## Essex Libraries Consultation

The Consultation on the draft 5 year strategy for future library services in Essex ran from 29 November 2018 to 21 February 2019. The results of the consultation are due to be presented to Cabinet in summer 2019. The consultation attracted significant public interest, including 59,855 signatures from 55 petitions. It was also the subject of an [Extraordinary Full Council](#) meeting in March 2019.

## Disability Confident

ECC has been accredited as a Disability Confident Leader. ECC is now working with Purple, a disability organisation based in Essex to drive forward a range of activity aimed at maintaining its leader status during 2018-2020. This work includes looking at ECC's recruitment, retention and procurement practices as well as at support for people with mental health conditions.

## ECC Owned Companies

ECC has interests in and is involved in a number of companies for lots of different reasons. For example, we may want to trade services for profit or we may set up a joint decision-making forum with partners. The Council has adopted company guidance which sets out requirements about creating new companies or joining a new company. The creation of an ECC company is a significant step. No ECC company may be created or dissolved without a formal Cabinet or a formal decision by the Leader. ECC has a Shareholder Board which oversees relationships with ECC companies, delivery of each ECC company's business plan, performance, financial issues, investments and governance arrangements. This Board met for the first time in February 2019.

## Previous Governance Matters Arising

All Governance remedial actions identified in the 2017/18 Annual Governance Statement have been adequately addressed, with implementation being reviewed by the Corporate Governance Steering Board. The Corporate Peer Challenge was postponed by the LGA and therefore reappears in the action plan below. The implementation of Essex Pay, ECC's new Pay and Grading arrangements, was delayed because some Organisational Design programmes were implemented later than originally anticipated. Currently 63% of those in scope are on Essex Pay so this action also reappears below.

# Annual Governance Statement

## Action Plan

We do not consider that there have been any significant governance issues arising in 2018/19. However, the actions detailed below are in place to maintain good governance arrangements throughout 2019/20.

Subject	Action(s)	Responsible Officer	Target completion date
Corporate Peer Challenge	Enable and contribute to the Corporate Peer Challenge	Chief Executive	During 2019/20
Assurance	Implement all actions identified as part of the SAS process	All Executive Directors	During 2019/20, varies depending on individual action.
Standards	Monitor progress on implementation of the recommendations for the Committee in Standards in Public Life	Monitoring Officer	Ongoing
Internal Audit	Improve compliance with audit recommendations	All Executive Directors	Ongoing
Pay and Grading	Implement the new Pay and Grading arrangements	Chief Executive	Summer 2019
Information Governance	Monthly performance in responding to statutory requests for information to be monitored and reviewed	Head of Democracy and Transparency	Ongoing
	Retention and Destruction project to continue to ensure compliance. This includes further updating of the retention schedule to ensure that information is reviewed and destroyed in line with GDPR.		28th October 2018 (ongoing)
	Develop and update Information Security Disaster recovery plan 2019/20		Ongoing
	ECC high risk systems have been reviewed and evaluated, further work is ongoing relating to medium/low risk systems.		Ongoing
	Contract monitoring process to be further developed and implemented		Ongoing

# Annual Governance Statement

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We have been advised on the outcome of the result of the review of the effectiveness of the governance framework and consider that the arrangements provide adequate assurance and continue to be regarded as fit for purpose in accordance with the governance framework. We are committed to monitoring the implementation of the action plan, via the Corporate Governance Steering Board, as part of the next annual review.



**Cllr David Finch**  
Leader of the Council



**Gavin Jones**  
Chief Executive

# Independent Auditor's Report

# **Independent Auditor's Report**

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## **Independent Auditor's Report to Members of Essex County Council**

To be inserted upon conclusion of the external audit for 2018/19

AGS / 39 / 19	
<b>Report title:</b> 2018/19 Audit Completion Report for Essex County Council	
<b>Report to Audit, Governance and Standards Committee</b>	
<b>Report author:</b> Margaret Lee - Executive Director for Corporate and Customer Services	
<b>Date of meeting:</b> 29 July 2019	<b>For:</b> Noting
<b>Enquiries to Margaret Lee</b> <i>Executive Director, Corporate and Customer Services</i> <b>Tel. No:</b> 03330 134558	
<b>Divisions affected:</b> All Essex	

## 1. Purpose of report

- 1.1 The purpose of this report is to present BDO's 2018/19 Audit Completion Report for the Council, as appended.

## 2. Recommendation

- 2.1 To note the report.

## 3. Background and proposals

- 3.1 The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the National Audit Office (NAO) Code of Audit Practice 2015.
- 3.2 The NAO Code of Audit Practice requires BDO to report to those charged with governance – the Audit, Governance and Standards Committee – on the work they have carried out to discharge their statutory audit responsibilities.
- 3.3 The attached report summarises the findings from the 2018/19 audit of the Council which, at the time of writing this report, was still ongoing. The report includes the messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess our arrangements to secure value for money in our use of resources.
- 3.4 BDO welcome the opportunity to discuss this report with the Committee.

#### **4. Policy context and Outcomes Framework**

- 4.1 The Audit Completion Report presents BDO's opinions on the Council's Statement of Accounts and on its arrangements to secure economy, efficiency and effectiveness.
- 4.2 The Statement of Accounts provides a financial representation of activities against the Organisation Strategy.

#### **5. Financial Implications**

- 5.1 There are no specific financial implications associated with this report.

#### **6. Legal Implications**

- 6.1 There are no legal implications associated with this report.

#### **7. Staffing and other resource implications**

- 7.1 There are no staffing or other resource implications associated with this report.

#### **8. Equality and Diversity implications**

- 8.1 There are no equality and diversity implications associated with this report.

#### **9. List of appendices**

- 9.1 2018/19 Audit Completion Report for Essex County Council

#### **10. List of Background Papers**

- 10.1 None



Report to the Audit, Governance and Standards Committee

# ESSEX COUNTY COUNCIL

Audit Completion Report: Year ended 31 March 2019

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# WELCOME

## Introduction

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#### Audit report

#### Independence and fees

#### Appendices contents

We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.



David Eagles, Partner  
For and on behalf of BDO LLP

19 July 2019



David Eagles  
Engagement lead

t: 01473 320 728  
e: david.eagles@bdo.co.uk



Janine Combrinck  
Director

t: 020 7893 2631  
e: janine.combrinck@bdo.co.uk



Barry Pryke  
Senior Manager

t: 01473 320 793  
e: barry.pryke@bdo.co.uk

# OVERVIEW

## Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2019. This report will be updated once the outstanding matters identified have been completed.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



### Overview

Our audit work is ongoing and we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 39 in the appendices or in the relevant sections detailing work done on the areas of audit risk.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

### Audit report

We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's financial statements and use of resources as set out on page 40.

# THE NUMBERS

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### Final materiality

Final materiality was determined based on gross expenditure.

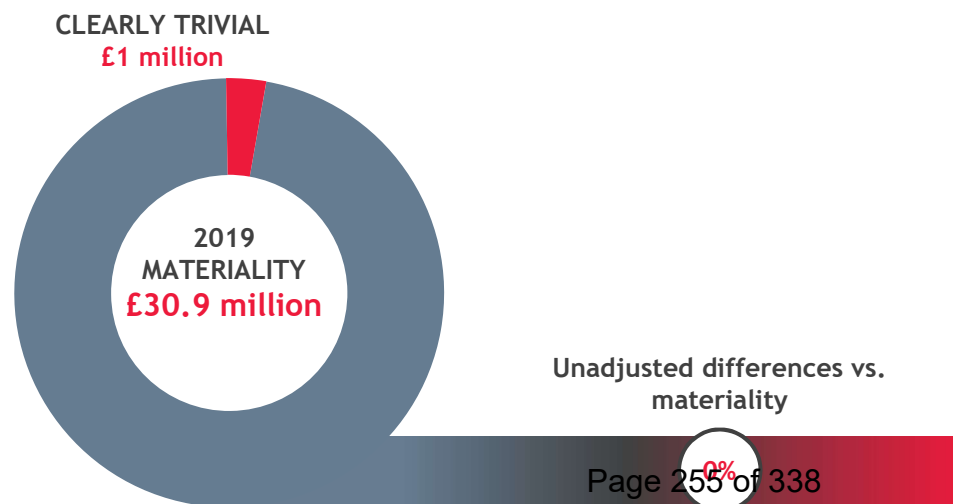
We have increased our materiality from £30.7 million to £30.9 million as a result of gross expenditure in the unaudited 2018/19 financial statements being higher than 2017/18 gross expenditure on which our planning materiality was based.

### Material misstatements

Subject to completion of the outstanding matters on page 39, we have not identified any material misstatements.

### Unadjusted audit differences

Subject to completion of the outstanding matters on page 39, we have not identified any audit differences that have not been adjusted.



# OTHER MATTERS

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### Financial reporting

**Subject to completion of the outstanding matters on page 39:**

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes, other than those relating to IFRS 9, have been identified which have a material impact the current year.
- Our review of the Narrative Report and Annual Governance Statement is ongoing.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

### Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.



AUDIT RISKS OVERVIEW

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As identified in our Audit Plan dated 1 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified*	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Revenue and expenditure recognition	Significant	No	No	No	No	No
Property, Plant and Equipment and Investment Property Valuations	Significant	Yes	Yes	No	No	Yes
Pension liability assumptions	Significant	Yes	Yes	Yes, adjusted	No	Yes
Waste PFI	Significant	Yes	No	No	No	No
Related party transactions	Normal	No	No	No	No	Yes
Implementation of IFRS 9 financial instruments	Normal	Yes	No	No	No	No
Implementation of IFRS 15 revenue from contracts with customers	Normal	Yes	No	No	No	No

Areas requiring your attention

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\* Subject to outstanding matters on page 39

# MANAGEMENT OVERRIDE OF CONTROLS

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**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and/or unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.

## Results

Our audit work on journals and estimates is ongoing at the time of writing. We will provide a verbal updated to the Audit, Governance and Standards Committee.

# REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

## Risk description

In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

We have rebutted the risk of revenue recognition in respect of the Council's other revenue streams, including taxation and non-specific grant income, fees and charges and interest and investment income.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

## Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants recognised as revenue to documentation from grant paying bodies and check whether recognition criteria had been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

## Results

Testing of expenditure either side of the year end is complete and we have no matters to report.

Our work on grants recognised as revenue is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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# PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY VALUATION

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**There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

Local authorities are required to ensure that the carrying value of land, buildings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council's external property advisors.

Due to the significant value of the Council's land, buildings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the external valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appeared unusual; and
- Reviewed all properties not subject to in-year valuation against changes in market conditions to assess the impact on the value of the Council's portfolio

## Results

Our work on the valuation of property, plant and equipment and investment properties is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

# PENSION LIABILITY VALUATION

**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.**

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

## Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

## Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.

## Results

Recent legal cases regarding transitional protection for members of certain public sector pension schemes where the terms of the benefit provided by the scheme have changed determined that these protections were age discriminatory. No allowance was made for these judgements in the information provided to the Council by the actuary for the purposes of preparing its Statement of Accounts due to the uncertainty surrounding the impact on the Local Government Pension Scheme (LGPS).

Following publication of the Council's unaudited 2018/19 Statement of Accounts, the government's request for an appeal relating to one of these cases was refused by the Supreme Court. While the impact on the LGPS is unknown, there is sufficient information to calculate a reasonable estimate of the liability. The Council requested the actuary to prepare updated information recognising the impact of the judgements, resulting in an increase in both past service cost and the net pension liability of £22.4 million.

Management have provided a revised version of the IAS 19 disclosures. Our work on these revised disclosures is in progress and we will provide a verbal update to the Audit, Governance and Standards Committee.

# WASTE TREATMENT PLANT PFI

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**There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.**

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

The Council is party to a PFI arrangement for the design, construction and operation of a waste treatment plant. As disclosed in the Council's 2017/18 Statement of Accounts, construction of the plant commenced in May 2013 and achieved the Readiness Date in November 2014. The Facility remains in the commissioning phase and the contractual long stop date has passed. The Council and operator of the facility are currently utilising contractual and dispute mechanism to resolve issues which have occurred during the commissioning phase.

There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the contract to confirm that the Council's treatment of the arrangement is consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting; and
- Considered the basis for any judgements made by management in determining the treatment of the assets and liabilities associated with the arrangement.

## Results

Our work is complete and we have no matters to report.

# RELATED PARTY TRANSACTIONS

**There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.**

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

## Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit, Governance and Standards Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

## Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed councillors' and management declarations to ensure that there were no potential related party transactions which had not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

## Results

Our work is complete and we have no matters to report.

# CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that financial instruments are not classified and measured in accordance with IFRS9

## Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

## Results

Our work on IFRS 9 remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

# REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

There is a risk that financial instruments are not classified and measured in accordance with IFRS9

## Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

## Results

Our work on IFRS 15 remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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## Fraud

Whilst management have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 25 March 2019.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any matters in connection with related parties.



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# ADJUSTED AUDIT DIFFERENCES: SUMMARY

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There were two audit differences identified by our audit work that were adjusted by management. This increased the draft deficit on the provision of services and decreased net assets £22.4 million.

There was no impact on the general fund balance.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Deficit on the provision of services before adjustments	242,211				
1: Revised IAS 19 entries following McCloud judgement					
DR Cost of services - continuing operations	22,340	22,340			
CR Net pension liability					(22,340)
DR Pension Reserve				22,340	
CR Movement in reserves (general fund)*			(22,340)		
2: Incorrect treatment of debtor invoices raised in advance					
DR Receipts in advance				3,034	
CR Debtors					(3,034)
Total adjusted audit differences	22,340	22,340	-	3,034	(25,374)
Adjusted deficit on the provision of services	264,551				

\* This line reflects the reversal of the revised IAS 19 entry out of the general fund. For presentational purposes it has been shown above as a credit in the Income and Expenditure column. However, It does not affect the deficit on the provision of services and is therefore not shown in the 'Total adjusted audit differences' line.

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# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.**

Subject to the completion of outstanding matters shown on page 39 and other matters highlighted elsewhere in this report, the following adjusted disclosure matters were noted:

- The timings and amounts of property, plant and equipment revaluations disclosed in Note 14.5 Revaluations were analysed incorrectly. This did not affect the total cost or valuation disclosed.
- Management have made a number of other minor changes to disclosures to improve the clarity of the information presented and ensure compliance with the CIPFA Code.

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# REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our work on the narrative report is in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.	Our work on the Annual Governance Statement remains in progress. We will provide a verbal update to the Audit, Governance and Standards Committee.

# WHOLE OF GOVERNMENT ACCOUNTS

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## Matter

For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

## Comment

Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council did not meet this deadline.

We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.

We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline.

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# OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No
Waste treatment services	Informed decision making	Significant	No

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

## Risk description

The Organisation Plan 2019/20, approved by the Council in February 2019, includes a Medium Term Resources Strategy (MTRS) to 2021/22 that forecasts further reductions in central Government funding, inflationary pressures and increasing demand for social care services.

Significant levels of savings are required to balance the budget in each year of the MTRS.

The 2019/20 budget includes £60 million of identified savings and efficiencies. There are a number of initiatives in progress to generate these savings, including contract efficiencies, back office savings through process efficiency, service redesign and digital services, increasing income from fees and charges and commercial activity, development of the Council's fostering service and seeking more cost effective ways of supporting children with disabilities.

However, the MTRS indicated that the Council still needs to find a further £100 million of savings over the medium term to 2021/22, of which £72 million will need to be achieved in 2020/21. The March 2019 Budget Outlook reviewed by the corporate leadership team forecast that this savings requirement would escalate to a cumulative £148 million in 2023/24.

The Council needs to maintain a strong focus on identifying further savings and producing a balanced budget over the medium term.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the financial outturn for 2018/19 and progress against the 2019/20 budget, as a starting point for assessing the effectiveness of financial management arrangements;
- Considered the reasonableness of the MTRS assumptions, including investment costs associated with major savings schemes and capital projects;
- Reviewed arrangements to identify savings, including any relevant Internal Audit work, evidence underpinning a sample of identified savings schemes, and progress towards identifying further savings to balance the budget in the medium term; and
- Carried out benchmarking to compare the Council's financial performance against other county councils, taking account of relevant contextual information, in informing our assessment of the strength of the Council's financial management arrangements.

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

## Overall conclusion

We are satisfied the Council has adequate arrangements for budget monitoring and taking mitigating actions to eliminate the impact of any overspends and undeliverable savings. As a result it has retained its track record of delivering underspends in the General Fund and is on track to deliver its required savings in 2019/20.

The MTRS reflects known savings and cost pressures and the key assumptions are reasonable.

The MTRS and the Council's Finance Outlook towards the end of 2018/19 indicated cumulative budget gaps of £148 million by the end of 2023/24. Based on this position, if no further savings are made in 2020/21 to 2023/24, above those already identified and assumed in the MTRS, the Council's general fund balance, reserve for future capital funding and other unrestricted earmarked reserves would be fully depleted.

However, the Council has a comprehensive business planning process in place and significant work has been done to identify further savings of £116 million over the four year period to 2023/24, with £64.2 million identified for 2020/21. This compares to a average of £59 million in 2018/19 and 2019/20.

This has reduced the budget gap to a cumulative £54.3 million by 2023/24, of which £27.3 million relates to 2020/21. The Council has sufficient unrestricted earmarked reserves to cover this shortfall, if necessary.

Achieving the identified savings and closing the remaining budget gaps will be challenging and will continue to require strong leadership and action by the Council, particularly if the Council wants to maintain its general fund and unrestricted earmarked reserves balances at current levels over the medium term. However, we are satisfied that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

## Detailed results

### Financial outturn for 2018/19

The Council delivered £64.5 million of savings in the year, which exceeded the savings target of £58.5 million. Of these, £45 million were delivered by the original planned method, £6 million was over-delivered and a further £13.5 million was delivered via mitigation actions.

Overall the Council achieved an underspend of £8.9 million against its final estimate for the year. This related to:

- £4 million emergency contingency fund not used due to mild winter conditions;
- £4.1 million higher income from government grants, council tax and non-domestic rates;
- £0.8 million underspend on interest and financing costs due to lower than planned borrowing;
- Net underspend by services of £7.9 million, largely in health and adult social care, which was transferred into carry forward earmarked reserves for unspent budgets.

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

£6.5 million of the net underspend was transferred into the transformation reserve and £2.4 million into the general fund.

As a result, the Council closed the year with a general fund balance of £56.6 million, an increase of £3 million over the prior year balance. This is slightly in excess of the 6% minimum level recommended by the Section 151 officer and sufficient to cover 22 days of operational expenditure.

Earmarked general reserves increased by £10 million in the year, to £294.9 million at 31 March 2019. A large portion of the Council's earmarked reserves are restricted to specific revenue commitments or held on behalf of others and therefore not available to support general spending by the Council. The total of these earmarked reserves at 31 March 2019 is £207.1 million. In addition, the Council has £12.1 million earmarked for funding future capital investment. The remaining £75.7 million of unrestricted earmarked reserves at 31 March 2019 will provide a cushion against future risks and support transformational change to assist the Council in achieving efficiencies.

## ***Progress against the 2019/20 budget***

The 2019/20 budget includes a savings requirement of £59.6 million for the year, which management has rated as follows:

- £36 million as 'Green' as they are on track to be delivered;
- £10.9 million as 'Amber' as plans for some savings initiatives are still being developed and additional resources have been assigned to address the remaining gap;
- £8 million as 'Red' as there is a higher risk of non-delivery, mainly due to plans not being in place, although there are arrangements to progress these projects; and
- £4.7 million as 'Black' as they are not considered to be deliverable.

Based on the underlying processes in place to achieve these savings, management is currently forecasting that it will deliver £54.8 million in 2019/20 and mitigations have been identified for £4.5 million of the undeliverable savings, leaving a relatively minor gap of £0.2 million.

We have noted that management was prudent in its delivery risk assessments during 2018/19, by only reporting savings as 'Green' when they had been fully delivered. In January 2019 it was reporting 'Green' savings of £46 million for 2018/19, which increased to £52.7 million in February 2019 and then to £64.4 million by the end of the year. This provides us with further assurance that the Council will achieve its savings target in 2019/20.

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

## MTRS assumptions

The MTRS to 2021/22, which was approved by Cabinet in February 2019, includes the following key assumptions, which are considered reasonable:

- No revenue support grant from 2020/21 (per the Government's four year settlement ending in 2019/20);
- No increase in council tax from 2020/21 but a 1% increase in tax base, based on historic trends;
- Growth of 1% in business rates, based on historic trends and an inflationary uplift; and
- Inflationary increases for fees and charges, pay expenditure and other contractual commitments.
- A rise in the revenue costs of borrowing to finance the capital programme, from 7% of the net budget in 2018/19 to an estimated 9.1% by 2021/22, as the Council plans to invest considerable sums through the capital programme over the next three years, some of which will help to deliver revenue savings; and
- Savings and commercial income generation of £16 million in 2020/21 and £20 million in 2021/22, which are largely identified.

The MTRS assumes that the general fund balance will remain unchanged throughout the period, which is now £56.6 million. Unrestricted earmarked reserves are expected to reduce by £6 million in 2019/20 but then to increase by £1.9 million in 2020/21 and by £6.8 million in 2021/22. Based on the balance of £75.7 million at 31 March 2019, these reserves are therefore expected to increase to £78.4 million by 31 March 2022.

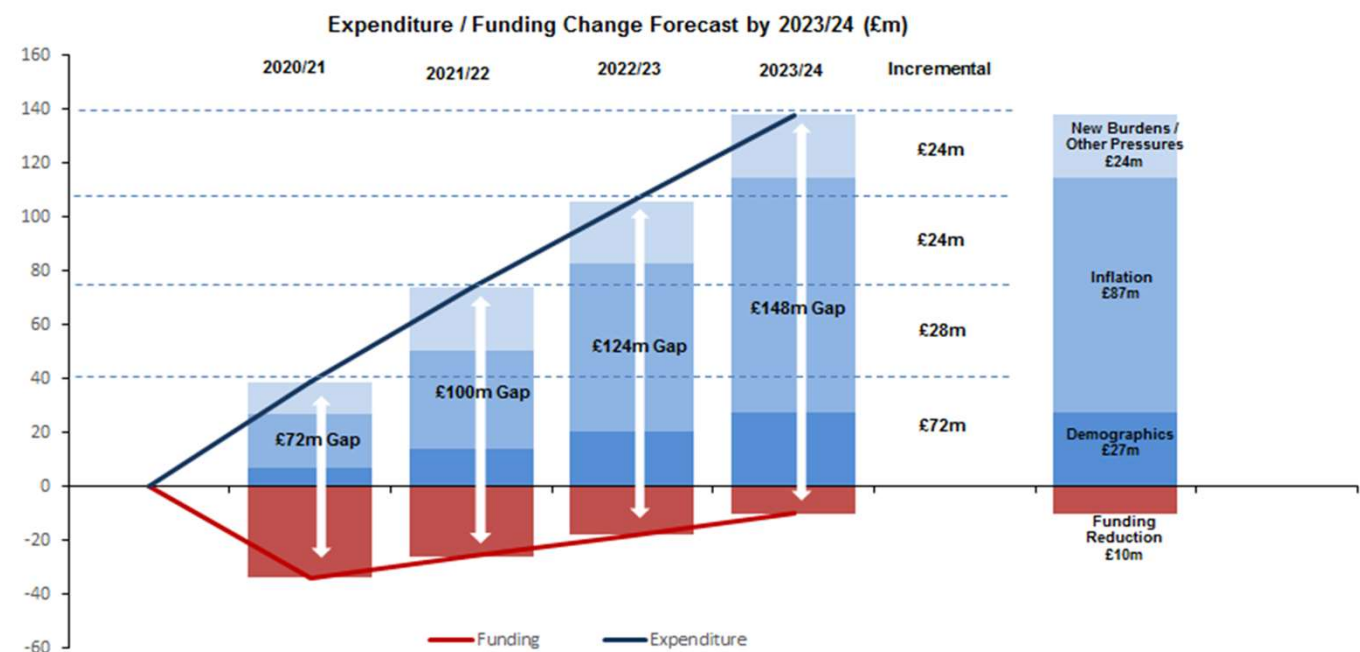
After taking the above into account, the MTRS indicated a budget gap of £72 million in 2020/21, which escalates to a cumulative £100 million in 2021/22, £124 million in 2022/23 and £148 million in 2023/24.

# SUSTAINABLE FINANCES 4

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
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The following chart has been extracted from the Council’s MTRS:



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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.

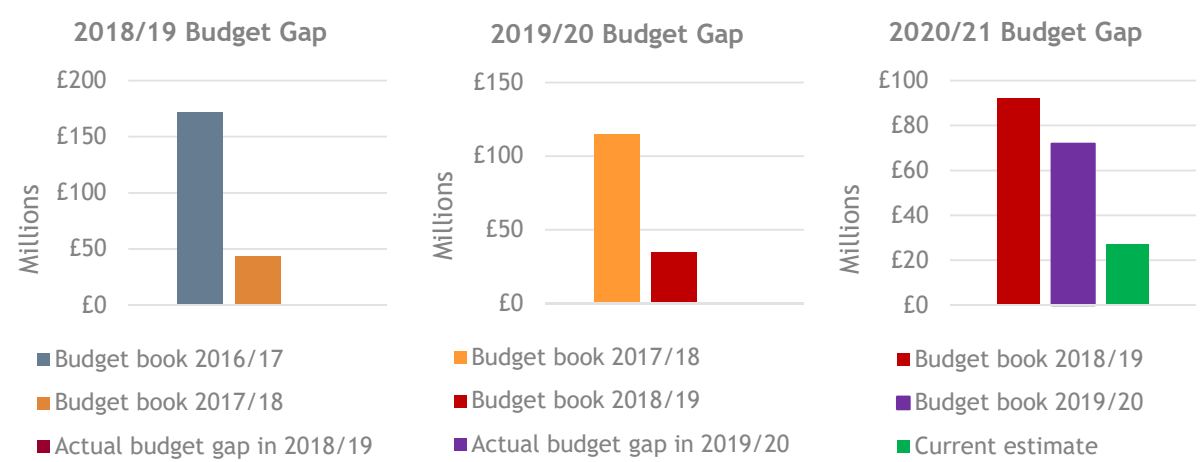
Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

The business planning process that has been in place since January 2019 has resulted in additional identified savings that have reduced the medium term budget gap to a cumulative £54.3 million by 2023/24, of which £27.3 million relates to 2020/21.

The Council has sufficient unrestricted earmarked reserves to cover this shortfall, if necessary.

However, our review of the budget gaps reported in the Council’s Budget Books in recent years shows how they have decreased as time progresses:

- In 2016/17, the Council was reporting budget gaps of £101 million for 2017/18 and £172 million for 2018/19;
- In 2017/18, the Council was reporting budget gaps of £44 million for 2018/19 and £115 million for 2019/20;
- In 2018/19, the Council was reporting budget gaps of £35 million for 2019/20 and £92 million for 2020/21; and
- In 2019/20, the Council was reporting a budget gap of £72 million for 2020/21, which has now reduced to £27.3 million following the most recent business planning process.



This trend, combined with the fact that the Council has a robust business planning process in place (covered further on the following page), provides assurance that the current medium term budget gaps will reduce as planning continues.

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

## *Arrangements to identify savings*

The Council is currently going through phase 2 of its a four year business planning process to identify savings to close the budget gaps in the MTRS.

A business planning document produced by the Council set out the process as follows:

- Phase 1 'Insight and Strategic Intent', ran from January to May 2019, with the aim of ensuring clarity around medium-term political direction and priorities, including areas for relative de-prioritisation and a strategic steer on what can be delivered by greater productivity/efficiency/income generation and what will be driven through transformation and policy change. That strategic direction was then translated into high level priorities at a functional level within a set financial envelope, to ensure that the Council's priorities are aligned to the available resources.
- Phase 2 'Development', has run from February to July 2019, with functions developing their detailed business plans to align with the strategic intent developed in the first phase. This process allows for business plans to set out change and transformation priorities and credible measures to deliver a balanced budget and MTRS.

We understand that a significant amount of work has been completed to identify savings to close the budget gap and that draft 4 year business plans are being presented to the corporate leadership team and members by the end of July 2019. As noted on the previous page, the process has resulted in additional identified savings that have reduced the medium term budget gaps.

Total identified savings now total £64.2 million for 2020/21 and escalate to a cumulative £116 million in 2023/24.

The target for 2020/21 is above the average level of savings of £59 million achieved or expected to be achieved in 2018/19 and 2019/20. Whilst it will be challenging and continue to require strong planning and monitoring by the Council, the Council has a history of achieving its savings targets and delivering underspends in prior years.

Internal Audit carried out an audit of 'Identifying Deliverable and Desirable Savings' in 2018/19. We have not yet had sight of this report as it has not yet been approved by officers, however we understand from our liaison with Internal Audit that it has been awarded an 'Adequate' assurance level. This means that there is basically a sound system of control, although there are some areas of moderate weakness which may put the system/process objectives at risk.

We also reviewed evidence to support a sample of identified savings schemes in 2019/20, and are satisfied that there are adequate plans and monitoring arrangements in place to deliver the savings.

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that some savings may not be delivered.**

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

## Benchmarking

The Council has carried out various benchmarking exercises to compare its operational and financial performance against other county councils. A presentation provided to members in November 2018 indicated very high unit cost spend in Adult Social Care and Highways and Transport, and very low unit cost spend in Childrens' Social Care, compared to other county councils. However, it is clear from the presentation that the reasons for the Council's position have been explored, are well understood and are due to demographic and other contextual issues.

We have also compared the Council's financial position at 31 March 2019 to other county councils. This indicates that its level of general fund and earmarked reserves as a percentage of gross expenditure (per the pre-audit financial statements for all county councils) is slightly above average, at 14% compared to an average of 13% across all county councils.

# WASTE TREATMENT SERVICES

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**There is a risk of insufficient arrangements in place to plan for the future of waste treatment if decisions are put on hold pending the outcome of legal proceedings.**

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

## Risk description

As noted under the financial statements audit risks above, the Council and operator of a waste treatment plant under a PFI arrangement are currently utilising contractual and dispute mechanisms to resolve issues which have occurred during the commissioning phase. Both parties are presently engaged in the litigation process, with the court trial commencing in April 2019.

There is a risk that the Council may not be adequately planning for the future of waste treatment in the county, including making informed decisions based on expected or possible scenarios, as it awaits the outcome of the court trial.

## Work performed

We carried out the following planned audit procedures:

- Through discussion with relevant officers, obtained an understanding of planning arrangements in place regarding waste treatment services;
- Assessed whether appropriate scenario planning has been carried out to support informed decision making.

## Results

From the work carried out, we have no specific concerns regarding informed decision making in this area.

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# OVERVIEW

## Opinion on financial statements

Subject to completion of the outstanding matters on page 39, we anticipate issuing an unmodified opinion on the Group and the Council financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

## Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

## Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

## Other information

We have not identified any material misstatements that would need to be referred to in our report.

## Annual Governance Statement

Subject to completion of our review of the Annual Governance Statement, we have no matters to report.

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# INDEPENDENCE

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

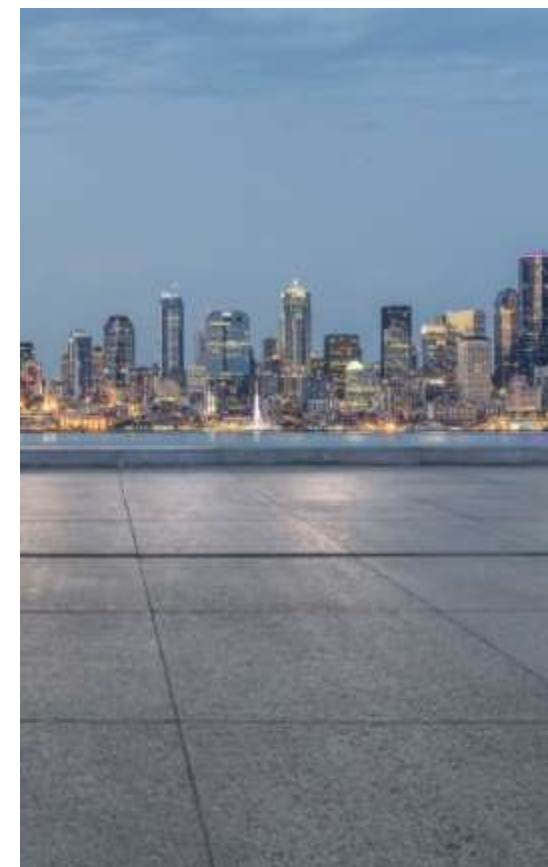
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

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Fees summary	2018/19	2018/19
	Actual	Planned
	£	£
Audit fee		
• Code audit fee: Consolidated Group and Council financial statements and use of resources	126,265	126,265
Non-audit assurance services		
Fees for reporting on government grants:		
• Teachers' pensions return	TBC	TBC
Fees for other non-audit services		
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>



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# RESPONSIBILITIES AND REPORTING

## Responsibilities and reporting

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### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



## ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

# COMMUNICATION AND REPORTS ISSUED

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## Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	25 March 2019	Audit, Governance and Standards Committee
Audit Completion Report	29 July 2019	Audit, Governance and Standards Committee
Annual Audit Letter	16 September 2019	Audit, Governance and Standards Committee

# OUTSTANDING MATTERS

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The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- We have not fully concluded on our work yet, although the detailed procedures are in progress. We have highlighted specific risk areas where work is in progress elsewhere in this report, including:
  - Journals and accounting estimates
  - Grants recognised as revenue
  - Valuation of property, plant and equipment and investment properties
  - Pension liability valuation
  - IFRS 9 and IFRS 15
  - Narrative report and annual governance statement

Other sections where we are yet to commence our audit procedures are as follows:

- Pooled budgets
- Expenditure and Funding Analysis
- Cash flow statement
- Group consolidation
- Going concern
- Contingencies and commitments
- Manager, partner and quality control reviews and clearance of review points
- Clearance of technical review
- Subsequent events review
- Management letter of representation, as attached in Appendix E to be approved and signed



# AUDIT REPORT

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX COUNTY COUNCIL

### Opinion on the financial statements

We have audited the financial statements of Essex County Council ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2019 which comprise the Council and group Comprehensive Income and Expenditure Statement Council, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets and the Council and Group Cash Flow Statements and notes to the financial statements including a summary of significant accounting policies. 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director, Corporate and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director, Corporate and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# AUDIT REPORT 2

## Continued

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### Other information

The Executive Director, Corporate and Customer Services is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

### Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

# AUDIT REPORT 3

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### Responsibilities of the Executive Director, Corporate and Customer Services and the Council

As explained more fully in the Statement of the Executive Director, Corporate and Customer Services Responsibilities, the Executive Director, Corporate and Customer Services is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Executive Director, Corporate and Customer Services is responsible for assessing the Council's and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations of the Council or group or has no realistic alternative but to do so.

The Council 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.

### Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

# AUDIT REPORT 4

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### Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council'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 use of resources conclusion.

### Use of our report

This report is made solely to the members of Essex County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Eagles

For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

XX July 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# AUDIT QUALITY

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## BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
IP3 9SJ

Dear Sirs

**Financial statements of Essex County Council for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the Group and the Council’ financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Executive Director Corporate and Customer Services has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

**Going concern**

We have made an assessment of the Group and the Council’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council’s ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Council’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

You have not advised us of any unadjusted misstatements in the financial statements or other information.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

There were no loans, transactions or arrangements between any Group entity and the Council’s members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

**Accounting estimates**

**a) Pension fund assumptions**

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- RPI increase 3.4%
- CPI increase 2.4%
- Salary increase 3.9%
- Pension increase 2.4%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

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b) Valuation of land and buildings and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Margaret Lee  
Executive Director Corporate and Customer Services  
[date]

Councillor Terry Cutmore  
Chair of the Audit, Governance and Standards Committee  
[date]



FOR MORE INFORMATION:

**David Eagles**

t: 01473 320 728

e: david.eagles@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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AGS / 40 / 19	
<b>Report title:</b> 2018/19 Audit Completion Report for the Essex Pension Fund	
<b>Report to Audit Committee</b>	
<b>Report author:</b> Margaret Lee - Executive Director for Corporate and Customer Services	
<b>Date of meeting:</b> 29 July 2019	For: Noting
<b>Enquiries to:</b> <i>Margaret Lee,</i> <i>Executive Director, Corporate and Customer Services</i>	
<b>Tel. No:</b> 03330 134558	
<b>Divisions affected:</b> All Essex	

# **1. Purpose of report**

- 1.1 The purpose of this report is to present BDO's 2018/19 Audit Completion Report for the Essex Pension Fund, as appended.

# **2. Recommendation**

- 2.1 To note the report.

# **3. Background and proposals**

- 3.1 The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the National Audit Office (NAO) Code of Audit Practice 2015.
- 3.2 The NAO Code of Audit Practice requires BDO to report to those charged with governance on the work they have carried out to discharge their statutory audit responsibilities.
- 3.3 BDO regard Essex County Council's Audit, Governance and Standards Committee as the member forum ultimately responsible for the governance of the Essex Pension Fund. However, BDO also report their findings to the Essex Pension Board ahead of the Audit, Governance and Standards Committee meeting.
- 3.4 The attached report summarises the findings from the 2018/19 audit which is substantially complete. It includes the messages arising from BDO's audit of the Essex Pension Fund's financial statements.

3.5 BDO welcome the opportunity to discuss this report with the Committee.

#### **4. Policy context and Outcomes Framework**

4.1 The Audit Completion Report presents BDO's opinions on the financial statements of Essex Pension Fund.

#### **5. Financial Implications**

5.1 There are no specific financial implications associated with this report.

#### **6. Legal Implications**

6.1 There are no legal implications associated with this report.

#### **7. Staffing and other resource implications**

7.1 There are no staffing or other resource implications associated with this report.

#### **8. Equality and Diversity implications**

8.1 There are no equality and diversity implications associated with this report.

#### **9. List of appendices**

9.1 Essex Pension Fund Audit Completion Report for 2018/19.

#### **10. List of Background Papers**

10.1 None



Report to the Audit, Governance and Standards Committee

# ESSEX PENSION FUND

Audit Completion Report: Year ended 31 March 2019

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# WELCOME

## Introduction

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Pension Fund for the co-operation and assistance provided during the audit.



David Eagles, Partner  
For and on behalf of BDO LLP  
18 July 2019



**David Eagles**  
Partner

t: +44(0)1473 320728  
m: +44(0)7967 203431  
e: David.Eagles@bdo.co.uk



**Nuwan Indika**  
Audit Manager

t: +44(0)1473 320807  
m: +44(0)7966 243886  
e: Nuwan.Indika@bdo.co.uk



**Vusal Asgarov**  
Audit senior

t: +44(0)1473 320878  
m: +44(0)7583 037138  
e: Vusal.Asgarov@bdo.co.uk

# OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



### Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

### Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

# THE NUMBERS

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### Final materiality

Final materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances and this was based on 5% of total contributions receivable.

Following receipt of the draft financial statements for audit we updated the materiality figures. This increased the materiality from £65m to £70m. Specific materiality for Fund Account was decreased from £13.8m to £12.0m.

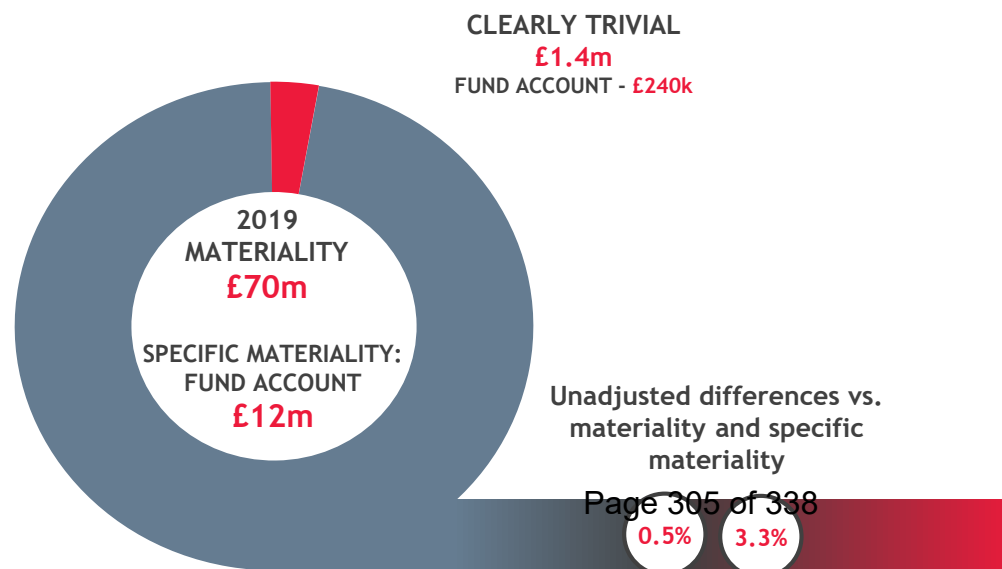
### Material misstatements

We did not identify any material misstatements.

### Unadjusted audit differences

We identified one audit adjustment that, if posted, would increase the 'Net increase in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £394k.

The above audit adjustment is below the overall triviality applied to the Net Assets Statement, but above the specific triviality applied to the Fund Account.



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### Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

### Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund in accordance with the Financial Reporting Council's Ethical Standard.




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# AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 13 March 2019, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Valuation of investments (unquoted and direct property investments)	Significant	Yes	No	Yes, unadjusted	No	No
Pension liability valuation	Significant	Yes	Yes	No	No	Yes - impact of GMP and McCloud on whole fund liability
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	No	No	No
Classification of financial instruments (IFRS 9)	Normal	No	No	No	No	No

 Areas requiring your attention

# MANAGEMENT OVERRIDE OF CONTROLS

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**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

## Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Work performed

We carried out the following planned audit procedures:

- Determined key risk characteristics to filter the population of journals, using our IT team to assist with the journal extraction.
- Using our data analytics software BDO Advantage, reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation.
- Reviewed accounting estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.
- Reviewed for any significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual to obtain an understanding of the business rationale of any such transactions.
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

## Results and conclusions

From the work completed we have identified no evidence of systematic bias or management override in the processing of journals entries and other adjustments, or making of significant accounting estimates.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Pension Fund.

# VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements.		
Significant risk		
Normal risk		
Significant management judgement		
Use of experts		
Unadjusted error		
Adjusted error		
Additional disclosure required		
Significant Control Findings		
Letter of Representation point		

## Risk description

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we considered there to be a significant risk that investments are not appropriately valued in the financial statements.

## Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensured investments were correctly valued in accordance with the relevant accounting policies.

## Results and conclusions

The direct confirmations obtained from fund managers identified that the valuation of private equity and property investments have overstated by non material amounts of £8.9m and £1.4m respectively. The investment valuations for timberlands and infrastructure have understated by £6.6m and £3.8m respectively. These variances are due to the fact that some investment reports used during the preparation of financial statements were not coterminous with the year-end date and therefore estimates were made. The net difference of the above misstatements along with other non material differences identified amounting to £0.4m, which was included within the uncorrected misstatements schedule for the impact of change in market value in the Fund Account.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. This identified that the valuation of private equity being overstated by an extrapolated value of £6.5m and investment in infrastructure being overstated by £1.8m. These amounts were offset by the understatement of valuations in investment in timber and illiquid debts by £6.5m and £1.6m respectively, giving a net difference of £0.2m. Therefore, we are satisfied that the valuation of unquoted investments in the Net Assets Statements is reasonable.

The direct investment properties held by the pension fund have been revalued by external professional valuers Knight Frank LLP. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on the management expert. Overall valuation of investment properties has increased by approx. 3.5% during the year to £383m. Although, this is higher than the increase in MSCI sector capital value index by 1% during the year, overall movement in valuation is well within out materiality of £70m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

# PENSION LIABILITY VALUATION

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

An actuarial estimate of the pension fund liability to pay future pensions (referred to in the notes to the financial statements as the “actuarial present value of promised retirement benefits”) is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

Following a ruling on gender discrimination on a Lloyds case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). Actuaries estimate that this could result in an increase in pension liabilities by up to 0.5% (not material) but are not expected to include this in the 31 March 2019 valuation as Government has extended the ‘interim solution’ from December 2018 through to April 2021 to potentially fund this through an alternative long-term methodology known as ‘conversion’.

Following the ruling on age discrimination on the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme, Government will have to remedy the discrimination in the LGPS.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

## Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.
- Discussed with the actuary how the impact of the GMP gender discrimination and McCloud age discrimination judgements have been taken into account in the liability assumptions at 31 March 2019.

# PENSION LIABILITY VALUATION

## Continued

(Continued)	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

### Results and conclusions

We have agreed the disclosures in Note 15 to the pension Fund financial statements to the information provided by the actuary and have identified no issues.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We identified differences in the cashflow information sent to the actuary as at month 11 plus one month estimates to the actual figures for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

In respect of the McCloud judgement, the Pension Fund has requested an updated valuation of the whole fund liability to take account of the impact of this ruling. An updated actuary report was now received by the Pension Fund which shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £79.3m. This represents 0.8% of the total liabilities as at 31 March 2019. The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the fund has an average age of 46 and salaries increase at +1.5% above CPI. The estimate prepared by the actuary Barnett Waddingham has used the analysis prepared by GAD and is based on the assumption that salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. The assumptions used by the actuary in estimating the impact of McCloud judgement are considered to be reasonable and in line with the GAD review.

In respect of GMP gender equalisation, the Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 to find time to agree whether the LPGA or Government should fund these additional costs. Actuaries have not been treating these costs consistently on triennial and balance sheet valuations. We note that Barnett Waddingham has made an allowance for GMP costs in its calculation of fund liabilities and the actuary report states that the valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the actuary has assumed that the Fund will be required to pay the entire inflationary increase. These assumptions are considered to be reasonable and in line with our expected accounting treatment for additional liability.

# PENSION LIABILITY VALUATION

## Continued

### Significant accounting estimates/judgements: pension liability

#### Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

#### Changes in 2018/19 (before adjustments for McCloud)

The actuarial valuation of future benefits has increased from £9,447 million to £9,725 million.

Changes in assumptions that have increased the liability include an increase CPI and future pension increases (from 2.3% to 2.4%), increases in salaries (from 3.8% to 3.9%), and a reduction to the discount rate (from 2.55% to 2.4%). Mortality assumptions have reduced by approx. 1.3 years. This has resulted in a decrease in the liabilities from these actuarial assumptions of £543 million.

#### Discussion

The pension liability to pay future pensions has increased by £278 million to £9,725 million at 31 March 2019.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary.

	Actual	Expected / range	Comments
RPI increase	3.4%	3.40% - 3.45%	Reasonable
CPI increase	2.4%	2.40% - 2.45%	Reasonable
Salary increase	3.9%	--	Reasonable (derived from RPI assumptions)
Pension increase	2.4%	2.40% - 2.45%	Reasonable
Discount rate	2.4%	2.35% - 2.45%	Reasonable
Mortality - LGPS:			
- Male current	21.3 years	22.2 - 25.0	Lower than bottom end of range
- Female current	23.6 years	25.0 - 26.6	Lower than bottom end of range
- Male retired	22.9 years	20.6 - 23.4	Reasonable
- Female retired	25.4 years	23.2 - 24.8	higher than top end of range
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

3 out of 4 mortality assumptions are outside the expected range based on national data. However, the actuary uses an analysis based on local data which takes into account postcode variations that confirms the mortality data used.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have included specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

#### Impact

< lower

higher >

# VALUATION OF POOLED INVESTMENTS

**There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements.**

## Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuations are reported on a quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

## Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

## Results and conclusions

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers had a qualification in respect of change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investment managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained are not coterminous with pension fund year end we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
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# CONTRIBUTIONS RECEIVABLE

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There is a risk that employers may not be calculating contributions correctly or the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

## Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly, paying over the full amount due to the pension fund.

## Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and ensured that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried out audit procedures to review contributions income in accordance with the Actuary’s Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

## Results and conclusions

We carried out analytical procedures to establish expected normal and deficit contributions to be receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We also substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members we recalculated the employee and employer contributions by the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the Actuary’s report and identified no issues.

We also reviewed monthly contributions received from employers and ensured that these have been recognised in the correct financial year.

# CLASSIFICATION OF FINANCIAL INSTRUMENTS (IFRS 9)

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**There is a risk that financial instruments are not classified and measured in accordance with new financial reporting standard.**

## Significant risk

### Normal risk

### Significant management judgement

### Use of experts

### Unadjusted error

### Adjusted error

### Additional disclosure required

### Significant Control Findings

### Letter of Representation point

## Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and receivables) and liabilities (principally payables) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

The pension fund has short term receivables and will be required to calculate an expected credit loss on the receivables, rather than the previous model based on incurred losses.

There is a risk that financial instruments are not classified and measured in accordance with IFRS 9 and the new disclosures required by these new standards are omitted.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the pension fund to assess the impact of IFRS 9 on the financial statements; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

## Results and conclusions

As investment assets in the pension fund are already carried at fair value through profit and loss (FVTPL), this was not required a reclassification within the financial assets.

Some receivables carried at amortised cost would require an expected credit loss impairment (ELC) review. This is not required for contributions due from other local authorities and Government bodies as the Code states that these cannot have credit impairments. Therefore, this was impacted only on receivables for non-government admitted and scheduled bodies contributions due. We reviewed the working papers prepared by management and confirmed that the ECL model has been correctly applied and the impact is not material.

We are satisfied that the overall impact of IFRS 9 on the pension fund financial statements is not material. Sufficient level of disclosures has been given within the financial statements concerning the impact of IFRS 9.

# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Accuracy of membership data:</b></p> <p>Our audit work identified that currently there are approximately 22,000 unconfirmed leavers whose status is to be confirmed as a leaver or deferred pensioner. The total number of unconfirmed leavers for the administering authority Essex County Council (ECC) is approximately 10,000. Within the membership disclosure note, these unconfirmed leavers have been included as deferred pensioners.</p> <p>Our membership data substantive testing identified 1 member who appeared to be unconfirmed leavers in the system, but the notification of leaving form has been received from the employer and a deferred benefit letter has been sent by the pension fund to the member. It was noted that even though the notification of leaving was received, the pension fund has queried some issues on the notification for which no responses had been received.</p>	<p>The Essex Pension Fund currently has approximately 169,000 members. The total number of unconfirmed leavers represents approximately 13% of the total membership and therefore constitutes a significant proportion.</p> <p>Form discussion with management we understand that unconfirmed leavers on the system is due to the pension fund waiting for information from the employer and/or from the member themselves, and therefore these leavers cannot be processed on the system. Unconfirmed leavers in respect of the County Council (ECC) is due to ECC being unable to send official leaver details automatically for approximately 4 years after they changed the payroll system. The ECC is now able to provide this information and are currently working through the backlog.</p> <p>From discussions with the actuary, we noted that the actuary does not obtain membership data from the pension fund for the roll forward valuations, but instead adjusts the membership data based on cash flow information. Within the year end data submission return the pension fund reports any significant movements in membership data, which typically arise from bulk transfers and major redundancy programmes. Therefore, the existence of unconfirmed leavers will have no significant impact on the calculation of pension figures as these leavers would have been reflected through the changes in cash flow data. We also expect that the actuary will adjust the membership data to reflect these leavers during the triennial valuation which is currently undergoing.</p> <p>Nevertheless we consider the above matter to be a significant matter to be reported to the Audit, Governance and Standards Committee.</p>

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## Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 25 March 2019.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities. We consider pension regulations to be the most relevant for your business.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

We reviewed the audit work of the Pension Fund's internal audit function to assist our risk scoping at the planning stage.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

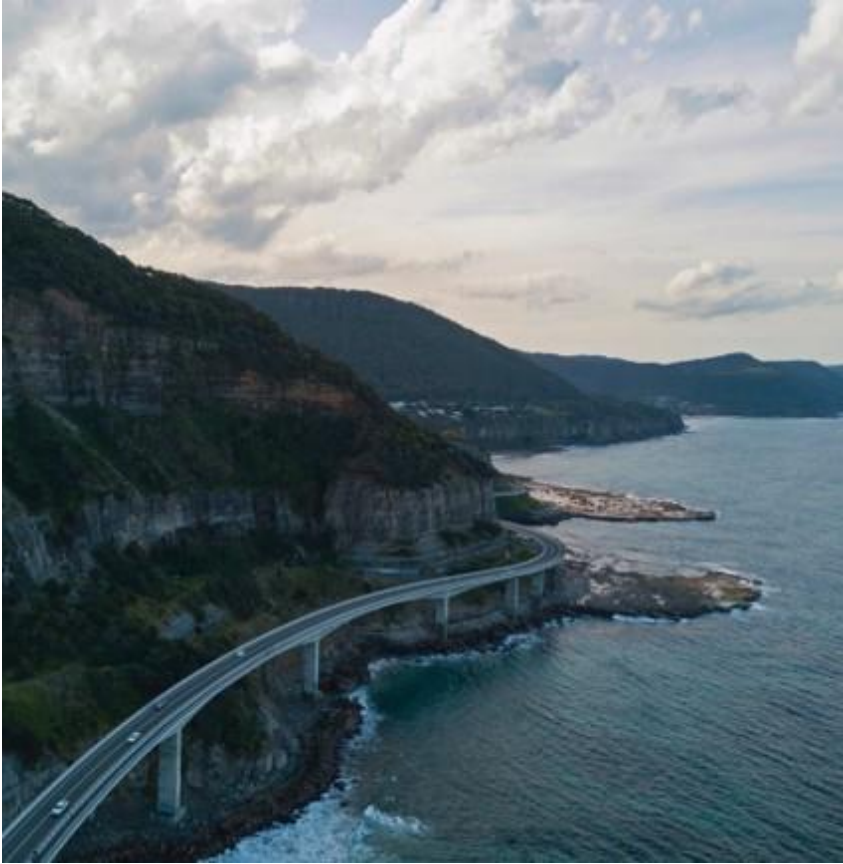


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We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference identified by our audit work which would increase the ‘Net increase in the assets available for benefits during the year’ in the Fund Account and increase ‘Net assets of the scheme available to fund benefits’ in the Net Asset Statement by £394k if adjusted.

The above audit adjustment is below the overall triviality applied to the Net Assets Statement of £1.4m, but above the specific triviality applied to the Fund Account of £240k.

You consider the differences to be immaterial in the context of the financial statements as a whole.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>					
Net increase in the assets available for benefits during the year	508,466				
1: The difference between the investment valuation per draft accounts and fund manager confirmations					
DR Investment - timber				6,560	
DR Investment - infrastructure				3,298	
DR Investment - private debt				1,122	
CR Investments - private equity					8,911
CR Investments - property					1,409
CR Investments - equity					266
CR Changes in market value of investments			394		
<b>Total unadjusted audit differences</b>	<b>394</b>		<b>394</b>	<b>10,980</b>	<b>10,586</b>
Net increase in the assets available for benefits during the year if above issues adjusted	508,860				

# UNADJUSTED AUDIT DIFFERENCES: DETAIL (CONTINUED)

Details for the current year

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Impact on the Net Assets of the scheme available to fund benefits	Net Assets £'000
Balance before unadjusted audit differences	7,027,288
Adjustments identified above	394
Balance after unadjusted audit differences	7,027,682

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# REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are yet to receive the pension fund Annual Report. Upon receipt of the Annual Report we will read this to ensure that the information included in the Annual Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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# SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit, Governance and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Pension Fund’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies.

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Area	Observation & implication	Recommendation	Management response
Payment of lump sum retirement grant and transfers out	<p>Within our testing for payment of lump sum retirement grants we identified that currently the pension fund does not independently review and approve the retirement grant payment schedule forms.</p> <p>We also noted that the payment of cash equivalent transfer forms are also not subject to independent review and approval before the payments are made.</p> <p>Non authorisation of these forms could result in fraudulent payments being made.</p>	<p>We recommend that appropriate controls are designed and implemented to ensure that the payments made are subject to independent review and approval before the payments are made.</p>	<p>The UPM system used by the Pension Fund to make these payments follows a multi-step procedure which requires a separate processor and authoriser. We believe this audit comment stems from sight of the batch schedule after processing but prior to authorising. This UPM system captures and records a complete digital audit trail, and the Fund's approach to processing these payments was approved by internal audit and the Fund's previous external auditors.</p>

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# OVERVIEW

## Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

## Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

## Other information

We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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# INDEPENDENCE

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Pension Fund.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Pension Fund.

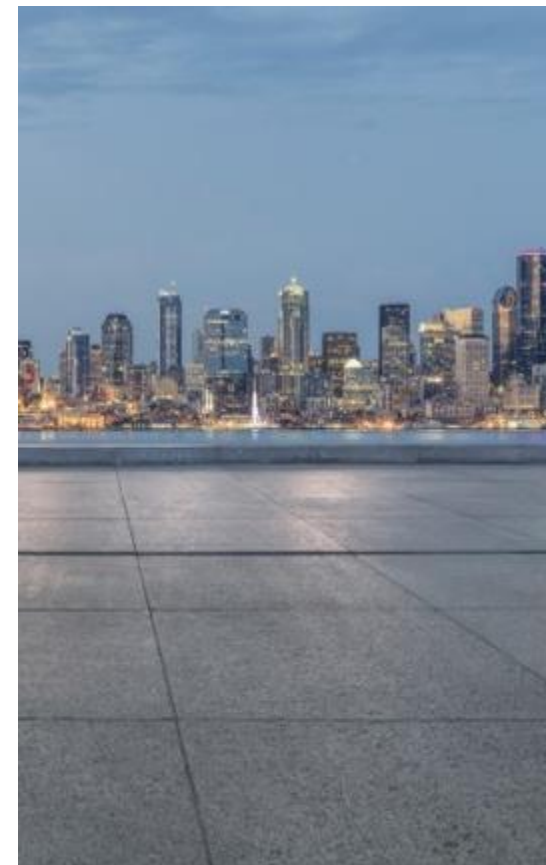
Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

## Fees summary

	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
<b>Audit fee</b>			
Code audit fee: financial statements	24,075	24,075	31,266
<b>Other fees under PSAA arrangements</b>			
Additional fee for IAS19 assurance requests from scheduled bodies	<sup>(1)</sup> 5,500	5,500	5,500
<b>Total fees</b>	<b>29,575</b>	<b>29,575</b>	<b>36,766</b>

<sup>(1)</sup> We anticipate charging an additional fee of £5,500 in 2018/19 to take into account the additional work required to respond to IAS 19 assurance requests from scheduled bodies. This is consistent with the additional fee charged in 2017/18.



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# RESPONSIBILITIES AND REPORTING

## Responsibilities and reporting

### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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## ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

# COMMUNICATION AND REPORTS ISSUED

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## Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	13 March 2019	Audit, Governance and Standards Committee
Audit completion report	29 July 2019	Audit, Governance and Standards Committee

# OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- Receipt of bank confirmation letter for HSBC deposit account
- Receipt of the pension fund annual report from management and our review thereon.
- Completion of partner, manager and quality control review of the audit file and clearance of review points.
- Technical clearance
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed



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## BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
IP3 9SJ

Dear Sirs

**Financial statements of Essex Pension Fund for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director for Corporate and Customer Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Pension Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control, to approve the Annual Report and Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

**Going concern**

We have made an assessment of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund’s ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Pension Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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### Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

### Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

### Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 13 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

### Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

### Accounting estimates

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.4%
- CPI increase 2.4%
- Salary increase 3.9%
- Pension increase 2.4%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

**Margaret Lee**

Executive Director for Corporate & Customer Services

S151 Officer, Essex CC & Essex Pension Fund

Date:

**Cllr Terry Cutmore**

Chairman of the Audit, Governance and Standards Committee

Date:



FOR MORE INFORMATION:

**David Eagles**  
Partner

t: +44(0)1473 320728  
m: +44(0)7967 203431  
e: David.Eagles@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Meeting	Topic	Author	Notes
16 September 2019	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	<b>Annual Audit Letter – 2018/19</b> To formally present the External Auditor's Annual Audit Letter for the year ending 31 March 2019.	From external auditors	Annual report
	<b>Updating of Risk Management Strategy 2017-2021</b>	Paula Clowes, Head of Assurance	Annual report
Meeting	Topic	Author	Notes
9 December 2019	Internal Audit and Counter Fraud progress report	Paula Clowes, Head of Assurance	
	Internal Audit Charter Annual Review	Paula Clowes, Head of Assurance	Annual report
	Counter Fraud Anti Bribery Strategy	Paula Clowes, Head of Assurance	Bi-Annual review of existing policy
	Anti-Money Laundering Policy	Paula Clowes, Head of Assurance	Bi-Annual review of existing policy
	Review of Standards Investigation Procedure	Paul Turner, Director, Legal and Assurance	Revision to existing procedure

